

Tiong Seng Holdings

Bloomberg: TSNG SP

Reuters: TISE.SI

Price: SGD0.20

Date: May 11, 2012

GICS: Industrials/Construction & Engineering

Business Summary: Established since 1959, and listed recently on the main board of SGX in April 2010, Tiong Seng Holdings Ltd (TSH) is engaged in building construction and civil engineering in Singapore and property development in the PRC.

Country of Incorporation: Singapore

Head Office Location: 510 Thomson Road, #08-00 SLF Building, Singapore 298135

Place of Operations: Singapore

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Results Review

- TSH reported 1Q12 net profit of SGD5.0 mln (+134.2% YoY). The results were below our expectations, making up about 16% of our original full-year net profit forecast. The negative variance was mainly due to lower-than-expected construction revenue recognition and smaller JV income partially offset by a lower effective tax rate of 13.9% (2012: 20%). No interim dividend was declared.
- Group revenue increased 67% YoY to SGD103.0 mln, driven by higher construction revenue (+81% YoY) from more works recognition for new and ongoing projects despite subdued performance from property development (-100% YoY) and sales of its Cobiex green technology products (-14% YoY). The lack of any revenue recognised from its property division is due to the absence of any completed PRC development projects this year. As at 1Q12, the remaining 6 units of Phase 1 Sunny International project and 5 units of Tianmen Jinwan Building are fully sold, but yet to be recognised.
- 1Q12 EBIT margin increased slightly to 4.9% (+0.2%-pts YoY). JV income was also slightly higher at SGD0.8 mln (+31% YoY). The above overall net effect was an increase in 1Q12 pre-tax and net profit by 68% and 134% respectively.
- TSH has secured a steady flow of contract wins, lending support to future near-term earnings. The group clinched about SGD784 mln in new contracts in 2011.

Earnings Outlook / Estimates Revision

- After fine-tuning, we reduced our 2012 and 2013 net profit forecasts by 24% and 6% respectively after incorporating lower construction revenue and JV income. While management expects continual challenges such as upward pressure on construction costs coupled with rising foreign work levies, the group's push toward productivity such as the Prefab Hub facility (to be completed in mid-2012) coupled with Cobiex technology should help sustain margins.
- TSH's orderbook remains firm at SGD1.25 bln, of which majority are expected to be fulfilled over the next 12 to 30 months. The construction outlook remains positive, with the sustained rollout of public works and HDB's bumper supply of new flats though we see headwinds from a slowdown in private construction demand. Meanwhile, for the group's property projects in the PRC, sales for Phase 2 and 4 of the Sunny International project at Changzhou have commenced. For the Equinox project, sales of Phase 1 have also started in 4Q11 whilst sales for Phase 2 and 3 are expected to start in 2Q12.

Investment Risks

- A sharp rise in labor or material costs, shortage of skilled labor or increase in project execution costs will put pressure on the group's margins and profitability. Further cooling measures imposed by the PRC government to prevent the formation of an asset bubble will likely adversely affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.18 - 0.25
Avg Vol - 12 months ('000 shares)	322.4
Price Performance (%)	
- 1 month	-4.7
- 3 month	-2.4
- 12 month	-18.0
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.8
Market Cap (SGD mln)	157.0
Enterprise Value (SGD mln)	309.1
Major Shareholders (%)	
Tiong Seng Shareholdings Pte Ltd	59.0
Pek Tiong Choon (Private) Ltd	7.0

Per Share Data

FY Dec.	2010	2011	2012E	2013E
Book Value (SG cents)	23.59	26.85	28.99	31.95
Cash Flow (SG cents)	4.2	4.1	3.7	4.5
Reported Earnings (SG cents)	4.0	3.5	3.1	4.0
Dividend (SG cents)	1.0	1.0	1.0	1.0
Payout Ratio (%)	26.6	28.2	31.8	25.3
PER (x)	5.1	5.8	6.5	5.2
P/Cash Flow (x)	4.8	5.1	5.6	4.5
P/Book Value (x)	0.9	0.8	0.7	0.6
Dividend Yield (%)	4.9	4.9	4.9	4.9
ROE (%)	20.7	14.1	11.3	13.0
Net Gearing (%)	0.0	58.7	65.5	55.3

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Earnings Performance

FY Dec. / SGD mln	1Q12	1Q11	% Change
Reported Revenue	103.0	61.5	67.4
Reported Operating Profit	5.0	2.9	75.4
Depreciation & Amortization	-1.0	-0.8	24.6
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	5.8	3.5	67.6
Reported Net Profit	5.0	2.1	>100
Reported Operating Margin (%)	4.9	4.6	-
Reported Pre-tax Margin (%)	5.6	5.6	-
Reported Net Margin (%)	4.9	3.5	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	252.3	414.5	468.0	546.2
Reported Operating Profit	18.8	18.1	27.1	40.8
Depreciation & Amortization	-3.7	-3.9	-4.1	-4.3
Net Interest Income / (Expense)	-0.6	-0.9	-2.7	-2.8
Reported Pre-tax Profit	34.4	37.8	30.2	43.1
Effective Tax Rate (%)	10.6	28.8	20.0	25.0
Reported Net Profit	28.8	27.2	24.1	30.3
Reported Operating Margin (%)	7.5	4.4	5.8	7.5
Reported Pre-tax Margin (%)	13.7	9.1	6.4	7.9
Reported Net Margin (%)	11.4	6.6	5.1	5.6

*2010 figures have been restated

Source: Company data, S&P Equity Research

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