

# Chip Eng Seng

**PRICE S\$0.145**
**BUY**
**Key Statistics**

NRA EPS Est. 2005 (cts)	1.9
P/E on NRA Est. 2005 (x)	7.7
NRA EPS Est. 2006 (cts)	2.8
P/E on NRA Est. 2006 (x)	5.3
Dividend/Share (cts)	1.5
Dividend yield	10.3%
Shs. Outstg. (m)	606.8
Market capitalisation S\$m	88.0
Avg. daily vol (m)	0.8
Book Value/Share (S\$)	0.12
Shareholders:	
Lim Family	57.1%

**Per Share Data**

YE Dec	2002	2003	2004	2005E	2006E
Book Value (S\$)	0.11	0.12	0.12	0.13	0.15
Cash Flow (cts)	1.0	2.0	2.1	2.0	2.9
Earnings (cts)	0.8	1.7	1.8	1.9	2.8
Dividend (cts)	0.8	2.0	1.5	1.5	1.5
Payout Ratio	92.8%	115.6%	82.0%	79.2%	54.4%
PER (x)	17.9	8.4	7.9	7.7	5.3
P/CF (x)	14.0	7.3	7.1	7.2	5.0
P/BV (x)	1.3	1.2	1.2	1.1	1.0
Dividend yield	5.2%	13.8%	10.3%	10.3%	10.3%
ROE	7.2%	14.1%	13.8%	14.4%	18.7%

**P&L analysis (S\$m)**

YE Dec	2002	2003	2004	2005E	2006E
Revenue	176.0	159.8	141.8	128.4	169.2
Operating Profit	4.7	11.6	8.1	9.3	11.5
Depreciation	1.1	1.2	0.8	0.8	0.8
Interest Expense	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)
Pretax Profit	6.5	11.3	12.8	14.4	20.9
Effective tax rate	-38.8%	-24.1%	-18.1%	-20.0%	-20.0%
Net Profit	4.0	8.6	10.4	11.5	16.7

**Margins**

Gross	5.0%	10.5%	8.2%	10.0%	9.1%
Operating	2.6%	7.1%	5.6%	7.1%	6.7%
Pre tax	3.7%	7.1%	9.0%	11.2%	12.3%
Net	2.3%	5.4%	7.4%	9.0%	9.9%

**Latest Site Purchase and Construction Contract Set to Boost '06 Further**

- CES has recently acquired a freehold property at No.21 Balmoral Road (No.21), near Orchard Road, to be developed into a 34-unit apartment. The group also announced on Monday that it will be undertaking the construction of its 40%-owned joint development at Devonshire Road (Devonshire). We expect these two to contribute to CES's bottom line in FY06, in addition to the Riviera Residences project, the ShanghaiOne project, the Devonshire (development) project, as well as the construction of The Pinnacle@Duxton.
- The purchase price for No.21 adds up to approximately S\$20.5m, or S\$475 psf per GFA, after taking into account the development charges. We are estimating a total development cost of approximately S\$789 psf, based on a projected construction cost of S\$200 psf. Assuming that the project is able to fetch an average selling price of S\$950 psf, which we believe is realistic given the prime location, we arrive at a healthy pretax margin of 17% for No.21.
- Devonshire is slated to launch in late 2005, and assuming the construction begins early next year and takes about 36 months to complete, we estimate CES to realize approximately 20% of the S\$41.6m contract in FY06, considering the back-loaded nature of such construction project.
- Despite the two new projects, we have actually reduced our forecasts for next year. This is in light of the higher-than-expected construction cost of Devonshire, which narrows our estimated pretax margin. We also did not include contributions from No.21, as it is still not clear when the development is expected to launch.

- As noted in our earlier report, we believe that while FY05 is likely to be disappointing, on account of the delayed recognition of revenue from the Riviera and ShanghaiOne projects to next year, fundamentally, the outlook for CES remains intact. It is also unlikely that the purchase of No.21 will have excessive impact on CES's gearing, given CES's low net gearing of 18.3% as of 1H05. Therefore we believe it is more appropriate to value CES based on its projected FY06 results.
- Ascribing a fair PER of 7x to FY06 EPS of S\$0.028, our fair value for CES is approximately S\$0.20 per share. The company is also likely to sustain its high dividend payout, which is a yield of 10.3% on the last done price. Maintain BUY.

## EARNINGS ESTIMATES

### Earnings Forecasts

YE Dec (S\$m)	2002	2003	2004	2005E	2006E
<b>EBIT</b>	<b>1.8</b>	<b>8.8</b>	<b>8.2</b>	<b>9.4</b>	<b>11.7</b>
Building construction	3.9	3.9	4.9	4.6	5.8
Property development	(1.0)	4.0	2.1	4.0	5.1
Rental	(0.1)	0.7	1.0	0.7	0.7
Others	(0.5)	0.2	0.2	0.2	0.2
Interest expense	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)
Operating profit	1.7	8.6	8.1	9.3	11.5
Associates	4.8	2.7	4.7	5.1	9.4
<b>Pre tax profit</b>	<b>6.5</b>	<b>11.3</b>	<b>12.8</b>	<b>14.4</b>	<b>20.9</b>
Taxation	(2.5)	(2.7)	(2.3)	(2.9)	(4.2)
<b>Net profit</b>	<b>4.0</b>	<b>8.6</b>	<b>10.4</b>	<b>11.5</b>	<b>16.7</b>
Wtd no of shares (m)	490.2	490.9	545.9	606.8	606.8
EPS (cts)	0.8	1.8	1.9	1.9	2.8
DPS-regular (cts)	0.3	0.5	0.8	0.8	0.8
DPS-special (cts)	0.5	1.5	0.8	0.8	0.8
DPS-Total (cts)	0.8	2.0	1.5	1.5	1.5

## BALANCE SHEET

### Balance Sheet & Other Fin. Data(S\$m)

YE Dec	2002	2003	2004	1H05
Plant and equipment	3.1	1.7	1.3	1.0
Investment property	24.5	24.0	22.8	22.8
Long term assets	35.4	35.5	37.5	35.7
Current assets	134.0	132.8	165.7	130.7
Current liabilities	90.0	82.2	116.0	81.4
Long term liabilities	24.7	24.9	11.6	11.6
Total net assets	54.7	61.2	75.7	73.2
Shareholders funds	54.7	61.1	75.6	73.1
Net debt	12.9	27.1	36.4	13.4
Gearing	23.5%	44.3%	48.2%	18.3%

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