

Results Review

21 February 2012

Buy *(unchanged)*

Share price: S\$0.215
Target price: S\$0.330 *(unchanged)*

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Stock Information

Description: A main contractor that is graded A1 in both general building and civil engineering by the Building and Construction Authority (BCA) of Singapore. It also develops properties in second-tier cities in China.

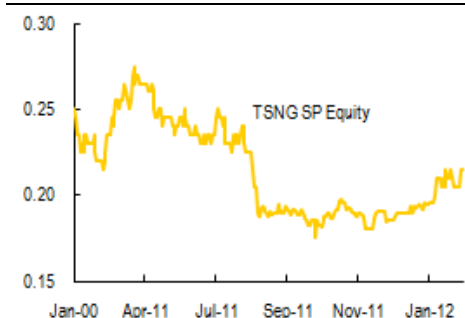
Ticker:	TSNG SP
Shares Issued (m):	766.0
Market Cap (US\$ m):	131.5
3-mth Avg Daily Volume (US\$ m):	0.11
ST Index:	3,021.19
Free float (%):	34.0

Major Shareholders:	%
Tiong Seng Shareholdings	59.0
Peck Tiong Choon Limited	7.0

Key Indicators

ROE (%)	9.6
Net gearing (%)	47.4
NTA/share (S\$):	0.2685
Interest cover (x):	15.3

Historical Chart



Performance:

52-week High/Low S\$0.28/S\$0.175

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	9.7	15.6	13.2	-12.2	13.2
Relative (%)	3.5	3.2	2.4	-10.8	-0.9

Tiong Seng Holdings

Meeting expectations

Growth in all segments. Tiong Seng reported full-year FY11 net profit of \$27.2m, in line with what we had expected. Revenue soared by 64% YoY to \$414.5m, from \$252.3m a year ago, due to improvements across all business segments. The construction division saw a 55% jump in revenue to \$350.7m for the full year, thanks to a higher amount of work done on existing contracts and the commencement of new contracts secured last year. Revenue from sales of development properties also more than doubled to \$53.8m as a total of 456 home units were sold in FY11, up from 55 home units last year.

New contracts worth \$784m. In FY11, Tiong Seng increased its orderbook by a total of \$784m, beating our forecast of \$600m. The new contracts brought its outstanding orderbook to approximately \$1.4b. They comprised high-profile contracts from both the private and the public sectors. The Housing and Development Board (HDB) has awarded Tiong Seng two of its most expensive projects to-date, Waterway Terraces I and II, with a combined contract value of \$339m. The company has also won the building contracts for private residential projects such as The Glyndebourne in Bukit Timah, The Luxurie in Sengkang and The Archipelago at Bedok Reservoir.

Raising productivity. The government has implemented a slew of measures to raise productivity in Singapore's construction sector. This included reducing the foreign worker quota and imposing higher foreign worker levies. Tiong Seng's investments in technology, such as the building of its pre-cast manufacturing hub, are expected to mitigate the impact from the government's push. Its fully automated factory, which can double its current output of precast concrete and at the same time reduce labour requirement by 50-70%, has come in for special mention by the government as an example of how the industry can adopt technology to be more productive.

Reiterate Buy. Tiong Seng has announced a full-year dividend per share of 1 cent. Based on the current share price, it implies nearly 5.0% yield. We reiterate our Buy recommendation and target price of \$0.33.

Tiong Seng Holdings – Summary Earnings Table

FYE Dec (S\$ m)	2010A	2011A	2012F	2013F	2014F
Revenue	252.3	414.5	512.6	621.9	655.1
EBITDA	21.0	23.7	56.4	66.4	78.1
Recurring Net Profit	21.4	27.2	28.3	30.0	33.8
Recurring Basic EPS (S cts)	2.8	3.5	3.7	3.9	4.4
EPS Growth (%)	-61.8	26.7	4.2	6.0	12.7
DPS (S cts)	1.0	1.0	1.0	1.0	1.0
PER (x)	7.7	6.1	5.8	5.5	4.9
EV/EBITDA (x)	6.4	12.0	5.3	4.1	3.9
Div Yield (%)	4.7	4.7	4.7	4.7	4.7
P/BV(x)	1.0	0.8	0.7	0.6	0.5
Net Gearing (%)	-13.3	47.4	46.0	31.9	37.0
ROE (%)	9.7	10.7	9.6	8.8	9.0
ROA (%)	3.9	3.8	3.8	3.9	4.3
Consensus Net Profit (S\$ m)	n.a.	n.a.	29.8	36.4	33.8

Source: Maybank KE

Figure 1: Peer comparison

	Last Price	Market cap	PER (x)		P/BV
	(\$)	(\$m)	Historical	Current	(x)
Lum Chang	0.31	115.0	7.3	7.6	0.8
Lian Beng	0.395	209.3	3.7	3.8	1.0
KSH	0.24	83.3	3.6	5.7	0.7
Koh Brothers	0.23	107.7	5.2	n.a.	0.6
TA Corp	0.245	113.9	2.8	n.a.	0.8
Hock Lian Seng	0.255	130.0	4.8	n.a.	1.5
Average		126.5	4.6	5.7	0.9

Source: Company, Maybank KE

Figure 2: Development properties

Project	Location	Type	Stake (%)	GFA (sq m)	Est. GDV (\$m)
<i>China</i>					
Sunny International	Cangzhou, Hebei	Mixed	40	59,960	75.5
Dagang	Tianjin	Landed	58	116,000	346.4
Tianjin Eco-City	Tianjin	Residential	9	32,400	75.6
Zizhulin	Tianjin	Commercial	80	9,600	3.8
Suzhou	Suzhou	Mixed	100	85,510	164.4
		Subtotal		303,470	665.7
<i>Singapore</i>					
Balmoral Condo	Singapore	Residential	30	2,542	68.4
		Subtotal		2,542	68.4
		Total		306,012	734.1

Source: Company, Maybank KE

Figure 3: Construction order book

Contract	Type	Stake (%)	Contract value (\$m)	Expected completion
Central Boulevard Office	Commercial	30	584	FY2012
The Wharf	Residential	100	87	FY2012
The Volari	Residential	100	70	FY2012
Hotel @ Upper Pickering Street	Hotel	100	129	FY2012
Kent Vale Staff Housing	Institutional	100	150	FY2012
Contract 913 (Downtown Line)	Civil Engineering	30	430	FY2015
Hundred Trees	Residential	100	121	FY2012
Tree House	Residential	100	146	FY2012
Connexion	Institutional	45	270	FY2013
Waterway Terraces I	Residential	100	192	FY2014
Glyndebourne	Residential	100	104	FY2014
Waterway Terraces II	Residential	100	147	FY2014
The Luxurie	Residential	100	151	FY2015
Archipelago	Residential	100	190	FY2015

Source: Company, Maybank KE

PROFIT AND LOSS (\$\$ m)

FYE Dec	2010	2011	2012F	2013F	2014F
Sales	252.3	414.5	512.6	621.9	655.1
Cost of goods sold	-216.0	-368.6	-427.7	-522.8	-542.8
Gross Profit	36.3	45.9	84.9	99.1	112.2
Operating expenses	-30.0	-38.4	-38.1	-42.1	-43.4
Operating Profit	12.6	16.8	53.8	64.0	75.8
Net interest	-1.7	0.5	-1.7	-1.7	-1.7
Interest income	2.0	2.3	2.0	2.0	2.0
Interest expense	-3.7	-1.9	-3.7	-3.7	-3.7
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net JV and associates	16.3	20.6	6.6	2.4	1.5
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax income	27.2	37.8	58.7	64.7	75.7
Income taxes	-3.7	-10.9	-17.6	-19.4	-22.7
Minority Interest	2.0	-0.3	12.8	15.3	19.2
Net profit	21.4	27.2	28.3	30.0	33.8
EBITDA	21.0	23.7	56.4	66.4	78.1
EPS (S cts)	2.8	3.5	3.7	3.9	4.4

BALANCE SHEET (\$\$ m)

FYE Dec	2010	2011	2012F	2013F	2014F
Total assets	549.7	721.0	747.3	773.5	790.2
Current assets	465.7	601.9	628.9	655.7	672.7
Cash and bank balances	86.5	79.8	64.4	91.8	61.7
Development properties	207.0	309.9	339.4	351.7	421.8
Accounts receivable	172.1	212.1	193.2	176.2	160.9
Others	0.0	0.0	31.9	35.9	28.3
Other assets	84.0	119.1	118.3	117.8	117.5
Investment properties	21.0	20.2	21.2	22.3	23.4
Property, plant & equipment	30.4	51.3	48.8	46.3	44.0
Others	32.6	47.6	48.3	49.2	50.0
Total liabilities	327.6	466.4	451.6	432.5	415.4
Current liabilities	277.1	367.4	352.2	332.7	315.2
Accounts payable	241.5	238.2	223.0	203.6	186.0
Short-term debts	13.1	112.7	112.7	112.7	112.7
Others	22.5	16.5	16.5	16.5	16.5
Long-term liabilities	50.5	99.0	99.4	99.7	100.1
Long-term debts	44.0	87.8	87.8	87.8	87.8
Others	6.6	11.2	11.6	11.9	12.3
Shareholder's equity	222.1	254.6	295.7	341.0	374.8
Paid-in capital	154.6	154.6	154.6	154.6	154.6
Reserve	-79.7	-74.2	-74.2	-74.2	-74.2
Accumulated profits	98.4	125.3	153.6	183.6	217.4
Minority interest	48.8	49.0	61.7	77.0	77.0

CASH FLOW (\$\$ m)

FYE Dec	2010	2011	2012F	2013F	2014F
Operating cash flow	-27.6	-122.8	24.0	45.1	-2.5
Pretax income	12.6	16.8	53.8	64.0	75.7
Depreciation & amortisation	8.4	7.0	2.6	2.4	2.3
Change in working capital	-37.9	-129.4	-25.7	-14.8	-72.3
Others	-10.8	-17.1	-6.6	-6.6	-8.1
Investment cash flow	20.9	-7.2	2.0	-10.0	-10.0
Net capex	-10.2	-22.3	-10.0	-10.0	-10.0
JCE and associates	33.6	15.9	12.0	0.0	0.0
Change in other assets	-2.5	-0.8	0.0	0.0	0.0
Cash flow after investment	-6.7	-130.0	26.0	35.1	-12.5
Financing cash flow	61.7	90.3	-7.7	-7.7	-7.7
Change in share capital	54.7	0.0	0.0	0.0	0.0
Net change in debt	15.0	141.8	0.0	0.0	0.0
Change in other liabilities	-2.0	-43.9	0.0	0.0	0.0
Dividends paid	-6.0	-7.7	-7.7	-7.7	-7.7
Net cash flow	55.0	-39.8	18.4	27.4	-20.1
Free cash flow	-37.8	-145.1	14.0	35.1	-12.5

KEY RATIOS

FYE Dec	2010	2011	2012F	2013F	2014F
Growth (% YoY)					
Sales	-32.8	64.3	23.7	21.3	5.3
OP	-73.4	33.0	220.8	19.0	18.4
EBITDA	-68.2	12.7	137.6	17.9	17.6
NP	-48.2	26.7	4.2	6.0	12.7
EPS	-61.8	26.7	4.2	6.0	12.7
Profitability (%)					
Gross margin	14.4	11.1	16.6	15.9	17.1
Operating margin	5.0	4.0	10.5	10.3	11.6
EBITDA margin	8.3	5.7	11.0	10.7	11.9
Net profit margin	8.5	6.6	5.5	4.8	5.2
ROA	3.9	3.8	3.8	3.9	4.3
ROE	9.7	10.7	9.6	8.8	9.0
Stability					
Gross debt/equity (%)	26	79	68	59	54
Net debt/equity (%)	-13.3	47.4	46.0	31.9	37.0
Int. coverage (X)	5.7	12.5	15.3	18.0	21.2
Int. & ST debt coverage (X)	1.3	0.2	0.5	0.6	0.7
Cash flow int. coverage (X)	-7.5	-64.9	6.5	12.2	-0.7
Cash flow int. & ST debt (X)	-1.6	-1.1	0.2	0.4	0.0
Current ratio (X)	1.7	1.6	1.8	2.0	2.1
Quick ratio (X)	0.9	0.8	0.7	0.8	0.7
Net debt (\$\$m)	-29.5	120.7	136.1	108.7	138.9
Per share data (S cts)					
EPS	2.8	3.5	3.7	3.9	4.4
CFPS	-3.6	-16.0	3.1	5.9	-0.3
BVPS	29.0	33.2	38.6	44.5	48.9
SPS	32.9	54.1	66.9	81.2	85.5
EBITDA/share	2.7	3.1	7.4	8.7	10.2
DPS	1.0	1.0	1.0	1.0	1.0

Source: Company, Maybank KE

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APPENDIX 1

Definition of Ratings

Kim Eng Research uses the following rating system:

BUY	Total return is expected to be above 10% in the next 12 months
HOLD	Total return is expected to be between -5% to 10% in the next 12 months
SELL	Total return is expected to be below -5% in the next 12 months

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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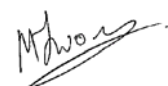
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