

# Singapore Company Focus

## Tiong Seng Holdings

Bloomberg: TSNG SP | Reuters: TISE.SI

DBS Group Research . Equity

22 Feb 2012

**BUY S\$0.220 STI : 3,025.07**

**Price Target :** 12-Month S\$ 0.25 (Prev S\$ 0.25)

**Reason for Report :** Post meeting updates

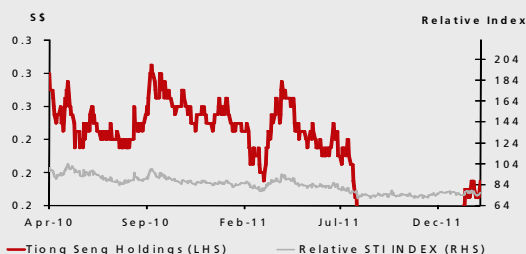
**Potential Catalyst:** New contract wins

**DBSV vs Consensus:** Relatively in line; looking at stable construction revenues, with property division only contributing in FY13 onwards

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$ m)	2010A restated	2011A	2012F	2013F
Revenue	252	415	523	648
EBITDA (after associates)	28	24	32	59
Pre-tax Profit	34	38	36	63
Net Profit	29	27	28	38
Net Pft (Pre Ex.)	29	27	28	38
EPS (S cts)	4.0	3.5	3.6	4.9
EPS Gth (%)	(30)	(13)	1	37
EPS Pre Ex. (S cts)	4.0	3.5	3.6	4.9
EPS Gth Pre Ex (%)	(30)	(6)	1	37
Diluted EPS (S cts)	4.0	3.5	3.6	4.9
Net DPS (S cts)	1.0	1.0	1.0	1.0
BV Per Share (S cts)	25.2	26.9	29.4	33.4
PE (X)	5.4	6.2	6.1	4.5
PE Pre Ex. (X)	5.4	6.2	6.1	4.5
P/Cash Flow (X)	nm	nm	1.3	3.2
EV/EBITDA (X)	5.3	11.5	5.8	2.7
Net Div Yield (%)	4.5	4.5	4.5	4.5
P/Book Value (X)	0.9	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	0.5	CASH	CASH
ROAE (%)	20.7	14.1	12.8	15.7

**Earnings Rev (%):** (1.1) (2.5)  
**Consensus EPS (S cts):** 3.9 4.8  
**Other Broker Recs:** B: 2 S: 0 H: 0

**ICB Industry :** Industrials

**ICB Sector:** Construction & Materials

**Principal Business:** Leading building contractor in Singapore and niche developer in 2<sup>nd</sup> & 3<sup>rd</sup> tier cities of China

*Source of all data: Company, DBS Vickers, Bloomberg*

## Firm construction orderbook

- FY11 net profit slightly ahead, DPS of 1Sct (4.7% yield) declared**
- Construction orderbook of S\$1.4bn to underpin earnings in 2012**
- Maintain BUY, TP revised marginally to S\$0.25**

**FY11 net profit of S\$27.2m - 6% lower y-o-y, but slightly ahead of our expectations.** Tiong Seng Holdings (TSNG) reported a 64% y-o-y increase in topline to S\$414.5m for FY11 due to (i) 55% y-o-y increase in construction revenues for ongoing projects, with contributions from newly awarded projects kicking in 4Q11; (ii) doubling in revenues from its property development division (S\$53.8m, +>100% yoy), largely from the completion of Phase 1 of Sunny Int'l project, while the completed Tianmen Jinwan building continued to see additional sales; (iii) full year contribution from the increase in sales of goods segment from Cobiax. Profit from operations, however, fell 15% to S\$16.7m due to tighter margins in China, while its construction projects saw slightly lower margins in Singapore. Hence, net profit declined 6% to S\$27.2m. The group also declared a final dividend of 1sct per share (payout ratio of c30%), translating to a yield of 4.7%.

**New phases of residential development projects to be launched from 2Q12; construction division to pick up in 2012.** Looking ahead, TSNG has begun construction for Phase 2/4 of Sunny Int'l project, phase 1-3 (out of 7 phases) for its Equinox project in Guangang and Suzhou New District, its latest awarded site. Planned sale launches for the above projects have begun and should pick up pace from 2Q12 but meaningful contribution to topline expected only from FY13 onwards once these phases have received TOP status. The construction division – with an orderbook of S\$1.4bn – is projected to remain a relatively consistent contributor over FY12-13, should pick up the slack of its property division in FY12.

**BUY, TP revised slightly to S\$0.25 based on 45% discount to SOTP.** Our FY12-13F earnings are adjusted to account for the earlier/later contribution from its construction/property development divisions. As a result, TP is raised slightly to S\$0.25, based on a 45% discount to SOTP.

### At A Glance

Issued Capital (m shrs)	766
Mkt. Cap (S\$m/US\$m)	169 / 134
Major Shareholders	
Tiong Seng Shareholdings (%)	59.0
Peck Tiong Choon (%)	7.0
Free Float (%)	34.0
Avg. Daily Vol.('000)	165

## Tiong Seng Holdings

## Key Assumptions

FY Dec	2009A	2010A	2011A	2012F	2013F
Construction wins (\$'m)				600	-

We project 35% of orderbook of S\$1.4bn to be recognized in 2013.

## Segmental Breakdown

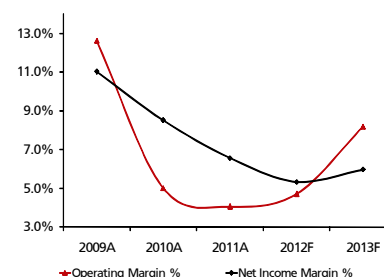
FY Dec	2009A	2010A	2011A	2012F	2013F
<b>Revenues (\$'m)</b>					
Construction	279	227	351	489	457
Development proj	96	23	54	23	180
Rental	1	1	1	2	2
Sales of goods	N/A	2	9	9	9
<b>Total</b>	<b>376</b>	<b>252</b>	<b>415</b>	<b>523</b>	<b>648</b>

Development projects to contribute – Sunny Int'l (phase II/IV), Dagang projects (phase I/II)

## Income Statement (\$'m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Revenue	376	252	415	523	648
Cost of Goods Sold	(315)	(216)	(369)	(463)	(557)
<b>Gross Profit</b>	<b>61</b>	<b>36</b>	<b>46</b>	<b>60</b>	<b>91</b>
Other Opng (Exp)/Inc	(13)	(16)	(29)	(36)	(39)
<b>Operating Profit</b>	<b>47</b>	<b>20</b>	<b>17</b>	<b>24</b>	<b>52</b>
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	20	16	21	13	15
Net Interest (Exp)/Inc	(2)	(2)	0	(1)	(4)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>66</b>	<b>34</b>	<b>38</b>	<b>36</b>	<b>63</b>
Tax	(14)	(4)	(11)	(8)	(14)
Minority Interest	(10)	(2)	0	0	(11)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>41</b>	<b>29</b>	<b>27</b>	<b>28</b>	<b>38</b>
Net Profit before Except.	41	29	27	28	38
EBITDA (after associates)	66	32	38	32	59

## Margins Trend



## Growth

Revenue Gth (%)	37.9	(32.8)	64.3	26.2	23.8
EBITDA Gth (%)	277.0	(57.3)	(14.5)	30.7	87.2
Opg Profit Gth (%)	1,624.8	(58.1)	(15.5)	44.3	113.9
Net Profit Gth (%)	346.5	(30.4)	(5.7)	1.4	36.7

## Margins &amp; Ratio

Gross Margins (%)	16.1	14.4	11.1	11.5	14.0
Opg Profit Margin (%)	12.6	7.9	4.0	4.6	8.0
Net Profit Margin (%)	11.0	11.1	6.6	5.3	5.8
ROAE (%)	51.5	20.7	14.1	12.8	15.7
ROA (%)	11.3	6.2	4.2	3.8	4.8
ROCE (%)	19.4	7.2	3.1	4.0	8.0
Div Payout Ratio (%)	0.0	26.6	28.2	27.8	20.3
Net Interest Cover (x)	25.8	11.8	NM	18.4	12.7

Source: Company, DBS Vickers

Performance to improve with projected TOP of certain projects in China.

Contribution from construction projects increase (S\$1.4bn orderbook as of Dec'11).

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	4Q2010	1Q2011	2Q2011	3Q2011	4Q2011
Revenue	38	62	84	127	142
Cost of Goods Sold	(29)	(53)	(71)	(117)	(128)
<b>Gross Profit</b>	<b>9</b>	<b>9</b>	<b>13</b>	<b>11</b>	<b>13</b>
Other Oper. (Exp)/Inc	1	(8)	(7)	(10)	(3)
<b>Operating Profit</b>	<b>9</b>	<b>1</b>	<b>6</b>	<b>0</b>	<b>10</b>
Other Non Opg (Exp)/Inc	(4)	2	0	1	(3)
Associates & JV Inc	7	1	4	6	10
Net Interest (Exp)/Inc	0	0	0	2	(1)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>12</b>	<b>3</b>	<b>10</b>	<b>9</b>	<b>15</b>
Tax	0	0	(1)	(3)	(6)
Minority Interest	(1)	(1)	1	1	0
<b>Net Profit</b>	<b>12</b>	<b>2</b>	<b>10</b>	<b>7</b>	<b>9</b>
Net profit bef Except.	12	2	10	7	9
EBITDA	12	5	11	7	16

**Growth**

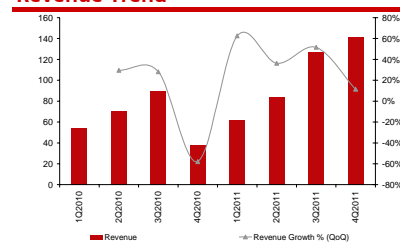
Revenue Gth (%)	(57.9)	62.5	36.4	51.6	11.4
EBITDA Gth (%)	27.2	(58.9)	110.9	(34.1)	130.7
Opg Profit Gth (%)	81.2	(92.8)	735.5	(93.8)	N/A
Net Profit Gth (%)	55.8	(81.6)	344.4	(28.2)	27.7

**Margins**

Gross Margins (%)	22.8	14.3	15.6	8.3	9.5
Opg Profit Margins (%)	24.9	1.1	6.8	0.3	7.1
Net Profit Margins (%)	30.7	3.5	11.3	5.4	6.1

Source: Company, DBS Vickers

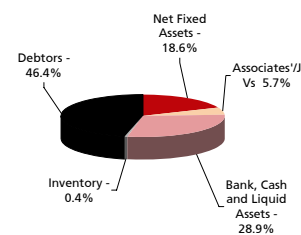
Revenue Trend



## Balance Sheet (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Net Fixed Assets	23	30	51	49	47
Invt in Associates & JVs	27	11	16	29	43
Invt Properties	23	21	20	23	23
Other LT Assets	12	31	32	12	12
Cash & ST Invt	47	124	141	236	273
Dev Props held for sale	80	206	309	207	215
Inventory	0	1	1	0	0
Debtors	127	107	128	162	200
Other Current Assets	27	27	23	27	27
<b>Total Assets</b>	<b>367</b>	<b>559</b>	<b>721</b>	<b>744</b>	<b>838</b>
ST Debt	19	13	113	113	113
Other Current Liab	169	264	255	258	311
LT Debt	22	44	88	88	88
Other LT Liabilities	13	8	11	11	11
Shareholder's Equity	98	181	206	226	256
Minority Interests	47	50	49	49	61
<b>Total Cap. &amp; Liab.</b>	<b>367</b>	<b>559</b>	<b>721</b>	<b>744</b>	<b>838</b>
Non-Cash Wkg. Capital	66	78	207	101	90
Net Cash/(Debt)	5	67	(60)	36	71
Debtors Turn (avg days)	113.2	169.4	103.6	101.1	101.9
Creditors Turn (avg days)	170.4	292.0	210.0	177.8	166.9
Inventory Turn (avg days)	N/A	0.8	1.1	0.5	N/A
Asset Turnover (x)	1.0	0.5	0.6	0.7	0.8
Current Ratio (x)	1.5	1.7	1.6	1.6	1.6
Quick Ratio (x)	0.9	0.8	0.7	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	0.2	CASH	CASH
Net Debt/Equity ex MI (X)	(0.1)	(0.4)	0.0	(0.2)	(0.3)
Capex to Debt (%)	5.5	18.2	12.8	2.5	2.5
Z-Score (X)	NA	1.3	1.9	1.9	1.9

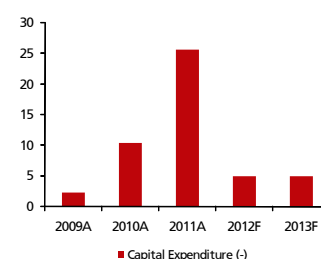
## Asset Breakdown (2011)



## Cash Flow Statement (\$\$ m)

FY Dec	2009A	2010A	2011A	2012F	2013F
Pre-Tax Profit	66	34	38	36	63
Dep. & Amort.	19	9	7	7	7
Tax Paid	(10)	(8)	(16)	(16)	(8)
Assoc. & JV Inc/(loss)	(20)	(16)	(21)	(13)	(15)
Chg in Wkg.Cap.	(5)	(37)	(143)	114	5
Other Operating CF	15	(10)	11	0	0
<b>Net Operating CF</b>	<b>64</b>	<b>(28)</b>	<b>(123)</b>	<b>128</b>	<b>53</b>
Capital Exp.(net)	(2)	(10)	(22)	(5)	(5)
Other Invt.(net)	0	(6)	(6)	(20)	(5)
Invt in Assoc. & JV	3	0	0	0	0
Div from Assoc & JV	0	40	21	0	0
Other Investing CF	(1)	(3)	0	0	0
<b>Net Investing CF</b>	<b>0</b>	<b>21</b>	<b>(7)</b>	<b>(25)</b>	<b>(10)</b>
Div Paid	0	0	(8)	(8)	(8)
Chg in Gross Debt	(19)	10	142	0	0
Capital Issues	0	55	0	0	0
Other Financing CF	(8)	(3)	(44)	0	0
<b>Net Financing CF</b>	<b>(27)</b>	<b>62</b>	<b>90</b>	<b>(8)</b>	<b>(8)</b>
Currency Adjustments	(15)	0	1	0	0
Chg in Cash	22	55	(39)	95	35
Opg CFPS (\$ cts)	9.1	1.3	2.6	1.8	6.2
Free CFPS (\$ cts)	8.1	(5.0)	(19.4)	16.1	6.2

## Capital Expenditure



Largely due to payment of land rights at Suzhou New District Xu Shu Guan worth S\$73m; this was financed by a project loan

Source: Company, DBS Vickers

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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