

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

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Place of Operations: Singapore

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Results Review

- TSH's 2011 results were ahead of our expectations, with net profit of SGD27.2 mln coming in about 16% above our estimates. The stronger performance was mainly due to better-than-expected construction revenue recognition and higher JV income partially offset by the higher effective tax rate of 28.8% (2011E: 18%). A first and final net DPS of 1 cent was declared. (2010:1 cent net).
- 2011 group revenue increased 64% to SGD414.5 mln, driven by higher revenue for all three of its business segments: (i) higher construction revenue (+55%) from more works recognition for new and ongoing projects; (ii) higher property revenue (+135%) mainly from the recognition of the Sunny International project in Cangzhou (Phase 1) and; (iii) higher direct sale and licensing revenue contributed mainly by the Cobiax group of SGD8.8 mln (vs. SGD1.7 mln in 2010).
- 2011 EBIT margin, however, declined to 4.2% (-3.0%-pts) partially offset by higher JV income of SGD20.6 mln (+26%). TSH reported a higher effective tax rate of 28.8% (+18.2%-pts) mainly due to higher contribution from its PRC property division. Excluding a one-time net gain arising from the bargain purchase of Cobiax group registered in 2010, 2011 net profit would have increased by about 41%.
- The group has secured a steady flow of contract wins for 2011. With the recently clinched SGD189.5 mln condominium project at Bedok Reservoir Road and the SGD151 mln "The Luxurie" apartment project, TSH contract wins for 2011 totaled about SGD784 mln.

Earnings Outlook / Estimates Revision

- After fine-tuning, we have kept our 2012 net profit forecast relatively unchanged. Although we have incorporated higher construction revenue, this was offset by higher taxation. Meanwhile we introduce our 2013 net profit forecast of SGD32 mln. 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) and Cobiax technology should help sustain margins.
- TSH's orderbook remains firm at SGD1.4 bln, with projects lasting till 2015. 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. Tightening 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 - 0.28
Avg Vol - 12 months ('000 shares)	487.1
Price Performance (%)	
- 1 month	4.6
- 3 month	8.5
- 12 month	-16.3
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.9
Market Cap (SGD mln)	157.0
Enterprise Value (SGD mln)	277.7
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	30.00	33.20
Cash Flow (SG cents)	3.9	4.1	4.7	4.8
Reported Earnings (SG cents)	4.0	3.5	4.2	4.2
Dividend (SG cents)	1.0	1.0	1.0	1.0
Payout Ratio (%)	28.9	28.2	24.1	23.8
PER (x)	5.1	5.8	4.9	4.9
P/Cash Flow (x)	5.2	5.1	4.4	4.3
P/Book Value (x)	0.9	0.8	0.7	0.6
Dividend Yield (%)	4.9	4.9	4.9	4.9
ROE (%)	19.1	14.1	14.6	13.3
Net Gearing (%)	0.0	58.7	51.8	42.7

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Earnings Performance

FY Dec. / SGD mln	4Q11	4Q10	% Change
Reported Revenue	141.8	37.9	>100
Reported Operating Profit	5.7	4.5	26.1
Depreciation & Amortization	-1.6	-1.3	20.8
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	15.2	11.8	29.0
Reported Net Profit	9.0	10.6	-15.2
Reported Operating Margin (%)	4.0	12.0	-
Reported Pre-tax Margin (%)	10.7	31.2	-
Reported Net Margin (%)	6.3	28.0	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	252.3	414.5	537.1	567.1
Reported Operating Profit	18.8	18.1	32.5	40.3
Depreciation & Amortization	-3.7	-3.9	-4.1	-4.3
Net Interest Income / (Expense)	-0.6	-0.9	-0.9	-1.0
Reported Pre-tax Profit	34.4	37.8	40.1	46.8
Effective Tax Rate (%)	10.6	28.8	20.0	25.0
Reported Net Profit	28.8	27.2	31.8	32.1
Reported Operating Margin (%)	7.5	4.4	6.1	7.1
Reported Pre-tax Margin (%)	13.7	9.1	7.5	8.3
Reported Net Margin (%)	11.4	6.6	5.9	5.7

*2010 figures have been restated

Source: Company data, S&P Equity Research

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