Singapore Company Focus

Tiong Seng Holdings

Bloomberg: TSNG SP | Reuters: TISE.SI

DBS Group Research . Equity

26 Aug 2010

BUY S$0.24 STI : 2,926.55

(Initiating Coverage)
Price Target : 12-Month S$ 0.36
Reason for Report : Initiating Coverage
Potential Catalyst: Strong quarterly earnings

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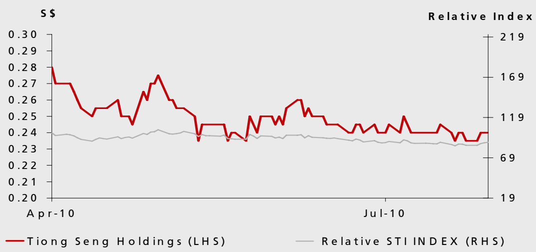
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2008A	2009A	2010F	2011F
Turnover	272	376	328	477
EBITDA	25	88	69	85
Pre-tax Profit	11	68	48	66
Net Profit	9	43	30	37
Net Pft (Pre Ex.)	9	43	30	37
EPS (S cts)	1.2	5.7	4.0	4.9
EPS Pre Ex. (S cts)	1.2	5.7	4.0	4.9
EPS Gth Pre Ex (%)	(10)	369	(30)	22
Diluted EPS (S cts)	1.2	5.7	4.0	4.9
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	8.2	12.7	23.8	28.7
PE (X)	19.8	4.2	6.0	4.9
PE Pre Ex. (X)	19.8	4.2	6.0	4.9
P/Cash Flow (X)	10.8	4.4	5.8	4.1
EV/EBITDA (X)	10.9	2.6	3.1	1.8
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	2.9	1.9	1.0	0.8
Net Debt/Equity (X)	0.6	CASH	CASH	CASH
ROAE (%)	16.0	54.1	21.7	18.5
Consensus EPS (S cts):		-	-	-

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: Tiong Seng is a leading contractor in Singapore and a niche developer in 2nd & 3rd Tier

Source of all data: Company, DBS Vickers, Bloomberg

Standing tall against competition

- **Leading contractor with strong order book of cS$1bn - highest amongst peers.**
- **Creating synergies & productivity through use of advance construction methods**
- **Niche developer in 2nd & 3rd tier cities in the PRC with over 732k sqm of GFA to be developed**
- **Initiate with BUY call, TP S$ 0.36 offers 50% upside**

Leading contractor with large order book of cS$1.0bn, highest amongst peers. With an established track record of over 50 years, Tiong Seng is one of Singapore's top rated contractors. As of 30 June 2010, the group has a significant order book of S$1b to be recognized over the next 2.5 years, ranging from private sector projects in the office, hospitality and residential sectors to public infrastructure projects, which increases group earnings visibility.

Use of advanced formwork systems & pre-casting a key comparative advantage. While the construction sector is labor intensive, Tiong Seng stands ahead with its proficient use of advanced formwork systems and off-site pre-casting, which reduces up to 50% of the time and labor needed when using conventional construction methods. In addition, the group's pre-cast factory when completed at end 2011, will further reduce construction lead-time, labor cost & boost its competitive edge.

Niche developer in 2nd & 3rd Tier cities in the PRC, with over 732k sqm GFA to be launched. Focused in cities with steady economic expansion, increasing affordability and a growing demand for real estate in the Bohai Rim region, the group is looking to launch over 732k sqm of GFA in the next few years, including a residential development in the Sino-Singapore Tianjin Eco-City project, w.

Initiate coverage with a BUY, TP S$0.36. Our target price of S$0.36 is premised on a 30% discount on SOTP of S$0.51, in line with mid- small cap developer/contractor average universe and closest to those covered by DBS Vickers. TP offers an upside of 50% from current level.

At A Glance

Issued Capital (m shrs)	766
Mkt. Cap (Sm/USm)	183.8 / 136
Major Shareholders	
Tiong Seng Shareholding (%)	59.0
Peck Tiong Choon Pte Ltd (%)	6.9
Free Float (%)	34.1
Avg. Daily Vol.('000)	321

SWOT Analysis

Strengths	Weakness
A leading "A1" contractor in Singapore. Tiong Seng has, over the years, gained reputation as one of Singapore's leading contractors with over 50 years in operational experience. Currently, Tiong Seng is registered as a BCA graded "A1" contractor in civil engineering and building construction, placing it amongst the top rated contractors in Singapore. The rating enables it to bid for public sector projects with unlimited value. **Strong focus on work productivity.** Mr. Pek Lian Guan, the CEO, is a strong advocator of productivity and the integration of technology in his business operations - the group's strong focus in the use of pre-cast construction method coupled with the use of advanced formwork technologies in its construction projects has been the key contributing factor in enabling the group to complete its projects with consistent top quality finishes. **Versatile – wide spectrum of projects**. Tiong Seng has demonstrated a strong capability to take on a variety of projects, i.e. from building construction to civil engineering projects, reducing their exposure to and reliance on a particular sector. **Established relationships with customers**. Tiong Seng has built up a strong relationship with its customers over 50 years of operations, and has many repeat customers from top-tier developers like City Developments & Capitaland. The large repeat customer base is a strong signal of its quality and strong rapport with customers. **Niche developer in PRC**. The group's property development business is targeted in the 2nd & 3rd Tier cities. Currently, its focus is on the high growth Bohai region in China, with 4 projects there. Tiong Seng, leveraged on its experience and insights as a contractor, is able to anticipate potential construction bottlenecks and problems and develop effective work plans for projects that they undertake.	**Exposure to cyclical industries.** Tiong Seng's revenue is largely derived from the construction industry in Singapore and the property market in the PRC, which is dependent on the general health of the 2 economies. Therefore, Tiong Seng's revenue would be adversely affected if there is an economic downturn in these 2 countries. **Highly dependent on key personnel.** The continued success of Tiong Seng is dependent on the experience and expertise of its Executive Directors, who have been instrumental in spearheading the growth and strategies of the Group. **Potential volatility in revenues.** Tiong Seng's revenues can be volatile, swung by recognition of sales of its property development activities in the PRC – they will only be able to recognise revenues when construction has been completed and handed over to the buyers. However, this business segment's historical contribution to topline is rather small at c13-24%, depending on the completion of its projects.
Opportunities	**Threats**
Strong economic recovery in Asia. DBS Research Group believes that 2010 will be the start of a decade of above-average growth for Asia. Asia will, for the first time, generate more new demand than any other economy in the world in 2010, and remain so for the next 50 years. This is expected to drive the construction and civil engineering activities in the infrastructure, energy and industrial sectors. **Healthy construction demand in Singapore.** With the expansionary fiscal policy, total construction demand is projected to sustain around S$21-27 bn for 2010, of which public sector construction demand is projected at S$14-17.9bn. This places Tiong Seng in good stead to secure a couple of new contracts given their "A1" rating.	**Exposure to raw material price fluctuations.** As Singapore imports raw materials like sand, concrete & steel from other countries, contractors are subjected to potential price fluctuations from changes to the demand/supply for these materials and potentially political pressures which cannot be controlled. In the event of a sharp hike in the prices of these raw materials or a reduction in supply of these raw materials to Singapore, Tiong Seng's revenues and profitability will be affected.

Source: DBS Vickers

Company Background

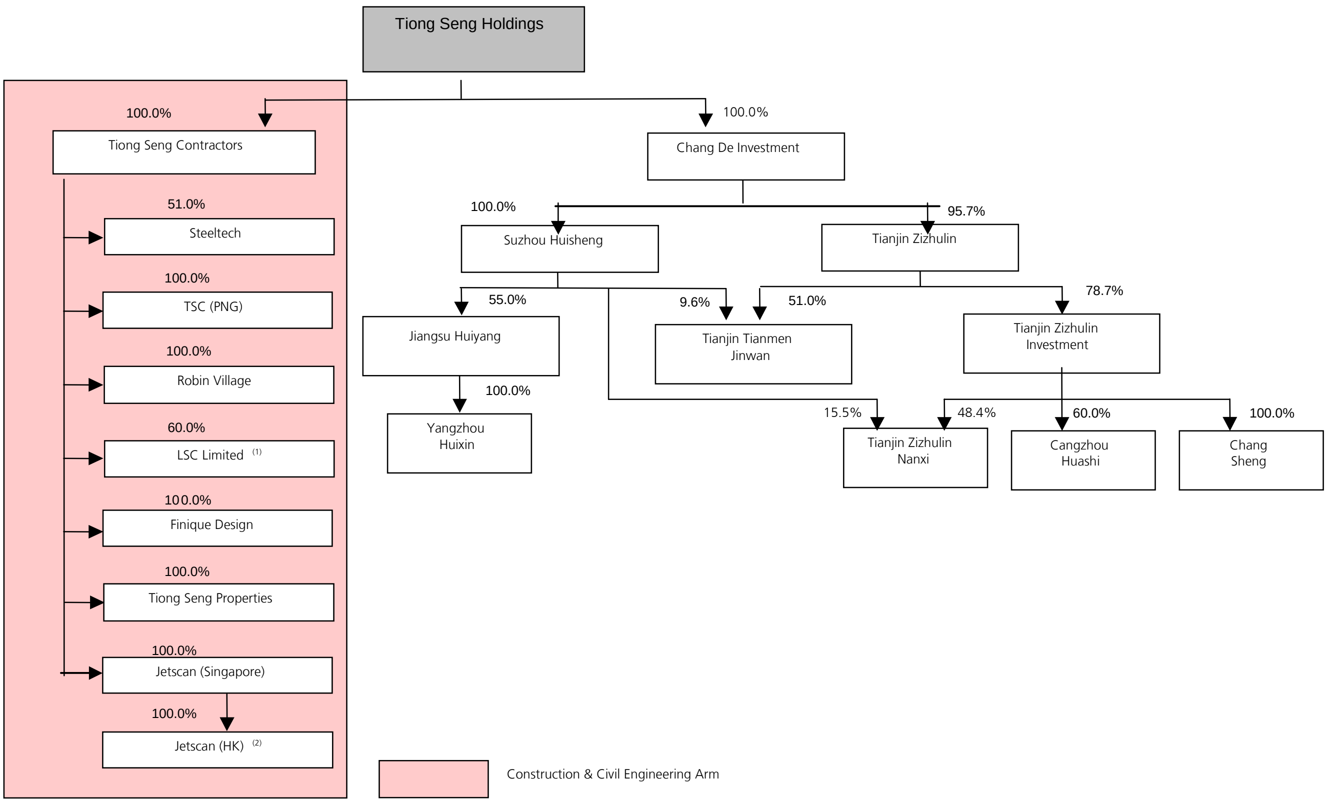
50 years of operating history. Tiong Seng Holdings (Tiong Seng) dates back to 1959 as a partnership formed by its 4 founding members – Mr Pek Ah Tuan and the late Mr Pay Seng Koon from Pek Tiong Choon Pte Ltd and the late Mr. Lee Tuan Chay and Mr Khng Kwi Cher from Song Hup Seng Pte Ltd. The company was incorporated as Tiong Seng Contractors (Private) Limited in 1964 and was engaged in the construction business. The group ventured into the PRC in the 1990s.

A leading "A1" contractor in Singapore. Tiong Seng has, over the years, gained a reputation as one of Singapore's leading contractors. The group's strength in the building and civil engineering field is evidenced with the numerous awards and accolades they have received over the years. Currently, the group is registered as a BCA graded "A1" contractor in civil engineering and building construction, enabling them to bid for public sector projects with unlimited value.

Amongst the top rated contractors in Singapore. As of Aug 2010, there were a total of 1,707 contractors registered with the BCA for general building, of which, only 51 were awarded the A1 grade for general building, and 40 out of 799 contractors with the A1 grading for civil engineering. Tiong Seng's A1 rating status in both general building and civil engineering thus places them among the top contractors in Singapore.

Niche developer in PRC. The group's property development business is targeted in the 2nd and 3rd Tier cities. Currently, its focus is in the high growth Bohai region in China. With its strong track record and construction management experience, Tiong Seng is able to anticipate potential construction bottlenecks and problems, and develop effective work plans for projects that they undertake. Thus, they are able to effectively complete their property development ventures, most importantly, on schedule.

Corporate structure



(1) Tiong Seng intends to dissolve this company as soon as possible
(2) This is a dormant company
Source: Tiong Seng, DBS Vickers

Key corporate milestones:

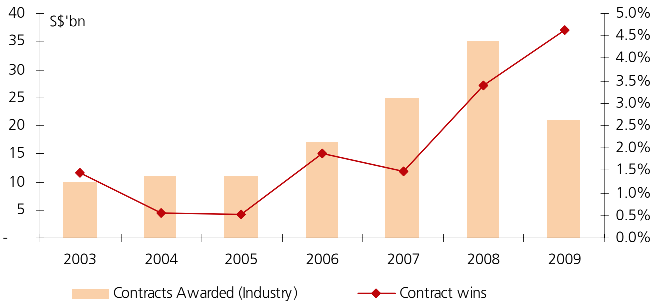
Year	Corporate developments and milestones
1959	Establishment of Tiong Seng – a partnership collaboration between Peck Tiong Choon Private Limited and Song Hup Seng Private Limited to provide a complete supply chain of excavation, earth moving and trucking services. Worked on series of civil and engineering projects in Singapore and Malaysia
1964	Incorporation of Tiong Seng Contractors (Private) Limited
1970s – Current	Involved in civil engineering in Singapore, gained traction with clients/suppliers and valuable construction management experienced. Expanded into civil engineering and building. Over the years, gained a strong reputation as one of Singapore's leading contractors. Tiong Seng is currently registered as a contractor with the highest BCA grading of "A1" for both civil engineering and building, enabling them to undertake public contracts with unlimited value.
1989	Expanded into Papa New Guinea ("PNG") – 2 road upgrading projects funded by the Asian Development Bank and World Bank
1994	Ventured into property development in Suzhou, China. Started first as a passive investor, cemented business relationships and network in China
2001	Constructed the Meritus Hotel in Shantou, PRC which won the construction excellence award in 2004
2002	Commenced its first property development- Suzhou Huisheng Yuan, a 43,800 sqm mixed residential-commercial project in Suzhou
2004	Ventured into Yangzhou, developed a commercial project named Wenchang Broadway, which was completed in 2006
2006	Developed another commercial project in Suzhou – the Suzhou Shengyang Commercial Building, which was completed in 2007
2006 - current	Ventured into Tianjin. Completed its first project there in 2009 – Tianmen Jinwan Building, a mixed residential- commercial development. Currently has 4 other projects in the Bohai Economic Rim with a total saleable GFA of c732,100 sqm to be launched in the coming few years.

Source: Tiong Seng Holdings, DBS Vickers

Construction Business

Construction business is the key revenue driver. The construction and civil engineering division is a regular contributor to revenues and accounts for a lion's share of Tiong Seng's topline. Over FY06-07, it contributed an approximate 70-90% of the group's topline. It provides the group with a steady source of income, with the group regularly successfully securing 0.5-4.7% of total industry's contracts since 2003.

% of Tiong Seng's contract wins to total contracts awarded in Industry



Source: Tiong Seng, DBS Vickers

Order book of S$1.0b. As of latest reported date, Tiong Seng has an outstanding order book of cS$1.0b, majority of which is expected to be recognised over the next 12-30 months. A few major projects that Tiong Seng is currently undertaking include private construction projects like the Sentosa Integrated Resorts, Marina Bay Financial Centre (MBFC) – which is expected to be completed in the coming months, and public sector projects like the building and design of stations and tunnels of stage 2 downtown line for LTA (for the Cashew and Hillview stations) to road construction projects in Papua New Guinea (PNG).

Repeat customers – strong indication of quality. Tiong Seng has, over the years, built up a strong reputation as a reliable contractor and has cemented strong business relationships with its clients (developers and government agencies). These relationships are evidenced by its ability to secure a number of repeat contracts from clients – i.e. City Developments, CapitaLand, NTUC.

Ability to undertake a wide spectrum of projects. Tiong Seng's construction capabilities range from residential to commercial building to civil engineering works and they have the ability to handle a wide spectrum of projects and thus not be over-reliant on any single project category for revenues. Therefore, they are less vulnerable to any adverse changes in market conditions in any particular sector.

Selected Tiong Seng's on-going projects

On-going projects	Type	Contract size (S$'m)
Integrated Resorts (40-60% JV with Kajima Overseas Asia Ptd Ltd	Private	1,053
MBFC (Commercial component) (30-70% JV with Kajima Overseas Asia Pte Ltd)	Private	558
Central Boulevard Office Building (30-70% JV with Kajima Overseas Asia Pte Ltd)	Private	584
Contract 913 (30-70 JV with GS Engineering Consulting)	Public	430
Raffles City A&A works	Private	30
Hilltops Condominium	Private	158
Hundred Trees Condominium	Private	121
The Wharf	Private	87
Hotel at Upper Pickering Street	Private	129
Road projects - PNG	Public	40
Kent Vale NUS staff housing	Private	150
Tree House eco-condominium	Private	146

Source: Tiong Seng, DBS Vickers

Synergies with strategic partners. Tiong Seng has, in recent years, entered into strategic partnerships with regional established contractors/developers like Kajima, Samsung & GS Engineering Consulting to undertake more challenging engagements and larger projects (i.e. Integrated Resorts, construction of part of the circle line stations). These collaborations allow Tiong Seng to share its experiences/ exchange know-how in order to further boost its own capabilities and best business practices.

Examples of Tiong Seng's past projects

Major Completed Projects	Type (Public/ Private)	Major End Clients	Contract size S$'m
Guilin View	Private	Guilin Park	155
Golden Hill Villas	Private	City Developments Ltd	32
Park Green	Private	NTUC Choice Homes	63
NTUC Fair Price Warehouse Extension	Private	NTUC Fairprice	12
Parc Emily	Private	City Developments Ltd	60
Jalan Buron Expressway	Public	Land Transport Authority	36
One Marina Boulevard (30-70 JV with Samsung)	Private	SLF Management Services Ptd Ltd	116
St Regis Hotel (30-70 JV with Kajima)	Private	Richmond Hotel Pte Ltd	296
Home Team Academy	Public	Ministry of Home Affairs	146
Sky @ Eleven	Private	Times Devt Pte Ltd	137
Kim Chuan Link Sewer	Public	Public Utilies Board	43
Capella (Phase 1&2)	Private	Millenia Hotel Pte Ltd	197

Source: Tiong Seng, DBS Vickers

Contractor with "green" expertise. Apart from the numerous accolades received from various government bodies over the years, Tiong Seng continuously strives to reduce the impact of their business activities on the environment. They have also built properties that have been awarded the Green Mark award.

With Singapore government's (National Environment Agency) and the Building Construction Authority's (BCA) push towards greater environmental awareness coupled with Tiong Seng's past experience and its conscious awareness on environmental friendliness, places them in good stead to work with customers who are keen to adopt environment-friendly construction methods and build sustainable buildings.

For example, the group has, over the years, forged strong relationships with developers like City Developments Ltd (CDL) and Capitaland, who place emphasis on environmental – friendly buildings.

In addition, Tiong Seng's expertise and experience in building "green" buildings has also led to its partnership with the master developer of Tianjin Eco-City for a property development project.

Strong focus towards work productivity & use of technologies. The management team has, over the years, grown its capabilities and constantly strived to improve its work processes, and thus improving its cost efficiencies while providing a sustained high level of quality to customers. Tiong Seng has invested in a wide range of machinery and equipment over time so as to keep operational costs, labour costs in check and to ensure that they will have ample resources to complete their projects. Apart from that, management uses technology to complement their business process, improving their efficiency and quality.

While the construction business is a traditionally labour intensive industry, Tiong Seng is able to reduce its labour requirements by adopting technology through the use of pre-cast construction and advanced formworks systems, thus stand out amongst its competitors.

We believe that Tiong Seng possesses effective cost management and project management skills, boosted by the use of efficient construction methods and advanced technologies - key comparative advantages for it to outbid & outlast its competitors.

(i) Strong In-house pre-casting capability. Through its wholly owned subsidiary, Robin Village Development Pte Ltd, Tiong Seng specializes in pre-casting services (where concrete is cast in a reusable mould or "form" and then cured in a controlled environment and then putting them together on the site of construction). Tiong Seng currently undertakes pre-casting at its off site location in Tuas.

The use of pre-cast construction has afforded Tiong Seng the ability to (i) closely monitor the quality of each cast as the concrete is cast in a controlled environment, (ii) deliver projects at an improved speed as the methodology allowed it to reduce the time needed to complete one floor of the building by approximately half without comprising on quality and (iii) reduced reliance on labor. As such, Tiong Seng is able to continuously deliver their projects on time, at competitive costs and at consistently high quality.

Examples of pre-cast construction

Source: Tiong Seng, DBS Vickers

Propelling the next step of growth - building an automated pre-cast factory. Tiong Seng is not resting on its laurels. Management believes in being a step ahead of competition and aims to construct a pre-cast factory with the aim to further reduce the labour content in their construction work.

The factory will be built on a site that they currently own at Tuas South Avenue 1. This factory will be equipped with automation to further increase the speed of pre-casting activities. Management expects the use of such automation – one of the first in Singapore to lead to a reduction in c50-70% of total labour required for each construction project.

With increased efficiency and reduced time to completion, Tiong Seng will be able to deploy their services to other contractors who need them, leading to new sources of revenues. The factory is targeted to complete by the end of 2011.

(ii) Advanced formwork systems- cutting time to construct. Another comparative advantage that Tiong Seng has is its proficiency in the use of advanced formwork systems, which when integrated into its construction activities, lead to reduced construction time, and lower labour requirements, resulting in cost efficiencies. As advanced formwork systems are made of galvanized steel, they are lighter and sturdier than conventional timberwork construction, thus making it easier and faster to set up than conventional methods.

The advantages of using such formwork systems include (i) better quality finishes; (ii) higher productivity (reduced time to set up and lower labour cost) given its lightweight and the ease of setting, all of which lead to shorter time to complete, (iii) reusability, which result in more environmentally friendly construction.

Tiong Seng is one of the few contractors in Singapore that is proficient in the use of advanced formwork systems.

Advanced Formwork Systems

Source: Tiong Seng, DBS Vickers

Tiong Seng's initiatives are aligned with Government's push towards higher productivity. The Singapore government, in the recent budget announcement, is focused on making Singapore's economy more efficient through improving labour productivity. The local construction sector, given that it employs more than 200,000 low-skilled foreign workers, has been singled out as one of the sectors, which the government is targeting to make more efficient.

As such, the government has instituted hikes in foreign levy and reducing the man-year entitlement & a new S$250m budget in the bid to help contractors and firms to adopt new technology, stay relevant & improve its capability. Going forward, in the bid to stay competitive and preserve their margins, developers & contractors could turn towards using pre-cast construction or adopt new building methods and technologies, which put Tiong Seng in good stead to leverage on the demand for contractors with strong pre-cast capabilities given its proficiency in pre-cast construction and advanced formwork systems.

Property Development

Niche Developer in 2nd-3rd Tier cities. Tiong Seng is in the property development business in selected high growth cities in China – the group has successfully completed residential & commercial projects in Suzhou, Yangzhou and Tianjin. The group started out in the Yangtze region back in the early 2000s, and targeted the Bohai Economic Rim in recent years, given its emerging importance to China's future economic growth.

With an experienced management team in property development in China and being a contractor itself, Tiong Seng is able to anticipate potential construction bottlenecks and value add at design stage prior to construction commencement, and to ensure that its projects are completed more efficiently, and at lower costs.

Completed projects – Yangtze River Delta region. Tiong Seng started its first project back in 2002 in Suzhou and grew to 4 projects by 2006. The group has completed the construction for these projects and substantially sold off almost all of the available units, generating total sales of approximately RMB 889m.

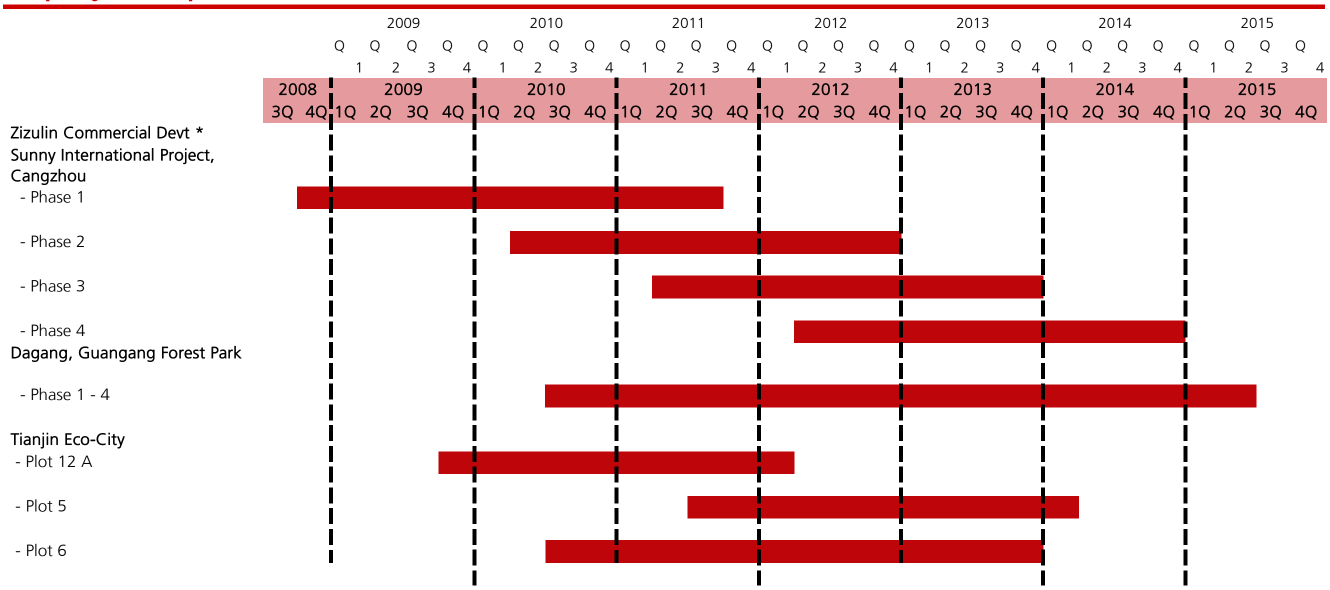
Upcoming projects in Bohai Economic Rim – 732,100 sqm of GFA to be developed. The group has invested in a further 4 projects in Tianjin / Cangzhou/ Dagang, one of which is in the Sino-Singapore Tianjin Eco-City, a landmark bilateral project between Singapore and China with private-sector investment and development.

Project launched in Cangzhou with good response. Tiong Seng has launched phase 1 of one of its new projects – Sunny International Park, Cangzhou and have met with strong response from buyers. We expect the project to be substantially sold by the end of the year. Come 2H10-FY11, the group will be launching phase 2 of this project, phase 1 of Dagang project and its Tianjin Eco-City project.

Tianjin-Eco City – stamping its mark. The group's stake in the JV company is diluted down to 9% (from 49% previously) with the introduction of Mitsui Fudosan Residential Co. Ltd to the consortium, which includes the Sino-Singapore Tianjin Eco-City Investment and Development Co. Ltd ("SSTEC"). However, the project scope expanded 4 folds covering a land area of c363,600 sqm (100,000sqm previously) over 3 plots of land, which is expected to contribute positively to the group's earnings in the coming years.

Projects to progressively launch and complete by 2015. The group is planning to launch all of its projects in phases over the next 4 years and are estimated to progressively complete by 2015. This will provide the group with income visibility from the property development segment over the next 5 years.

Property development schedule



** Note: For Zizulin Commercial development project, Tiong Seng is currently evaluating various options for this site and may consider selling it.*
Source: Tiong Seng, DBS Vickers

Tiong Seng's completed property development projects

Projects	City	Construction Start Date	Saleable GFA sq m	% Sold	Sales Revenue RMB'm	Project pictures
Suzhou Huisheng Yuan (Phase 1)	Suzhou	May-02	9,900	100%	30.5	
Suzhou Huisheng Yuan (Phase 2) - Residential		Nov-04	27,000	100%	110.9	
Suzhou Huisheng Yuan (Phase 2) - Commercial		Nov-04	2,000	100%		
Wenchang Broadway	Yangzhou	Oct-04	30,000	46%	207.4	
Suzhou Shengyang Commercial Building	Suzhou	Mar-06	10,000	100%	70.0	
Tianmen Jinwan Building - Commercial	Tianjin	Aug-07	15,000	69%	428.6	
Tianmen Jinwan Building - Residential	Tianjin	Aug-07	51,100	99%		

Source: Tiong Seng, DBS Vickers

Tiong Seng's ongoing/yet to launch development projects

Projects	City	Description	Estimated Construction Start Date	Estimated GFA sqm	Project pictures
Sunny International Project, Cangzhou	Cangzhou	4 phase mixed residential-commercial development	Phase 1 Started Phase 2: 1H10 Phase 3: 1H11 Phase 4: 1H12	Residential 141,300 Commercial 18,200	
Dagang, Guangang Forest Park, Tianjin	Dagang	4 Phases landed properties and low rise developments	3Q10	200,000	
Tianjin EcoCity	Tianjin	3 plots of land to be released in phases	Multiple	360,600	
Zizulin Commercial Devt (French Barracks)	Tianjin	Located in heart of Tianjin City. Ex- French Barracks	T.B.A	12,000	

Source: Tiong Seng, DBS Vickers

Management & Strategy

Experienced management team. Tiong Seng is helmed by a team of industry veterans and one of its founders, Mr. Pek Ah Tuan, who is the Non-Executive Chairman). Its key management team includes Mr. Pek Lian Guan (Executive Director and CEO), and Mr. Pay Sim Tee (Executive Director). Mr Pek Lian Guan and Mr Pay Sim Tee have 20 and more than 30 years of experience in the local construction industry respectively.

Well-honed management team – strong industry knowledge and business contacts. Management has a strong knowledge of the group's business dealings & business processes, having worked their way up from junior positions, such as site-supervisors to current management positions. This has enabled the management team to build up strong capabilities in managing business processes to establishing wide networks of business contacts.

Embraces technology remains a key comparative advantage. Mr. Pek Lian Guan, the CEO, is a strong advocator of productivity and the integration of technology in his business operations. The group's strong focus in the use of pre-cast construction method coupled with the use of advanced formwork technologies in its construction projects has been the key contributing factor in enabling the group to complete its projects on time or ahead of schedule and with consistent top quality finishes.

Key Management Team

Director (Age)	Current Appointment	Previous Experience
Mr. Pek Ah Tuan (84)	Non-Executive Chairman (Founder)	One of the founders of the Group. Has over 50 years of experience in major earthwork, road and bridge construction, and civil engineering and building work and property development. Played a vital role in charting the strategic direction of the group, spearheaded its early ventures in Laos, Papua New Guinea and PRC.
Mr. Pek Lian Guan (44)	Executive Director and CEO	20 years of experience in project management for civil engineering and building works in Singapore and entrepreneurial experience in PRC, Laos and Papua New Guinea. Well regarded in the construction industry, currently a board member of Building and Construction Authority (BCA) and the Singapore Green Building Council. Mr Pek is also a member on the board of governance of the UOB-SMU Entrepreneurship Alliance Centre.
Mr. Pay Sim Tee (58)	Executive Director	Has more than 30 years of experience in the building and construction industry and has been with the company since 1977. Mr Pay is in charge of the group's property development arm and human resource.
Mr. Lee It Hoe (67)	Non-Executive Director	Mr. Lee is currently an executive director of UOB Kay-Hian Pte Ltd, a stock broking company. He has previously worked in Tiong Seng Contractors as a projects management executive back in the early 1960s. Mr. Lee holds a Diploma in Building Construction from Singapore Polytechnic in 1968.
Mr. Ong Lay Khiam (61)	Lead Independent Director	Mr. Ong worked in the banking and finance industry since 1971, principally as a commercial banker. He has held various positions in various capacities in local financial institutions ranging from DBS Bank, Tat Lee Bank, Keppel TatLee Bank and Hong Leong Finance. Mr. Ong is currently an Executive Director of UBS AG, Wealth Management.
Mr. Ang Peng Koon, Patrick (45)	Independent Director	Mr. Ang is an executive committee partner in Rajah & Tann LLP and is the head of the firm's banking, restructuring and insolvency department. He has over 19 years of experience of handling both contentious and non-contentious matters with an expertise in corporate restructuring and insolvency.

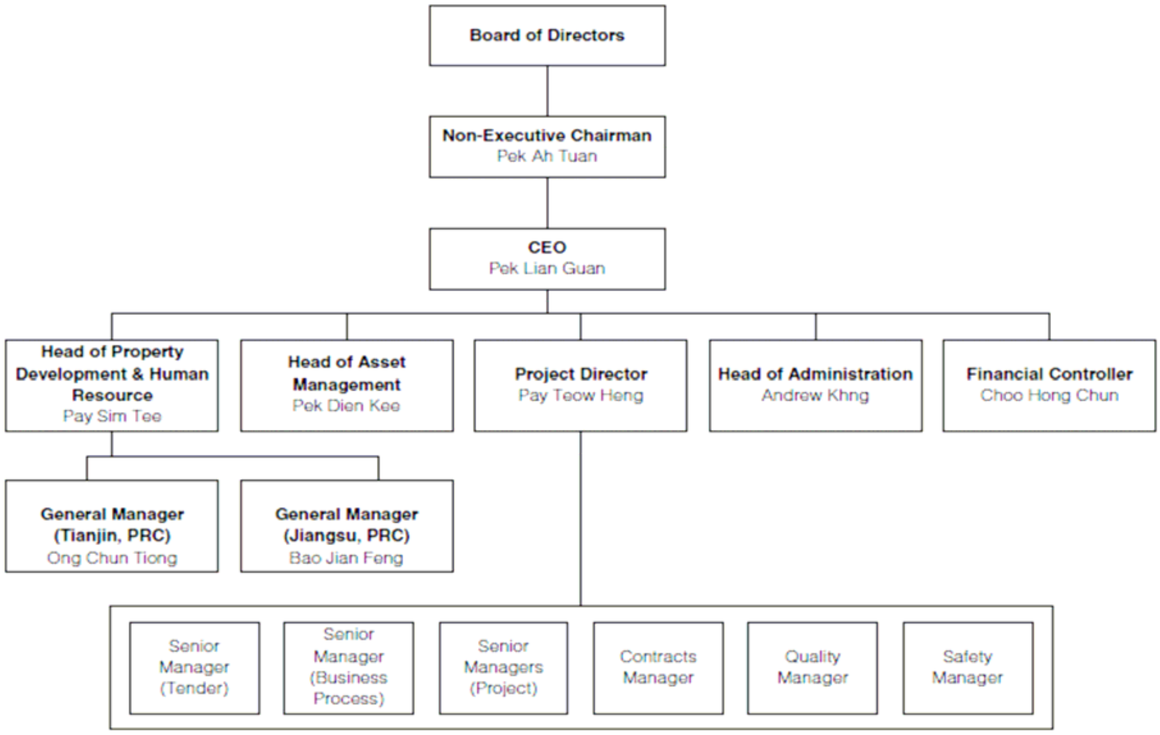
Source: Tiong Seng, DBS Vickers

Senior management team

Manager (Age)	Current Appointment	Previous Experience
Mr. Pek Dien Kee (55)	Head of Asset Management	Mr. Pek has been with the group since 1975 and first started his career in Tiong Seng Contractor as an on-site supervisor of the projects to ensure that operations went smoothly. Since 1989, he has been involved in the management of the group's Papua New Guinea's road construction projects together with Mr. Pay Sim Tee.
Mr. Pay Teow Heng (42)	Project Director	Mr. Pay has 18 years of experience in administration, coordination and managing of building construction and civil engineering projects in Singapore. First joined the group as a project manager in 1992 and subsequently promoted to be a director in 1998. His job scope includes the manager of tender process for projects.
Mr. Andrew Khng (49)	Head of Administration	Mr. Khng has been with the Tiong Seng since 1981 and prior to joining, has been placed on a rotational basis through various supervisory roles in the group. Has over 16 years of experience in administration, coordination and managing of civil engineering and building construction projects in Singapore. As of June 2009, Mr. Khng is also the president of the Singapore Contractors Association Limited.
Mr. Choo Hong Chun (39)	Financial Controller	Mr. Choo has been the group's financial controller since May 2007 and his responsibilities include managing all financial, accounting, tax and banking matters of the group. He started his career as an audit assistant in Deloitte & Touche in 1994 and joined KPMG as an audit manager in 2001. He has also served as a financial controller in Teckwah Industrial Corporation Limited. Mr. Choo graduated from the Nanyang Technological University of Singapore with a Bachelor of Accountancy in 1994 and is a Certified Public Accountant.
Mr. Ong Chun Tiong (36)	General Manager (Tianjin, PRC)	Mr. Ong has been the General Manager of the group's subsidiaries in Tianjin, PRC since 2004. He joined the Group in 1998 after graduation as an Information Systems and Business Process Manager and was responsible for generating and expanding new markets in the construction industry.
Mr. Bao Jian Feng (56)	General Manager (Jiangsu, PRC)	Mr. Bao has been the General Manager for the group's subsidiaries in Jiangsu province since 1996 and is mainly in charge of Suzhou Huisheng and Jiangsu Huiyang.

Source: Tiong Seng, DBS Vickers

Management Structure



Robust construction industry

Asia – the driver of global growth. DBS Group Research believes that 2010 will be the start of a decade of above-average growth for Asia. Asia will, for the first time, generate more new demand than any other economy in the world in 2010, and remain so for the next 50 years.

Driven by economic recovery in the Asia markets, we believe that we will see a ramp up in construction activities with a focus towards the infrastructure and industrial sectors in these countries.

DBS Group Research – GDP projections in 2010-11F

Country	2010F	2011F
Singapore	15.0	4.5
China	11.0	10.0
Indonesia	6.0	5.8
Malaysia	8.0	5.5
United States of America	3.2	2.9

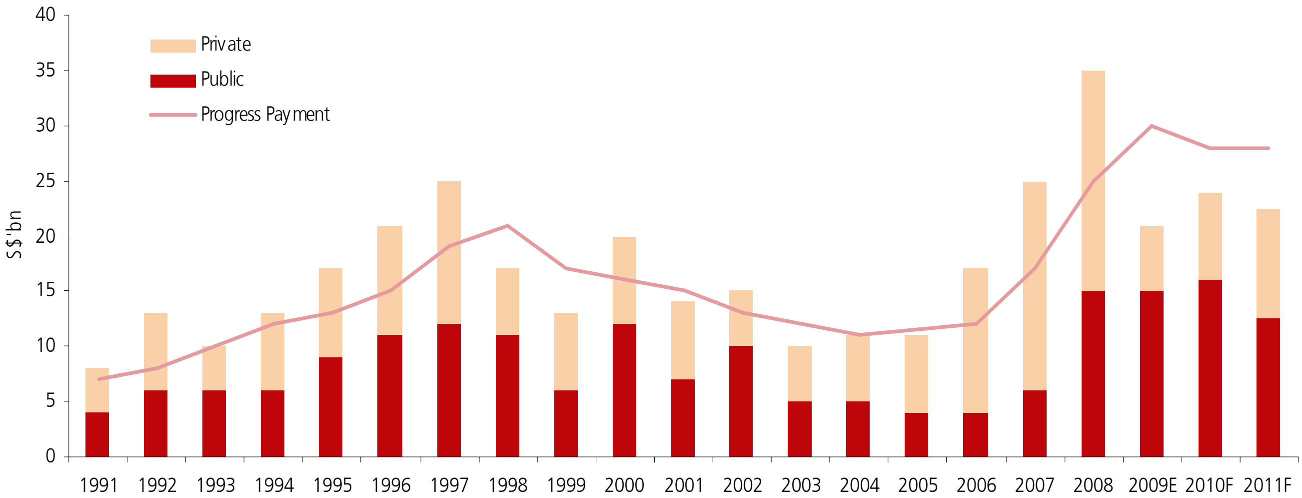
Source: DBS Research, IMF

Estimated S$21-27bn worth of potential contracts to be awarded in 2010. According to Building and Construction Authority (BCA), 2010 will continue to see a sustained demand for construction. BCA estimates that total contracts to be awarded this year to be S$21-27bn, a 20% increase from the average of S$21bn of contracts awarded in 2009 and a 54% increase from the average construction demand of cS$13bn from 1998-2006. This is a reflection of the sustained demand for construction and infrastructure development amidst continued economic growth in Singapore.

The public sector contracts are expected to range between S$14-17.9bn, which is approximately 65% of total demand in 2010. The private sector demand, likewise, is estimated to continue growing steadily to S$7.0-9.1bn as the local economy continues to register growth.

S$328m in contract wins to date. The group has won S$328m worth of construction contracts – from NUS (S$150m) for the construction of its Kent Ridge staff housing and City Dev (S$146m) for the construction of a 429-unit condominium at Chestnut Avenue & 2 public infrastructure work projects in Papua New Guinea (S$32.6m). The group is constantly bidding for new projects.

Construction industry – contracts awarded



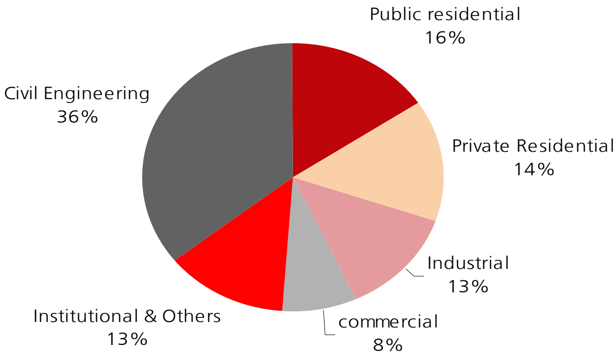
Source: Building & Construction Authority of Singapore

Public sector to drive growth. The growth in construction activities in the public sector is likely to be fuelled by the ramp up of various Housing Development Board's (HDB) Build-to-Order public housing projects that were launched last year.

In addition, we expect demand from civil engineering sector to be strong with projects led by the Land Transport Authority (LTA)'s MRT projects for Downtown Line Stage 3 and major road projects yet to be tendered. Contracts for expansion of Singapore's MRT network are estimated to be worth S$20bn and the construction of a new north-south expressway to cost about S$7-8bn respectively.

Furthermore, upcoming projects in the medium term include the construction on of Singapore's LNG Terminal, Fusionopolis 2A, industrial facilities at Seletar Aerospace Park, campus expansion of Institutes of Higher Learning (IHLs) and new healthcare facilities.

Split of construction projects



Source: Building & Construction Authority of Singapore

Projected demand of cS$18-25bn in 2011/12. Looking further ahead, with a continued expansionary fiscal policy, BCA expects the average annual demand in 2011/12 to range between S$18bn and S$25bn with the public sector continuing to contribute 55% of this figure. Potential government spending includes the construction and upgrading of schools, and other public infrastructure like the expansion of expressways, public transportation network- Thomson MRT line & Eastern region MRT line.

As one of the front-running construction players, Tiong Seng will likely benefit. A favorable industry backdrop bodes well for Tiong Seng, given its top-rated (A1 rating for both building and civil engineering) status, which enables it to bid for public projects with unlimited value and broadens its choices to bid when these new contracts are being placed on tender.

In addition, Tiong Seng has secured, through a joint venture with GS Engineering & Construction Corp, a S$430.5m contract to design and construct the 2 Downtown line stations and tunnels infrastructure (at Hillview & Cashew) which will put in on good stead to secure future projects when they are open for tender.

Property development in PRC

Positioned in 2nd – 3rd Tier Cities. Tiong Seng's property developments are strategically located mainly in 2nd and 3rd Tier cities within the Bohai Economic Rim. Demand for real estate in these cities is underpinned by the following factors:

(a) Urbanisation trend in the PRC

Policy reforms encourage migration to cities. The market reform policies in 1978 saw rapid urbanization in PRC. In the 1990s, urbanization extended westwards from the coastal cities to the inland of China. The expansion of small or middle-sized towns became the key factor that boost the rapid growth of the Chinese economy in the 1990s.

According to the China Statistical Yearbook 2008, the urbanisation rate rose to approximately 45.7% as at end of 2007 from approximately 36.2% in 2000. The rapid rate of urbanisation is expected to continue to drive the demand for real estate properties in the PRC, especially in the 2nd – 3rd tier cities, as people move from rural areas to nearby cities.

(b) Increase purchasing power for real estate in the PRC

Increased affordability a key to higher housing prices. The rapid economic growth of the PRC has resulted in a significant improvement in the level of disposable income for urban households. According to the National Bureau of Statistics of China, the per capita annual disposable income of urban households has increased to approximately RMB 17,175 in 2009 from about RMB 6,280 in 2000, growing by 12% CAGR. This has led to improved affordability and thus sustained increase in property prices in the PRC.

(c) Rapid development in the Bohai Economic Rim.

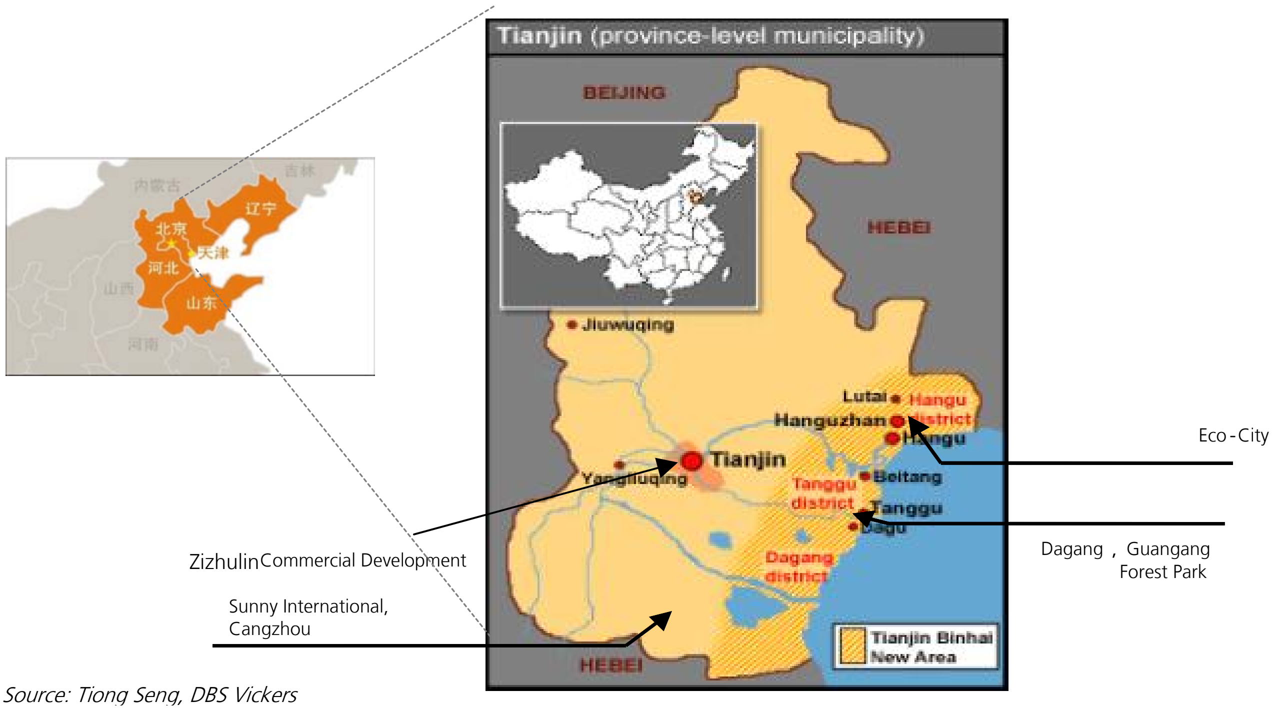
Key economic zone in the PRC. The Bohai Economic Rim region is one of the main economic zones of the PRC with a population of approximately 260m. The total production output of the area is over RMB5.4 trillion in 2006 and this accounted for 26.2% of the GDP of the PRC in 2006.

The centre of this rim is the Tianjin Binhai New Area ("TBNA"), which is one of the most important areas in the PRC's 11th five-year plan for National Economy and Social Development. TBNA has been placed in the same league as the Shenzhen Special Economic zone of the 1980s and the Shanghai Pudong New Area of the 1990s, and it is anticipated that TBNA will be one of China's leading growth engines.

In 2009, it is estimated that TBNA has already attracted more than 70 of the world's top 500 enterprises to invest in the region, making it one of the regions with highest foreign investment in PRC.

Strategically located projects. Tiong Seng has strategically located property developments in TBNA, aimed at leveraging of TBNA's promising potential. Tiong Seng will be undertaking property development of residential and commercial units in these projects as these projects are expected to attract more people to work and live in Tianjin.

Location of development projects



Source: Tiong Seng, DBS Vickers

Segmental Analysis

Construction division the main share of topline. Tiong Seng's construction division has been the largest contributor to topline since 2006 – making up c74%-96% of topline from FY06-08. We expect Tiong Seng to continue to benefit from the buoyant construction industry in FY10-11F, where an average S$20-27bn worth of contracts are expected to be awarded annually. As such, revenues from construction activities are expected to remain strong going forward.

Order book of cS$1.0b. As of latest reported date, Tiong Seng has an outstanding order book of cS$1.0b, out of which c. 75% are their contracts and the remaining is their share of contract values in joint ventures with 3rd parties. We have assumed the order book to be recognised over the next 12 – 30 months.

Construction gross margin of 11% in FY10-11F. Back in 2007-2008, construction margins were rather thin at 6-8%; largely due to higher raw material costs due to high steel costs and the sand ban situation back in 2007, made worse by the construction squeeze in these years due to the ongoing construction of Singapore's 2 integrated resorts. Going ahead, with raw material prices likely to remain relatively constant coupled with the future automation of its pre-cast activities; we project margins to normalise back to c11%.

Assumptions for construction business. To date in Aug 2010, Tiong Seng has secured S$328m in private building contracts in Singapore & Papua New Guinea. Over FY10-11F, we have assumed Tiong Seng to win additional contracts of S$450m by itself and through collaborations with JVs. The total projected contract wins of cS$750m is approximately 2.5% of BCA's projection of S$21-27bn worth of construction contracts to be awarded in 2010. We believe this assumption is reasonable, given that Tiong Seng has been awarded c1-6%of total industry contracts over the past 10 years.

Assumptions: Contract Wins

Construction Contracts through	FY09F S$'m	FY10F S$'m	FY11F S$'m
Subsidiaries	-	328 (to date)	-
Subsidiaries (assume)		150	-
Through JVs (assume)	-	300	-

Source: DBS Vickers Estimates

Lumpy revenues – recognition of property development revenues in FY09F. Its property development revenues are rather lumpy given that incomes are only recognised upon completion of the projects. For the FY09, Tiong Seng recorded sales of S$95.5m (+ >100% yoy), which was substantially contributed by the recognition of its sales of units in Tianmen Jinwan Building in Tianjin, upon its completion in March 2009.

Looking ahead, we project the property division to continue to recognise sales for its unsold units of completed projects and commence sales for its on-going projects over the next few years (our assumptions are in the following page).

Construction of its various projects in Cangzhou, Tianjin and Dagang are expected to start/continue. Our assumptions for projects commencement/completion are as follows:

DBSV new projects construction commencement/completion assumptions

Projects:	Est Commencement	Est Completion
Zizulin Commercial Devt		
- Phase 1	1H2011	2H2013
- Phase 2	1H2012	2H2014
Sunny International Project, Cangzhou		
- Phase 1	2008	3Q2011
- Phase 2	1H2010	4Q2012
- Phase 3	2H2011	4Q2013
- Phase 4	1H2012	4Q2014
Dagang, Guangang Forest Park		
- Phase 1	3Q2010	4Q2013
- Phase 2	3Q2011	4Q2014
- Phase 3	3Q2012	4Q2015
- Phase 4	3Q2013	4Q2015
Tianjin Eco-City		
- Plot 12a	4Q2009	3Q2011
- Phase 5,6	3Q2010	2Q2014

Source: DBS Vickers Estimates

Higher gross margins of about 44% in FY10F. Margins for its development property business segment are higher at 44%, largely due to the recognition of projected sales of the remaining commercial units of Tianmen Jinwan Building, which enjoys higher margins. Going ahead, we expect margins to moderate to c30% as the group recognises the revenues from its residential units sold in Sunny International Project, Cangzhou. Sales for its commercial units at Wenchang Broadway are expected to be slow and the group is currently renting out a couple of units as rental income.

Segmental Analysis

FY Dec	2006A	2007A	2008A	2009A	2010F	2011F
Revenues (S$ m)						
Construction	98.7	205.8	261.6	279.0	289.0	382.9
Property Development	32.6	13.1	8.4	95.5	36.6	91.7
Rental income	1.5	1.8	2.3	1.8	1.9	2.0
Total	132.8	220.7	272.3	376.4	327.5	476.6
% Contribution						
Construction	74%	93%	96%	74%	88%	80%
Property Development	25%	6%	3%	25%	11%	19%
Rental	1%	1%	1%	0%	1%	0%
Gross Profit (S$ m)						
Construction	13.8	17.1	16.7	34.3	31.8	42.1
Property Development	18.0	3.6	3.9	25.3	16.0	28.1
Rental income	(1.4)	(2.3)	0.0	-	-	-
Total	30.4	18.3	20.6	59.6	47.8	70.3
Gross Margins (%)						
Construction	14%	8%	6%	12%	11%	11%
Property Development	55%	27%	46%	26%	44%	31%
Rental income	nm	nm	nm	nm	nm	nm
Total	23%	8%	7%	16%	15%	15%

Source: Company, DBS Vickers

DBSV Assumptions: Cumulative % of total NLA sold (property development)

Projects:	Total saleable GFA sqm	FY09 %	FY10F %**	FY11F %	>FY11 %
Completed projects	106,100				
Wenchang Broadway	30,000	45%	50%	65%	75%
Suzhou Shengyang Commercial Building	10,000	-	-	-	-
Tianmen Jinwan Building - Commercial	15,000	31%	100%		-
Tianmen Jinwan Building - Residential	51,100	99%	100%		-
	732,100				
Zizulin Commercial Devt	12,000				
- Phase 1	6,000	-	-	100%	100%
- Phase 2	6,000	-	-	-	100%
Sunny International Project, Cangzhou	159,500				
- Phase 1	56,400	54%	82%	100%	100%
- Phase 2	35,000		14%	43%	100%
- Phase 3	35,000	-	-	43%	100%
- Phase 4	23,500	-	-	-	100%
Dagang, Guangang Forest Park	200,000				
- Phase 1	50,000	-	-	50%	100%
- Phase 2	50,000	-	-	-	100%
- Phase 3	50,000	-	-	-	100%
- Phase 4	50,000	-	-	-	100%
Tianjin Eco-City	360,600				
- Plot 12a	101,200	-	50%	100%	100%
- Plot 5,6	259,400	-	-	25%	100%

Source: DBS Vickers Estimates

Quarterly / Interim Performance

1H10 PATMI of S$10m is 30% of our full year forecast. Tiong Seng reported a PATMI of S$10m for 1H10 on the back of a 43% dip in topline to S$124.4m. This was largely due to the (i) smaller scope of construction work done coupled with timing for recognition for some of its construction contracts – noted that the group has yet to recognise work done amounting to S$37.5m, (ii) recognition of pre-sold units for Tianmen Jinwan project that TOP in March 2009. The sales recorded in 1H10 amounted to the remaining unsold units of this project.

Gross margins 11- 13.5%. Have remained relatively stable, with the improvement qoq arising from the higher margin commercial units for Tianmen Jinwan recognised in 2Q10. The group expects margins to remain stable going forward.

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2010	2Q2010
Turnover	54	70
Cost of Goods Sold	(48)	(61)
Gross Profit	**6**	**9**
Other Oper. (Exp)/Inc	(5)	(5)
Operating Profit	**1**	**5**
Other Non Oper. (Exp)/Inc	2	0
Associates & JV Inc	3	3
Net Interest (Exp)/Inc	(1)	0
Exceptional Gain/(Loss)	0	0
Pre-tax Profit	**5**	**8**
Tax	(1)	(1)
Minority Interest	(1)	0
Net Profit	**3**	**7**
Net profit bef Except.	3	7
EBITDA	6	8
Sales Gth (%)	N/A	29.6
EBITDA Gth (%)	N/A	29.2
Operating Profit Gth (%)	N/A	518.1
Net Profit Gth (%)	N/A	117.7
Gross Margins (%)	11.0	13.5
Operating Margins (%)	1.3	6.4
Net Profit Margins (%)	5.7	9.5

Source: Company, DBS Vickers

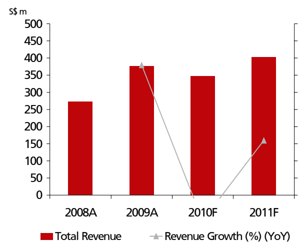
Financials – Income Statement

Strong earnings growth in FY09. After a lull period in FY06-08 when Tiong Seng posted flattish growth from a sluggish industry performance, the group posted a strong earnings growth in FY09 largely due to the recognition of its sales of units in Tianmen Jinwan building in Tianjin, upon its completion in March 2009 and higher construction revenue from major projects such as the Sentosa Resorts World Integrated Resort and MBFC.

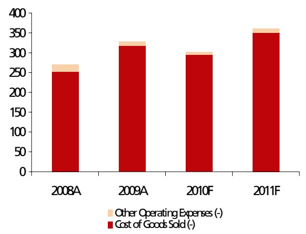
Order book of S$1.0b to be recognized over 12-30 months. As of June 30 2010, Tiong Seng has an outstanding order book of cS$1.0b, of which c. 75% are their contracts and the remaining is their share of contract values in joint ventures with 3rd parties. We have assumed the order book to be recognised over the next 12 – 30 months

Assumption of order wins of S$450m in our numbers. We have assumed a further S$450m (S$150m from its subsidiaries and S$300m with its JV partners) worth of order wins in our forward estimates, and Tiong Seng will start to recognize revenues from these new contract wins only in FY11F

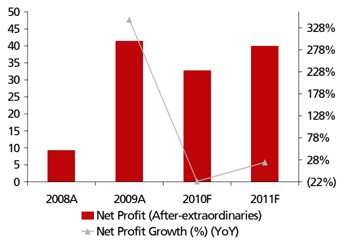
Sales Trend



Operating Cost Trend



Profitability Trend



FY Dec (S$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Turnover	133	221	272	376	328	477
Cost of Goods Sold	(102)	(202)	(252)	(316)	(280)	(406)
Gross Profit	30	18	21	60	48	70
Other Opg (Exp)/Inc	(8)	3	(18)	(10)	(13)	(14)
Operating Profit	22	21	3	49	34	56
Other Non Opg (Exp)/Inc	-	-	0	0	0	0
Associates & JV Inc	1	2	7	20	17	11
Net Interest (Exp)/Inc	(1)	(3)	1	(2)	(3)	(1)
Exceptional Gain/(Loss)	-	-	0	0	0	0
Pre-tax Profit	21	20	11	68	48	66
Tax	(8)	(8)	(3)	(14)	(12)	(17)
Minority Interest	(4)	(3)	1	(10)	(6)	(12)
Preference Dividend	-	-	0	0	0	0
Net Profit	10	9	9	43	30	37
Net profit before Except.	10	9	9	43	30	37
EBITDA	13	14	25	88	69	85.1
Sales Gth (%)		132.3	46.7	37.9	(12.8)	45.5
EBITDA Gth (%)		(79.4)	25.2	259.5	(21.6)	23.0
Operating Profit Gth (%)		(4.7)	(174.4)	1,699.2	(30.5)	63.9
Net Profit Gth (%)		(11.7)	3.0	368.6	(29.9)	22.0
Effective Tax Rate (%)	38.2	38.1	27.3	20.5	25.0	25.0

Source: Company, DBS Vickers

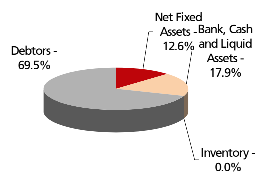
Financials – Balance Sheet & Cash Flow

Financial ratios remain healthy. Tiong Seng's liquidity ratios are expected to remain relatively healthy (remaining in a net cash position with current ratio to remain stable at 1.5-1.9x). These ratios are projected to strengthen further in FY11F as the group takes (i) delivery of a couple of its development projects in China (projected to complete Sunny International Project Phase 1 and probably); and (ii) progressive recognition of its S$1.0b order book over the coming quarters.

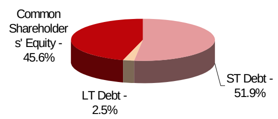
Capex of S$20m for pre-cast factory. We have estimated a total S$20m capex to be incurred in FY10-11F for the building of the group's proposed pre-cast factory. The factory is estimated to be completed by end 2011.

Investment of S$17m in acquisition opportunities. Management has targeted cS$17m to be utilized for potential acquisition opportunities to expand its current development projects in China. We have not factored in any potential income from this investment but included it in our cost of investment assumptions in FY10-11F.

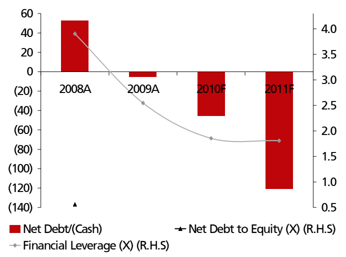
Breakdown of Assets (2009)



Breakdown of Capital (2009)



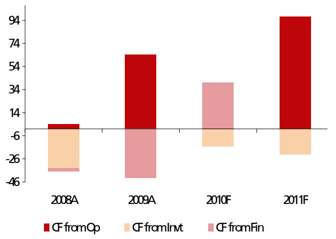
Financial Leverage & Net Debt to Equity



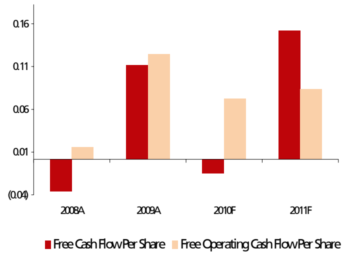
FY Dec (S$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Net Fixed Assets	18	25	39	23	15.1	7
Invts in Assocs & JVs	4	3	10	27	44	55
Other LT Assets	8	14	44	36	61	86
Cash & ST Invts	16	27	23	47	45	125
Inventory	1	0	0	0	0	0
Debtors	43	103	106	127	117	170
Other Current Assets	89	115	144	107	150	107
Total Assets	179	288	366	367	432	550
ST Debt	5	31	72	19	4	4
Other Current Liab	2	20	179	169	158	225
LT Debt	15	42	3	22	22	22
Other LT Liabilities	96	122	18	13	13	13
Shareholder's Equity	42	53	63	98	183	220
Minority Interests	19	20	31	47	53	65
Total Cap. & Liab.	179	288	366	367	432	550
Leverage Analysis (x)						
Net Interest Cover	10.3	4.7	N/A	26.9	12.6	61.4
EBITDA Gross Interest Cover	14.1	1.8	6.8	16.1	19.8	41.7
Total Debt to EBITDA	0.7	2.6	3.1	0.5	0.4	0.3
Total Debt to Total Assets	0.1	0.3	0.2	0.1	0.1	0.0
Total Debt to Capital	0.3	1.0	0.8	0.3	0.1	0.1
Net Debt to Equity	0.0	0.5	0.6	CASH	CASH	CASH
Net Debt to Equity ex MI	0.1	0.7	0.8	(0.1)	(0.1)	(0.4)
Capex to Debt	0.1	0.1	0.3	0.1	0.4	0.4
Liquidity Analysis (x)						
Cash Ratio	1.9	0.2	0.1	0.2	0.3	0.5
Current Ratio	16.3	1.4	1.1	1.5	1.9	1.7
Quick Ratio	6.7	0.9	0.5	0.9	1.0	1.3

Source: Company, DBS Vickers

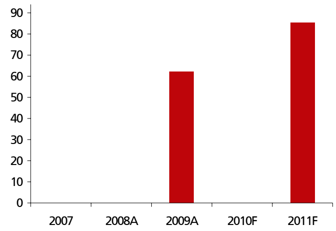
Cash Flow Trend



Free Cash Flow Per Share



Free Cash Flow As At Year End



Financials – Cash Flow Statement

FY Dec (S$ m)	2006A	2007A	2008A	2009A	2010F	2011F
Pre-Tax Profit	21	21	11	68	48	66
Dep. & Amort.	4	5	15	19	18	18
Tax Paid	(3)	(5)	(10)	(10)	(21)	(12)
Assoc. & JV Inc/(loss)	(1)	(2)	(7)	(20)	(17)	(11)
Chg in Wkg.Cap.	(55)	(29)	(4)	(5)	(35)	53
Other Operating CF	0	(13)	(1)	13	0	0
Net Operating CF	**(33)**	**(23)**	**4**	**64**	**(6)**	**114**
Capital Exp.(net)	(3)	(11)	(26)	(2)	(10)	(10)
Other Invts.(net)	4	(2)	(2)	0	(25)	(25)
Invts in Assoc. & JV	0	0	0	3	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	(7)	13	(6)	(1)	0	0
Net Investing CF	**(5)**	**1**	**(34)**	**0**	**(35)**	**(35)**
Div Paid	(1)	0	0	0	0	0
Chg in Gross Debt	1	54	1	(19)	(15)	0
Capital Issues	0	0	0	0	55	0
Other Financing CF	17	(21)	12	(23)	0	0
Net Financing CF	**17**	**33**	**13**	**(42)**	**40**	**0**
Net Cashflow	(21)	11	(16)	22	(2)	79
Opg CFPS (S cts)	2.8	0.8	1.0	9.1	3.7	8.0
Free CFPS (S cts)	(4.6)	(4.5)	(2.8)	8.1	(2.1)	13.6

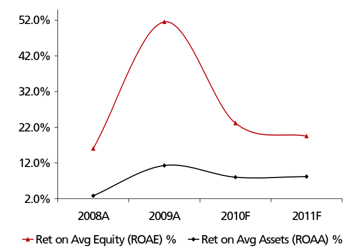
Source: Company, DBS Vickers

Financials – ROE Drivers

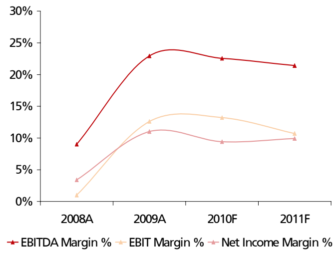
Projecting gross margins in FY10-11F of c14.6%. Overall gross margins are projected to remain high at 14.6% in FY10-11F, boosted by higher margins in its building on construction (estimated to remain stable at 11% on the expectation of stable raw material prices). In addition, the progressive recognition of sales in units at its completed projects in China will help boost gross profit margins going forward.

ROE of 18-22% expected. Project the group to deliver relatively stable returns on equity over the coming 2 financial years. This should start to trend higher post FY12 on the back of more completions of its development projects, which are currently under development and yet to be launched.

ROAE / ROAA Trend (%)



Margin Trend (%)



Total Debt & Gross Interest Cover

FY Dec	2006A	2007A	2008A	2009A	2010F	2011F
Profitability Ratios						
Sales Growth (%)	N/A	66.2	23.4	37.9	(12.8)	45.5
Gross Margin (%)	22.9	8.3	7.6	15.9	14.6	14.7
Operating Margin (%)	16.5	10.2	1.0	13.2	10.5	11.8
Net Profit Margin (%)	7.3	4.7	3.4	11.6	9.3	7.8
ROAE (%)	23.1	21.8	16.0	54.1	21.7	18.5
ROA (%)	5.4	4.4	2.8	11.8	7.6	7.6
ROCE (%)	7.8	8.6	1.2	20.3	10.9	14.1
Activity Ratios						
Debtors Turn (average days)	118.6	121.2	140.3	113.2	136.0	110.0
Creditors Turn (average days)	8.9	105.1	196.7	169.8	183.9	152.7
Inventory Turn (average days)	2.3	0.6	N/A	N/A	N/A	N/A
Total Asset Turnover (x)	0.7	0.9	0.8	1.0	0.8	1.0
Fixed Asset Turnover (x)	7.6	10.3	8.5	12.2	17.2	43.1

Source: Company, DBS Vickers

Key Risks

Reliance on key management. Tiong Seng is dependent on the strategic directions and expertise of its senior management team, who have in excess of 20 years experience in the construction industry. They have, over the years, built strong relationship and valuable contacts with customers and suppliers. Any loss of services of key management personnel without suitable and timely replacement, or the inability to attract and retain other qualified personnel, would have an adverse effect on operations and financial performance.

Fluctuations in construction demand in Singapore. Tiong Seng derives a majority of its revenues (ranging from 70-90% in FY06A -11F) from the Singapore construction industry, which is cyclical in nature and is dependent on the health of Singapore's economic performance. As such, Tiong Seng's financial performance could be impacted in the event of a downturn in Singapore, which will dampen demand for property in Singapore, and in turn result in lower contract awards for building and construction works.

Intensive competition in the construction industry. The local construction industry is highly competitive. While Tiong Seng ranks highly amongst its peers with a BCA's A1 rating in both civil engineering and construction, it continues to face stiff competitions from its other peers during tenders and could face price under-cutting pressure from them. Tiong Seng might have to bid for contracts at lower margins, thus leading to lower profitability.

Reliance on foreign labor for construction projects. The construction industry is highly labour intensive. While Tiong Seng minimizes its need for manual labour through its off-site pre-casting capabilities and the use of advanced formwork system, they are still required to employ skilled and non-skilled labour in their construction work. The government is gradually reducing the nation's reliance on foreign labour going forward (through reducing the quotas or increasing the foreign worker levy), all of which has an adverse impact on profitability.

Construction material price hikes will impact financial performance. The construction materials used in Tiong Seng's construction business include mainly concrete, sand, aggregates, cement, tiles, steel and aluminum, which may fluctuate due to changes in the supply and demand conditions. As they do not have a long term supply contract with any of their suppliers and that a typical construction project lasts more than a year, any sudden shortage of supply or reduction in the allocation of construction materials may affect operations and financial performance.

Risks in property development ventures in China. Currently, all of Tiong Seng's property development ventures are mainly located in the PRC. Going forward, its property developments are derived from Tianjin and its surrounding areas. Hence, any significant slowdown in the PRC economy or decline in demand for their properties from customers in the PRC, especially Tianjin and its surrounding areas, will have an adverse effect on Tiong Seng's business, financial condition and results of operations.

Furthermore, any unfavorable changes in the social and political conditions of the PRC may also adversely affect their business and operations.

High capital expenditure requirements – access to funding is key. Both its construction and property development businesses are capital intensive and require substantial amount of upfront cash payment to kick-start the projects. As Tiong Seng usually funds their projects through internal cash flows and loans, the availability of sufficient funding is crucial for the company.

Valuation

Sum of parts valuation. Using sum of the parts valuation on Tiong Seng's 2 main business segments – construction business and property development segment, we derive a fair value of S$0.36, based on a 30% discount to its RNAV.

Assume 7x P/E on construction business. Listed construction peers on the SGX are trading on an average historical FY08-09 P/E multiple of 7.8- 8.5x and a forward FY10-11 P/E of 6.0 – 6.3x with an average return on equity (ROE) of 15%. As such, we believe that as one of the leading players in the construction industry with slightly above the average ROE of 18-22%, we value Tiong Seng's construction business, slightly ahead of the average peer group, in line with historical mean of 7.0x.

30% discount to RNAV. Our discount is based on the average discount pegged to mid-small cap developer/contractor average universe and closest covered by DBS Vickers in Singapore and HongKong. We believe that this discount is reasonable given Tiong Seng's leading position in the (i) contractor space given its efficient use of technology & pre-cast construction lifting profitability; and (ii) focus on 2nd and 3rd Tier cities in China where its leverage on genuine demand for real estate is likely to see less speculation there. These will enable it to deliver superior profit margins and ROEs to shareholders.

Sum of the Parts Valuation

	Stake owned	Multiple (X)	Est. Net Profit (S$'m) FY10F	Valuation (S$'m)		Remarks
Value of Construction Business	30-100%	7	29.7	207.6		Average forward peers P/E
Book Value of Construction Business				54.5		Latest reported
Surplus on Construction Business				153.1	(1)	
Investment Properties Surplus/(Deficit)				0.0	(2)	
Development Properties						Discounted at WACC of 11%
Wenchang Broadway	55.0%			2.9		
Tianmen Jinwan Building - Commercial	50.4%			4.3		
Tianmen Jinwan Building - Residential	50.4%			0.3		
Zizulin Commercial Devt (French Barracks)	80.0%			-		Valued at book
Sunny International Project, Cangzhou Phase 1 -4	38.9%			20.5		
Dagang, Guangang Forest Park Tianjin Phase 1 - 4	42.5%			21.0		
Tianjin EcoCity	49.0%			20.4		
Total PV of future development profits (2)				73.7	(3)	
Latest reported book Shareholder's Equity (4)				164.0	(4)	
RNAV (1+2+3+4)				390.9	SUM	
Premium/(Discount)				(30%)		
Fair Value (S$'m)				273.6		
Target price				0.36		

Source: DBS Vickers

Peers comparison table

Name	Px Last (25th Aug 2010)	Market Cap (S$ m)	P/E FY08 (x)	P/E FY09* (x)	P/E FY10* (x)	P/E FY11* (x)	P/BV (x)	ROE (%)	Historical Profit Margin (%)	Latest Reported OrderBook (S$'m)
Singapore Peers										
KSH Holdings Ltd	0.26	85.2	5.7	5.7	4.0	3.5	0.5	13%	4%	312
Wee Hur Holdings Ltd	0.54	194.9	15.8	10.0	n.a.	n.a.	3.0	32%	8%	348
Chip Eng Seng Ltd	0.36	240.3	3.3	3.3	n.a.	n.a.	1.0	29%	20%	233
Low Keng Huat	0.46	339.9	11.1	6.0	n.a.	n.a.	1.3	13%	11%	n.a.
Koh Brothers Ltd	0.20	95.9	10.3	11.5	n.a.	n.a.	0.7	7%	3%	n.a.
Lian Beng Group Ltd	0.28	148.3	8.7	7.3	6.4	5.3	1.2	14%	6%	965
Hor Kew Corp	0.08	52.9	6.8	6.8	n.a	n.a	0.7	10%	10%	n.a.
United Engineers	2.24	581.5	10.3	10.3	5.5	5.5	0.6	6%	7%	n.a
Sim Lian Group	0.52	295.3	7.0	3.0	3.4	3.5	1.0	18%	7%	n.a
CSC Holdings	0.16	190.2	4.9	7.0	7.0	7.0	1.1	24%	7%	180
Hong Leong Asia	3.32	1,240.3	12.0	12.0	10.5	10.8	2.1	7%	3%	n.a.
Jasper Investments	0.07	121.2	nm	nm	nm	nm	0.6	-4%	-13%	n.a
BBR Holdings	0.23	69.3	5.4	5.4	4.8	4.8	1.2	21%	7%	576
Maximum			15.8	12.0	10.4	10.8	3.0	32%	20%	
Simple average			8.5	7.8	6.0	6.3	1.2	15%	0%	
Minimum			3.3	3.0	4.0	3.5	0.6	6%	3%	
Tiong Seng	0.24				6.0	4.9		18-22%	10%	1,000

** Given different financial year end for different companies, we have used trailing 4Q net income as a basis for our P/E estimate*
Source: Bloomberg, various companies websites, DBS Vickers

Peer description

KSH Holdings Ltd	Construction business in Singapore and Malaysia, property development and management in PRC
Wee Hur Holdings Ltd	Construction and property development business in Singapore
Chip Eng Seng Ltd	Construction business, Property development & investments in Vietnam, Singapore and Australia
Low Keng Huat Singapore Ltd	Construction business, Property development in Singapore, Hospitality and Leisure business
Koh Brothers Ltd	Construction business, Property development in Singapore, Hospitality and Leisure business
Lian Beng Group Ltd	Construction business, Property development in Singapore and Indonesia, energy related business
Hor Kew Corp	Construction business, Property development in Singapore, Pre-fabrication business
United Engineers Ltd	Construction business, Property development in Singapore
Sim Lian Group	Construction business, Property development in Singapore
CSC Holdings	Construction business, Property development in Singapore, Sells & rents heavy equipment & machinery
Hong Leong Asia	Manufactures and fabricates pre-cast concrete , steel & cement products & diesel engines & others
Jasper Investments	Provide engineering and construction services, develops & investments in properties
BBR Holdings	Specialist engineering company, design and build services, ground and structural engineering sectors

Source: Bloomberg, DBS Vickers

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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