KIM ENG

BUY

Initiating Coverage

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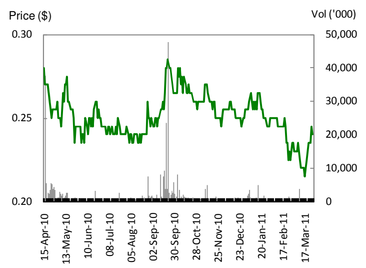
Price	**$0.24**
Target	**$0.33**
ST Index	**3,057.38**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	6.7	-4.0	-9.4
Relative (%)	5.0	0.7	-8.0

Stock Information

Ticker code	TISE.SI TNSG SP
Market cap (US$ m)	145.6
52-week high (S$)	0.285
52-week low (S$)	0.215
Shares issued (m)	766.0
6m avg d.vol (US$m)	0.2
Free float (%)	34%
Major shareholders (%)	
Tiong Seng Shareholdings (59%)	
Peck Tiong Choon Limited (7%)	

Key Indicators

ROE (%)	18.7
Net gearing (%)	13.3
NAV ($)	0.23
Interest cover (x)	5.8

Co. Reg No: 198700034E
MICA (P) : 090/11/2009

SINGAPORE

Tiong Seng Holdings

Builder and innovator

We initiate coverage on Tiong Seng Holdings with a BUY rating and target price of $0.33 based on SOTP valuation. The group's construction business has an orderbook of $1b which we estimate to be worth $0.21 per share, valued at 5x FY11F PER. In this year's pipeline, $5b worth of railway contracts are up for tender and the government is rolling out $3b worth of building contracts for its 22,000 new flats. In addition, its share price implies a 60% drop in selling prices for its China projects, which we think is overly pessimistic as property prices in Tianjin have actually eased to an average 1% rise a month. Our target price suggests 37.5% upside.

$1b outstanding orderbook

Tiong Seng's orderbook of $1b is the highest among its listed peers. The company has been quick to replenish it last year by securing contracts worth $540m. We expect it to do better this year as construction demand will likely remain robust. Valued at 5x FY11F PER, this segment of the business is worth $0.21 per share.

$60b railway spending plus new flats galore

The main beneficiaries of the government's $60b spending in railway infrastructure will be contractors with A1 grading in civil engineering. Tiong Seng is one of a handful of such companies. Contracts up for tender this year are for the Downtown Line Stage 3, worth $5b. But more opportunities lie in the record number of land deals and the government's pledge to roll out $3b worth of building contracts for its 22,000 new flats in 2011.

Technology to the rescue

Rising levies and dwindling quota of foreign workers are real concerns for construction companies in Singapore. By turning to pre-casting and advanced formwork systems, Tiong Seng saves up to 40% on labour cost. The firm is the first in Singapore to set up a fully-automated pre-cast factory.

Upbeat on China growth

Tiong Seng's share price implies that the selling prices of its China projects could correct by 60% from the current level. We think this is overly pessimistic as property prices in Tianjin have eased to an average 1% rise a month consistently for the past nine months. We estimate pre-tax margins of 25-35% are achievable based on comparable market prices.

Year End Dec 31	2009	2010	2011F	2012F	2013F
Sales (S$ m)	375.6	252.3	409.6	592.8	822.8
Pre-tax (S$ m)	65.5	27.2	44.2	62.1	100.7
Net profit (S$ m)	41.4	21.4	28.8	33.8	43.1
EPS (S cts)	7.3	2.8	3.8	4.4	5.6
EPS growth (%)	347	-62	34	17	28
PER (x)	3.3	8.6	6.4	5.4	4.3
EV/EBITDA (x)	1.9	3.7	2.9	1.8	0.6
Yield (%)	4.4	4.2	4.2	4.2	4.2

Builder and innovator

We initiate coverage on Tiong Seng Holdings with a BUY rating and target price of $0.33. In our opinion, the investment merits are as follows.

Ahead of its peers

Tiong Seng's outstanding orderbook comprises construction and civil engineering projects worth approximately $1b. The strong orderbook not only puts it miles ahead of its peers, but also provides good visibility of its future earnings. Indeed, construction revenue is set to increase this year as work done on several newly-commenced projects starts to get recognised. Tiong Seng was quick to replenish its orderbook last year by winning contracts worth $540m. With construction demand on the rise this year, we expect better performance from the company, helped by its A1 grading from the Building and Construction Authority and its focus on cost efficiency. Already, the company appears off to a good start after putting in the lowest bid of $192m for a HDB contract. This accounts for 32% of our forecast contract wins for 2011.

Beneficiary of government infrastructure spending

The Singapore government is committed to spending $60b to double the rail network in a decade. This includes the $20b already earmarked for ongoing railway works. The contracts open for tender this year are for Downtown Line (DTL) Stage 3, which consists of a 21km track and 16 stations, and is estimated to be worth about $5b. As an A1 contractor in civil engineering, Tiong Seng is well-placed to clinch a contract or two as main contractor, just as it has done for DTL Stage 2's Hillview and Cashew stations. The DTL Stage 3 and the future lines already announced (Thomson Line and Eastern Region Line) are worth about $20b, providing a much-needed pipeline of significant contracts for Tiong Seng.

The government is also rolling out 22,000 new flats this year, and the building contracts are estimated to be worth $3b. This state of affairs bodes well for Tiong Seng as tenders for major public contracts are pre-qualified and are open only to A1 construction firms. Tiong Seng is one of only three listed companies with A1 grading in both the civil engineering and general building categories.

Embrace technology

Rising foreign worker levies and the reduction of Man-Year Entitlements (MYE) are real concerns for construction firms in Singapore as the government pushes for increased productivity in the industry. By July 2013, there will be a threefold jump in levy and a 40% cut in the MYE. The impact will be felt industry-wide, but we think Tiong Seng will be spared a major hit thanks to its focus on technology to achieve cost efficiency.

It has built a fully-automated Prefab Hub, the first of its kind in Singapore, and has adopted pre-casting techniques and advanced formwork systems to cut labour requirement. Compared to conventional construction methods such as on-site casting of concrete and timber formwork, the labour savings is up to 40%. In addition, its acquisition of a majority stake in Swiss-based Cobiax Technologies AG will give it a strong edge in productivity by cutting the volume of concrete used in reinforcement slabs by as much as 30%.

Pessimism in China projects overstated

Tiong Seng's share price implies that the selling prices of its China projects could correct by 60% from the current level, which we think is overly pessimistic. In fact, as we have found, Tianjin property prices have moderated to an average 1% rise a month consistently for the past nine months.

The company currently has four development projects in the Tianjin Binhai New Area, including Tianjin Eco-City, the landmark project between the governments of Singapore and China. The total attributable GFA in its landbank is around 220,000 sq m. The largest project is at Dagang, on a 200,000-sq-m land zoned for low-rise residential development in which the company owns a 58% stake. Phase One of this project is slated for launch in 2H11. Market rates in the Tianjin Binhai area suggest selling prices of at least RMB13,000 psm. We estimate this project will earn Tiong Seng a pre-tax profit of about RMB700m in the next four years.

Business segments

Tiong Seng is engaged in construction and property development. The core of its construction business is in Singapore, where it typically acts as the main contractor for projects in both the private and public sectors. A small proportion of its construction revenue comes from overseas markets such as Papua New Guinea and Laos. Its property development business, however, is focused in China where it develops residential and commercial properties in the second- and third-tier cities.

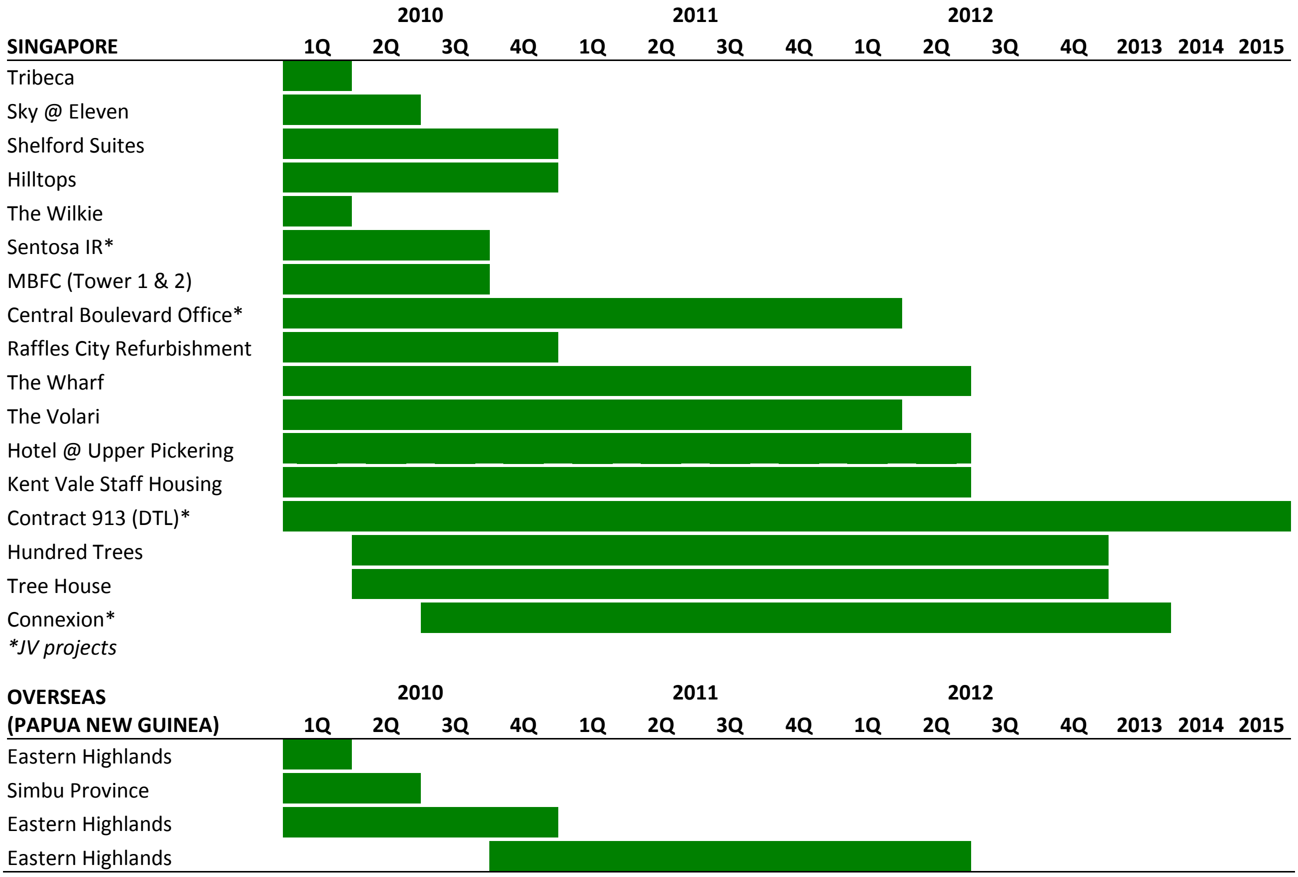
A. Construction

More than $1b orderbook

Tiong Seng's orderbook is what sets it apart from its competitors. Its general building works are not restricted to any particular segment; it has built office towers, commercial properties, hotels and hospitals. Its work is visible in all parts of Singapore, for example, the Marina Bay Financial Centre and Resorts World Sentosa. In civil engineering, Tiong Seng is currently the main contractor for the design and construction of Hillview and Cashew MRT stations for Downtown Line Stage 2. The company has been able to maintain its orderbook above the $1b mark by quickly replenishing it with new contract wins last year.

Figure 1 illustrates the estimated completion timeline for its construction projects and Figure 2 showcases selected past projects.

Figure 1: Completion timeline of construction projects



Source: Company data

Figure 2: Wide diversity of projects

Source: Company data

Top grading from the government

Tiong Seng has more than 50 years of experience in Singapore's construction industry. It holds the highest A1 grading from the Building and Construction Authority (BCA), a prerequisite to undertake construction projects in the public sector with unlimited contract value for both general building and civil engineering.

Based on the latest data from BCA's registry, there are 52 A1 contractors in the General Building category and 43 contractors in the Civil Engineering category, with only 25 contractors graded A1 in both categories.

Figure 3: BCA-registered contractors

	All grades	A1	A2	B1	B2
General Building	1,878	52	30	74	113
Civil Engineering	856	43	18	47	53

Source: BCA

The top grades have enabled Tiong Seng to be a main contractor in the construction industry, where margins tend to be higher on larger contract sizes.

Figure 4: BCA tendering limits ($m) for general building and civil engineering

Effective period	A1	A2	B1	B2	C1	C2	C3
2H09	-	85	50	15	5	1.5	0.75
1H10	-	85	40	13	4	1.3	0.65
2H10 – 1H11	-	85	40	13	4	1.3	0.65

Source: BCA

Winning streak

Last year, Tiong Seng added contracts worth $540m to its orderbook, maintaining it above the $1b mark even as it progressively recognises revenue for work done. We view the slew of contract wins positively and are even more encouraged by the diversity of contracts it has secured. We believe this is a testament to its leadership and expertise in more than one segment of the construction industry.

In our view, the higher-than-expected construction demand this year should elicit a better performance from Tiong Seng, helped by its A1 grading and focus to be cost efficient. Already, the company appears off to a good start after putting in the lowest bid of $192m for a HDB contract. This accounts for 32% of our forecast contract wins for 2011.

Figure 5: Contracts awarded in 2010

Project	Type	Award date	Contract value	Stake	Attributable contract value
Hundred Trees	Residential	Jan 2010	$121m	100%	$121m
Kent Vale NUS staff housing	Residential	Mar 2010	$150m	100%	$150m
Tree House	Residential	Jun 2010	$146m	100%	$146m
Connexion	Hospital	Aug 2010	$270m	45%	$122m
Total					**$539m**

Source: Company data

Heavy use of technology to stay cost-efficient

Through the use of pre-casting and advanced formwork systems, Tiong Seng is able to shorten overall construction time and reduce its reliance on human labour, resulting in higher productivity and cost efficiencies. Last September, it acquired a majority stake in Cobiax Technologies AG, a Swiss-based company known for its internationally-patented construction technology that reduces up to 30% of concrete usage. The purchase further cemented Tiong Seng's reputation as a leading innovator in Singapore's construction industry.

Pre-casting specialist

Pre-casting is a construction method whereby precast concrete is produced off-site by casting concrete in a reusable mould that is then cured in a pre-cast plant and transported to the building site to be lifted and fixed into position. In contrast, standard concrete is produced on-site by pouring concrete into specific forms and cured.

Pre-casting of concrete is favoured over conventional on-site casting for a few reasons. First, by producing pre-cast concrete in a plant, the process is controlled and plant employees are able to monitor the quality of each cast. Second, all pre-cast concrete is performed at ground level and this helps ensure safety throughout the project, as well as reduces the time required to complete every floor. It also means fewer manual workers are needed as there is no need to pour concrete at high floors. Finally, the moulds used in a pre-cast plant may be reused many times before being replaced.

Fully-automated facility a first in Singapore

Tiong Seng's existing pre-cast facility is in Tuas. Production at this open yard factory with no shelter is often disrupted by unfavourable weather conditions. Moreover, the movement and hoisting of concrete involve heavy use of manual labour and cranes, reducing the overall efficiency of the pre-casting process.

In view of these factors, the company has taken steps to automate its pre-casting production. The fully-automated facility will be housed in a three-storey factory called Tiong Seng Prefab Hub, also in Tuas, and is expected to be completed in 3Q11. By then, Tiong Seng can expect to double its pre-cast output capacity and slash labour requirement by 50-70%. The 19,000-sq-m facility, which costs $26m to build, is capable of operating under sheltered conditions for 24 hours and hence, able to perform just-in-time delivery, trimming storage costs. Tiong Seng's move has been highly commended by the BCA and the project is the first of its kind to receive funding of $1m from the BCA's Construction Productivity and Capability Fund.

Figure 6: Tiong Seng Prefab Hub

Source: Company data

Advanced formwork system

Tiong Seng has invested in a few advanced formwork systems that are cost efficient and faster to erect than traditional timber formwork due to its modular structure and lighter weight. The most recent investment was in 2008 when the company acquired the Peri formwork for $24.5m. This was used in the Sentosa integrated resort project and can be reused in subsequent projects.

Compared to the conventional construction methods of on-site concrete casting and timber formwork, the use of pre-casting and advanced formwork system together can save up to 40% the amount of labour required.

In the forefront of construction technology

In September 2010, Tiong Seng acquired a majority stake in Swiss-based Cobiax Technologies AG. Cobiax's concrete technology involves the use of void formers to produce concrete slabs. The void formers will take the place of concrete that does not add any flexural strength to the slabs, thereby reducing the amount of concrete used by up to 30%. This optimises the use of resources and also reduces the overall carbon dioxide emission. The use of this technology is patented and is currently licensed for use to construction firms in Singapore.

B. Property development

Tiong Seng's property development business is focused in China in the second- and third-tier cities. Its maiden operation was in Suzhou, tapping on the Singapore-China joint venture to develop the Suzhou Industrial Park. In all, it has been more than 20 years since the company first set foot in the Chinese market.

Tiong Seng is currently undertaking four development projects in Tianjin and Hebei. The total attributable GFA is 212,800 sq m.

Figure 7: China landbank

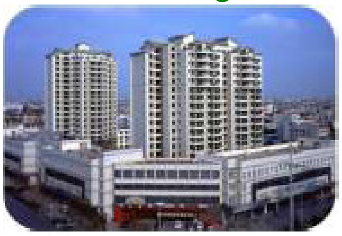
Project	Location	Type	Stake (%)	GFA (sq m)	Attributable GFA (sq m)
Sunny International	Cangzhou, Hebei	Residential / Commercial	40	159,500	63,800
Dagang	Tianjin	Landed Residential	58	200,000	116,000
Tianjin Eco-City	Tianjin	Residential	9	260,000	23,400
Zizhulin	Tianjin	Commercial	80	12,000	9,600
			Total	**631,500**	**212,800**

Source: Company data

Figure 8 illustrates some of Tiong Seng's completed projects in China.

Figure 8: Work done in China

Suzhou Huisheng Yuan



Phase 1 - Commercial Building (GFA: 10,900 sqm)

Phase 2 - Residential apartment & commercial units (GFA: 32,900 sqm)

Suzhou Sheng Yang Commercial Building

Commercial Building (GFA: 10,000 sqm)

Wenchang Broadway, Yangzhou

One of the first open-air shopping streets in Yangzhou (GFA: 33,000 sqm)

Tianmen Jinwan Building

28 storey high residential with 4 storey commercial development (GFA: 66,700 sqm)

Source: Company data

Ongoing projects

1. Mixed development at Cangzhou, Hebei

The Sunny International project is located in Yunhe District, the city centre of Cangzhou, Hebei Province. It will be a four-phase mixed development. Phase 1 consists of three residential blocks and a five-storey commercial building.

Sales started last year and as of the printing date of this report, over 95% has been sold. Total sales receipts as of end-2010 stood at RMB60m. Based on our estimated breakeven cost of RMB4,250 psm for Phase 1, the sales would translate to RMB35m in pre-tax profit. Construction for the first phase is expected to complete in 3Q11.

We have assumed an ASP of RMB5,500 psm for the remaining unsold units in Phase 1, in line with the transaction prices observed in the project's vicinity. Commercial units, on the other hand, should be able to achieve an average price of RMB6,500 psm.

Figure 9: Sunny International project in Cangzhou, Hebei

Source: Company data

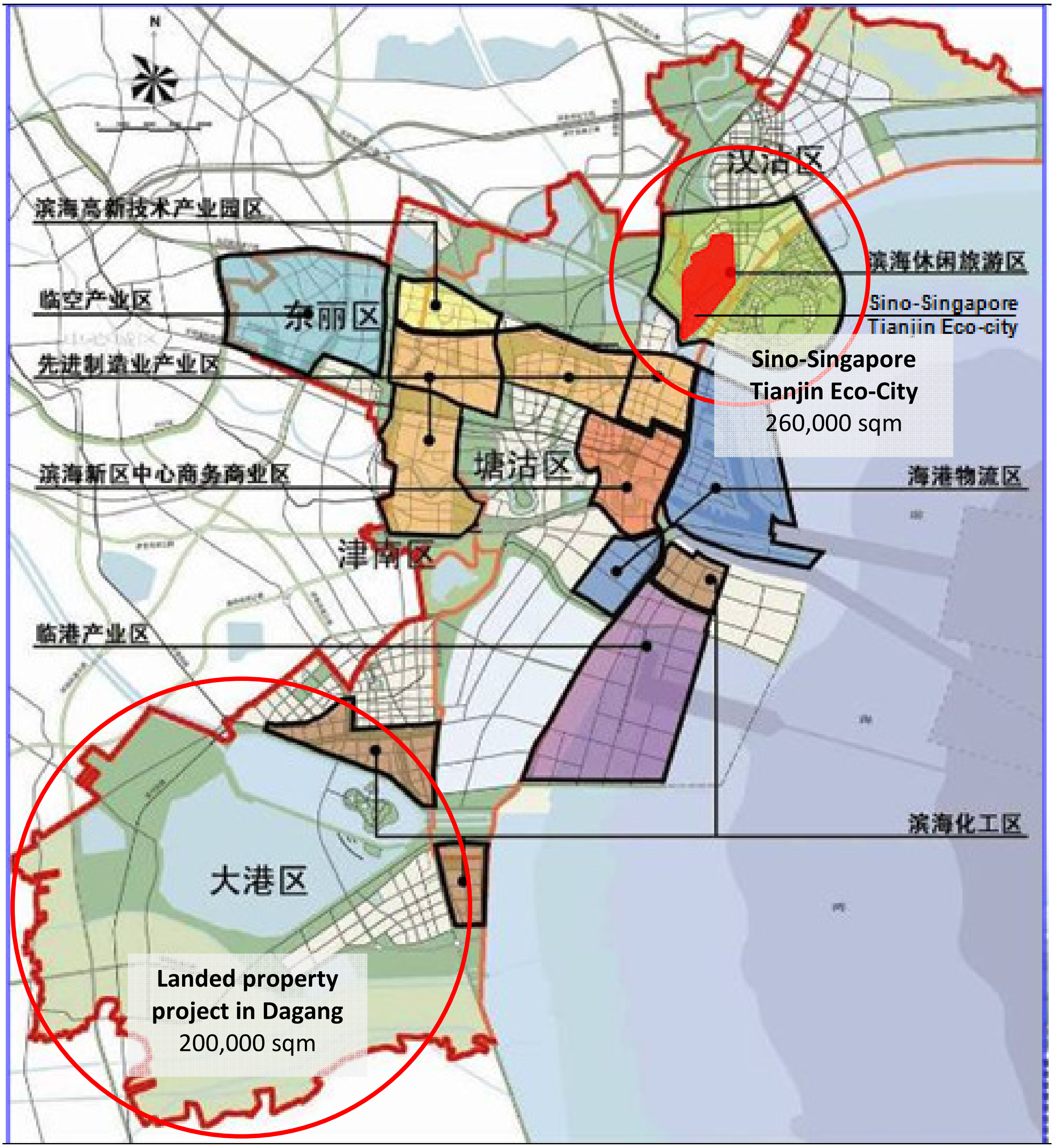
Construction for Phase 2, which consists of two residential blocks, has started in mid-2010 and is expected to complete by end-2012. The units in this phase are expected to be released for sale in the later part of 2011.

2. Tianjin Binhai New Area

The Tianjin Binhai New Area (TBNA) on the eastern coast of Tianjin city was established in 1994. China is determined to transform this area into the country's third economic hub, after Shenzhen and Shanghai Pudong, with a view to stimulating development in its northern region. TBNA's GDP currently accounts for more than half of Tianjin's total GDP.

Tiong Seng has set its eyes on Tianjin with two projects in the TBNA (Figure 10).

Figure 10: Tianjin Binhai New Area



Source: Company data

2a. Landed property project in Dagang, TBNA

This project is located in the ecological zone of the TBNA and comprises landed properties and low-rise developments.

Figure 11: Artist's impression of Dagang project

Source: Company data

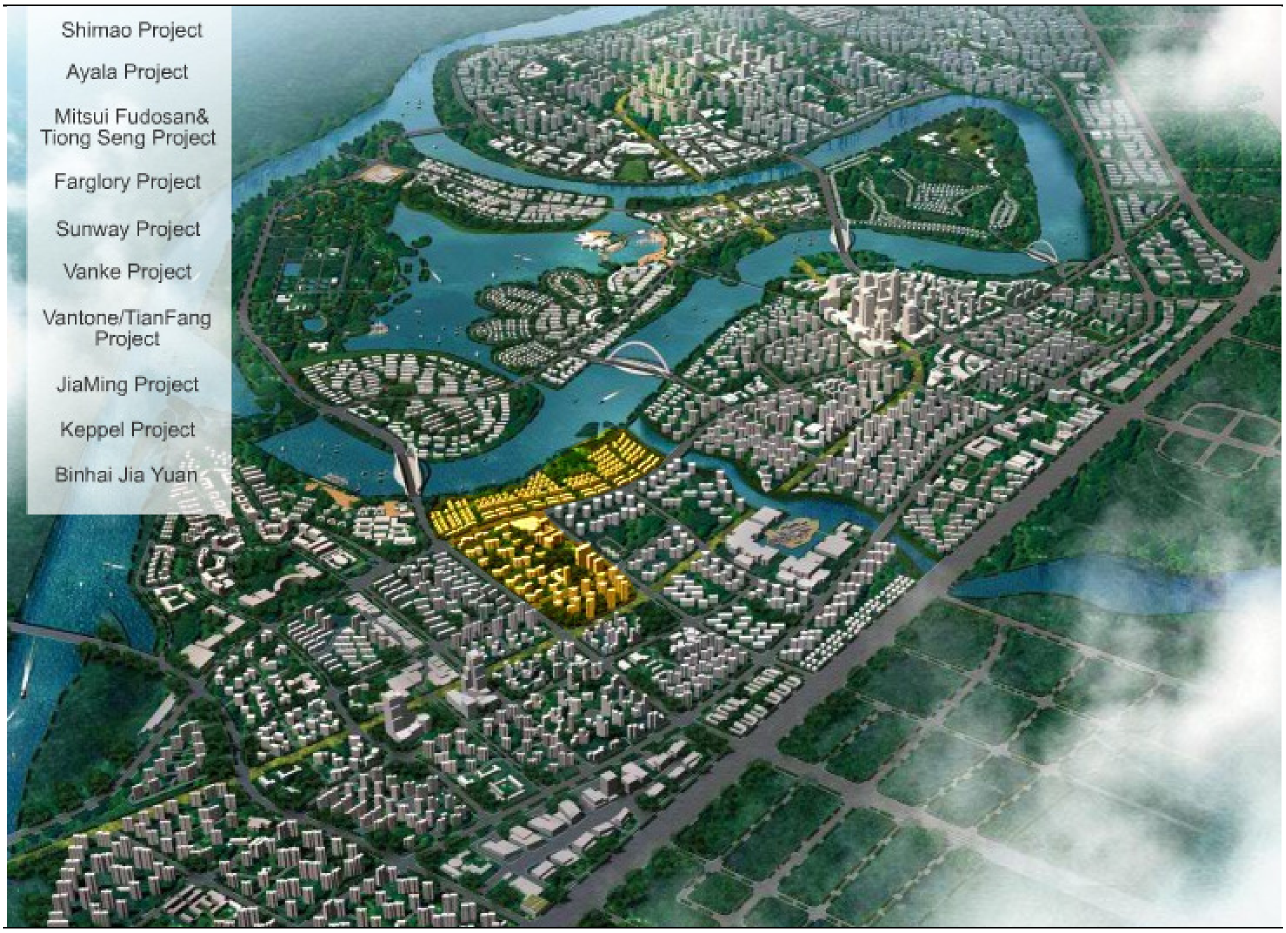
The total GFA sellable from the site is about 200,000 sq m. Tiong Seng plans to break up the project into 4-7 phases. Phase 1, which covers about 40,000 sq m of land, has started construction and sales could commence before the year is out. We estimate the total gross development value (GDV) of the project to be in the region of RMB3b. Based on current market prices, the company may be able to achieve an overall pre-tax profit in excess of RMB700m over the next four years.

2b. Tianjin Eco-City, TBNA

In 2009, Tiong Seng was attracted to the Tianjin Eco-City project, the second such collaboration between the governments of China and Singapore after the Suzhou Industrial Park.

It has entered into a joint venture with Sino-Singapore Tianjin Eco-City, the master planner of Tianjin Eco-City, and Mitsui Fudosan, Japan's largest property developer, to develop a riverfront site into a high-end residential project. The project straddles three plots of land with a total GFA of more than 360,000 sq m. Total GDV is expected to be in the region of RMB4.5b, of which 9% is attributable to Tiong Seng.

Figure 12: Mitsui Fudosan and Tiong Seng's project in Tianjin Eco-City



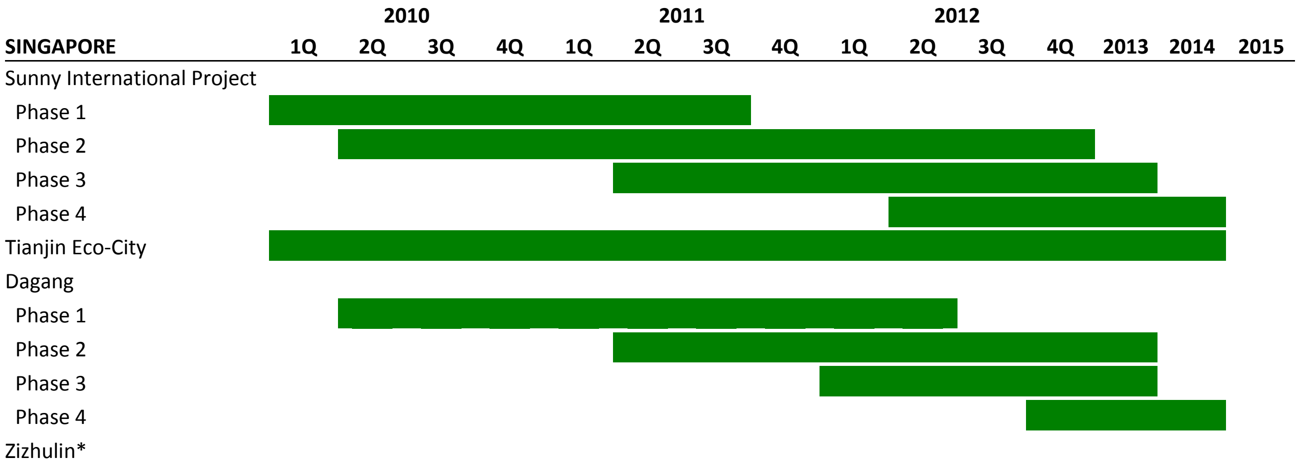
Source: Tianjin Eco-City official website

2c. Zizhulin Commercial Development, Tianjin

This project is located in the heart of Tianjin city, approximately 1km from the high speed rail link station between Beijing and Tianjin. The total land area is about 5,500 sq m. Tiong Seng is currently evaluating the various options to develop or to sell the site.

Figure 13 shows the completion timeline of the respective development projects in China.

Figure 13: Completion timeline of development projects



**To be determined*

Source: Company data

Singapore's construction industry

Workers to cost more

A real challenge lies ahead for the construction industry in Singapore. In his Budget 2011 speech in February, Finance Minister Tharman Shanmugaratnam revealed the government's latest effort to cut the country's dependence on foreign workers by further raising levies on top of the existing increase that is still being implemented in phases.

Currently, most employers pay $160 for each foreign worker on their monthly payroll. This levy rate is expected to reach $450 by July 2013, rising at six-monthly intervals from July this year. However, as illustrated in Figure 14 below, most of the changes will kick in only in the later years.

Figure 14: Change in foreign worker levy rates

	Current	1 Jul 2011	1 Jan 2012	1 Jul 2012	1 Jan 2013	1 Jul 2013
Latest levy changes	$160	$230	$300	$350	$400	$450
Levy changes prior to latest announcement	$160	$230	$230	$300	$300	$300
Change	-	-	+30%	+17%	+33%	+50%

Note: Based on levy rates for Basic Skilled Work Permit

Source: Ministry of Manpower

Rising foreign worker levies and the reduction of Man-Year Entitlements (MYE), or number of foreign workers that can be hired based on contract value, will remain a concern to domestic construction firms as the government pushes for increased productivity in the industry. By July 2013, there will be a threefold jump in the levy rate and a 40% cut in the MYE.

The impact on cost will be felt industry-wide, but we think Tiong Seng will be spared a major hit thanks to its focus on technology to achieve cost efficiency. Its fully-automated Prefab Hub, the first of its kind in Singapore, as well as its heavy use of pre-casting method and advanced formwork systems will enable it to reap the benefits of lower labour requirement. Compared to conventional construction methods such as on-site casting of concrete and timber formwork, the labour savings is up to 40%.

Demand for construction looks promising

Construction demand from the public sector is expected to strengthen to $12-15b this year, a significant increase from $8.3b last year. This is projected to come from growth in the civil engineering and general building sectors. Contracts up for grabs include the building of the Institute of Technical Education's third regional campus in Ang Mo Kio, the development of Jurong General Hospital, the redevelopment of Victoria Theatre and Victoria Concert Hall, as well as the construction of Downtown Line Stage 3.

This state of affairs bodes well for Tiong Seng as major public contracts are pre-qualified and are open only to A1 construction firms. Tiong Seng is one of only three listed companies with A1 grading in both the civil engineering and general building categories.

Figure 15: Construction demand and output for 2010-13

Year	Construction demand (value of contracts awarded) Public	Private	Total	Construction output (payment made)
2010	$8.3b	$17.4b	$25.7b	$27b
2011	$12b - $15b	$10b - $13b	$22b - $28b	$24b - $26b
2012/13	$9b - $12b	$10b - $14b	$19b - $26b	$20b - $27b

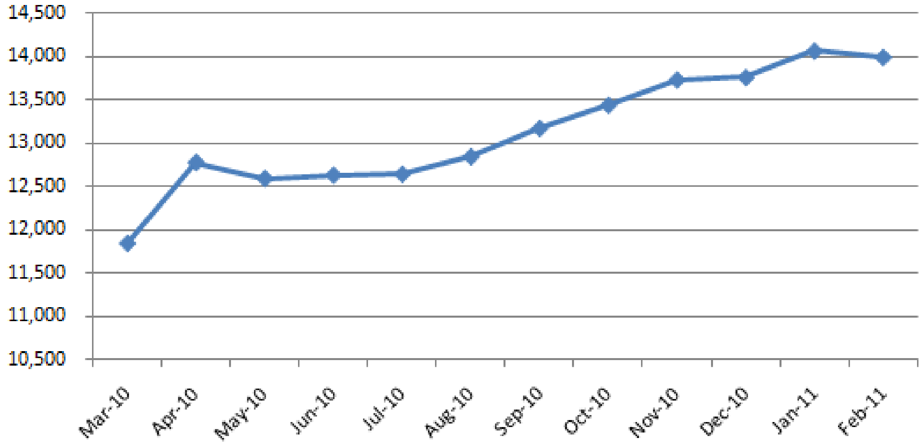
Source: BCA

While rising labour costs paint a grim picture for margins, the strong construction demand, especially from the public sector, should help building companies maintain a healthy orderbook.

China's property market

Based on data from *soufun.com*, growth in property prices in the primary market of Tianjin, where most of Tiong Seng's development projects are located, has moderated to a sustainable level of about 1% a month consistently for the past 9-10 months.

Figure 16: Property prices in Tianjin's primary market



Source: soufun.com

The Chinese government's actions to cool the property market will halt spiralling prices and ensure market stability. The measures introduced so far include imposition of property tax, regulating lending to developers, stricter financing for buyers, and banning existing home owners from buying more properties.

While sales and prices should moderate in the near term, we believe growth will remain positive for the long term on the back of rising income levels, increasing rate of urbanisation and the continued boom in China's economy. According to the National Bureau of Statistics, China's urban disposable income per capita has risen by 13% on average in the past decade. It expects a level above 12% to be sustainable over the next 5-10 years.

Strong economic growth has hastened the pace of urbanisation, from 36% in 2000 to 47% in 2009. By 2020, it is estimated that nearly 50% of the population will live in cities. Nevertheless, China's current urbanisation rate still lags behind the 85% average achieved by developed countries. This means there is an enormous amount of room to grow, more so in the second- and third-tier cities, such as Tianjin, which have the greatest potential to develop into the next first-tier city.

Recent developments

Tiong Seng currently is one of the leading construction companies in the building of public housing in Singapore. It has plans to take on a bigger role by extending its responsibility to include development.

The company recently submitted bids for two Design, Build and Sell Scheme (DBSS) projects, one in Lakeside and the other in Clementi. Although it did not emerge the top bidder, the amount it put forward was not very far off the top bid, 5% in both cases. We believe it will press on to tender for projects in this segment of the property market and there is a strong likelihood that it will win at least one DBSS site. If this eventuates, Tiong Seng will be able to achieve at least 15% pre-tax margin, based on the average margins DBSS developers are getting.

Figure 17: Tender results for DBSS site at Lakeside (5 Jan 2011)

Name of tenderer	Tender price ($m)	$psf	Variance from top bid
Hoi Hup, Sunway Developments & SC Wong	131.6	192.2	-
Tiong Seng	**125.3**	**183.0**	**-5%**
EL Development	120.0	175.3	-9%
Mezzo Development	116.4	170.0	-12%
Qingdao Construction	107.0	156.3	-19%
Sim Lian	68.5	100.1	-48%

Source: Housing Board (HDB)

Figure 18: Tender results for DBSS site at Clementi (8 Mar 2011)

Name of tenderer	Tender price ($m)	$psf	Variance from top bid
EL Development	224.0	271.4	-
Centurion & Lian Beng	216.9	262.8	-3%
Sim Lian	213.0	258.1	-5%
Tiong Seng	**212.0**	**256.9**	**-5%**
Chip Eng Seng & NTUC ChoiceHomes	194.3	235.4	-13%
Hoi Hup, Sunway Developments & SC Wong	191.9	232.5	-14%
Siong Feng Development	188.9	228.9	-16%
Qingdao Construction	187.0	226.6	-17%
Guthrie & SK Land	182.0	220.5	-19%
Khai Wah Development	168.0	203.6	-25%
Mezzo Development	166.0	201.1	-26%

Source: HDB

The good news is there are still two DBSS sites available for sale before the end of 1H11. The government has scheduled the launch of four such sites for the first half of the year with a potential yield of 2,700 flats. Given its commitment to inject 4,000 DBSS flats into the public housing market for the whole of this year, we can expect at least another three sites for sale in the second half of the year.

Figure 19: Upcoming DBSS sites

Location	Site area (ha)	Plot ratio	Est. number of housing units
Fernvale Link	2.27	3.5	790
Bendemeer Road	1.67	4.2	700

Source: HDB

A scheme to create more choices

The Design, Build and Sell Scheme (DBSS) was introduced in March 2005 to create more choices for flat seekers and inject innovation in the building and design of multi-storey flats. Private developers are allowed to participate in this scheme, but must preserve the major characteristics of public housing, such as maintaining open access to common properties. They not only build the flats, but have also to bid for the land, design the flats and surrounding landscape, as well as sell the flats directly to eligible buyers.

Under this scheme, the developers are free to decide on the design, finish, size and unit configuration of the flat and can sell the flats at a price comparable to those listed on the open market. When the development is completed, the Housing Board (HDB) will assume the administrative functions of the DBSS flats and the town councils will manage the common areas and car parks.

Financials

$1b orderbook to be recognised over next three years

We have assumed the recognition schedule for Tiong Seng's construction orderbook to be in line with the expected completion timeline (Figure 1). Thus, more than 80% of it will be recognised in this year and next.

$600m construction contracts a year

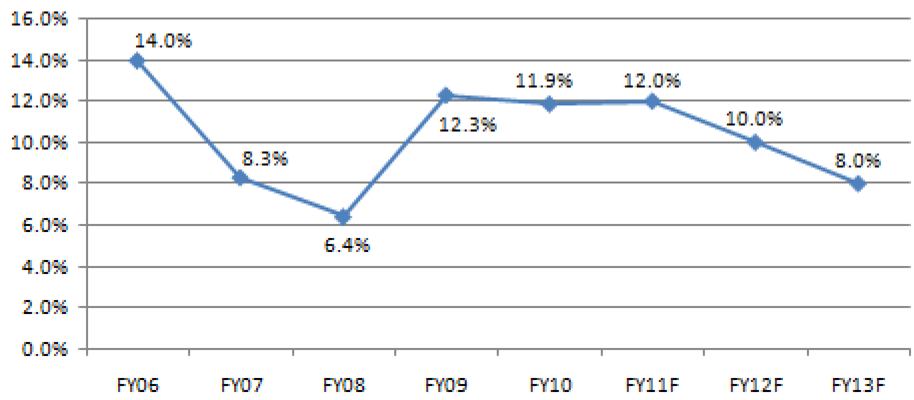
In our assumption for its construction business, we have included contract wins of $600m per annum. As a comparison, the company secured contracts worth $540m last year. We think it can achieve more this year on the back of higher-than-expected overall demand in the construction industry, in particular, the MRT station and tunnelling contracts from the Downtown Line Stage 3, as well as the tenders from the private sector developers.

Construction margins

In our estimate of the construction margins, we have assumed the impact of the rise in foreign worker levy will kick in gradually from 2012 onwards. As we have indicated previously, the impact on contracts ending in 2011 should be minimal because the levy rates for this period are unaffected by the latest revision. The effect of last year's revision will only hit margins for six months as it takes effect in July 2011.

However, we expect margins to slide by an estimated 2% each year until 2013.

Figure 20: Gross construction margins



Source: Company data

Development profits in China

Our assumption incorporates a 10% rise in construction cost each year. Recognition of profits is upon the delivery of the project to the buyers, typically three months after the project is completed and provided that the project launched is fully sold before completion (2-3 years).

Our estimates for the average selling prices are based on comparable transactions and we see pre-tax margins of 20-35% for the residential properties and 30-45% for the commercial properties.

Investment in construction technology

Tiong Seng announced in January this year that it has committed $26m to build a fully-automated pre-cast factory in Tuas. We have incorporated this amount into our numbers and further assumed a capex of $10m each year beyond 2011. Our estimate is consistent with its historical average expenditure for acquisition opportunities.

Valuation and recommendation

We initiate coverage on Tiong Seng with a BUY recommendation and target price of $0.33.

Our valuation is based on sum-of-the-parts (SOTP) methodology. We value the construction business based on 5x FY11F PER, which is the average valuation construction firms are trading at. For the property development business in China, we have used the RNAV approach with a 40% discount.

Figure 21: SOTP valuation

	Valuation basis	Value ($m)	Per share value
Construction business (net cash)	5x FY11F	163.4	$0.21
Property development	RNAV		
Book value excluding construction		62.0	$0.08
Development profits discounted at 15%		87.3	$0.11
RNAV for property development		149.2	$0.19
Premium / (Discount)		(40%)	
Discounted RNAV for property development		89.5	$0.12
RNAV		253.0	
Number of shares (m)		766.0	
RNAV ($/share)		**$0.33**	

Source: Company data, Kim Eng estimates

Using 5x FY11F PER, we estimate the construction business with an orderbook of $1b to be worth $0.21 per share. The development projects in China are valued at $0.19 per share, for which we conservatively apply a 40% discount in view of the negative sentiment in the local property market. Putting both together yields our target price of $0.33.

Humble beginnings

The history of Tiong Seng dates back to 1959 when a partnership was formed between Mr Pek Ah Tuan, the current chairman, and Mr Lee Tuan Chay, his business associate from Song Hup Seng. Mr Lee's company was primarily involved in piling and excavation work, while Mr Pek owned transportation lorries. The new business collaboration was named Tiong Seng, taking a word from each of the company names.

After working on various projects in Singapore and Malaysia, the founders converted the partnership to a private limited company named Tiong Seng Contractors (Private) Limited. The newly-incorporated company was engaged in the construction business by performing the role of an earthwork contractor, undertaking projects from the government.

In the 1970s, both Mr Pek and Mr Lee noted the potential in the rapidly developing Singapore economy and ventured into civil engineering. By taking on projects to build roads, bridges, ports and sewerage treatment plants and other infrastructure, the duo gained invaluable experience and expertise in construction management.

In the mid-1980s, Tiong Seng made its first foray into the building construction industry. For many years, the company mainly focused on public projects such as public housing and schools secured through government tenders. The breakthrough came in 1997, when an opportunity arose to venture into the construction of private residential properties. The first such project was Guilin View, a condominium in Bukit Batok developed by City Developments.

Tiong Seng has also set its sights on the international market. Its maiden overseas undertaking was a World Bank-funded civil engineering project in Papua New Guinea in 1989. Subsequently, it accepted projects in Vietnam, Laos and India.

In the early 1990s, Tiong Seng seized the chance to work on the development of the Suzhou Industrial Park and the project marked its successful entry into the Chinese market. Initially focused on construction projects, it has since expanded its operations to include property development in major cities such as Suzhou, Tianjin and Yangzhou.

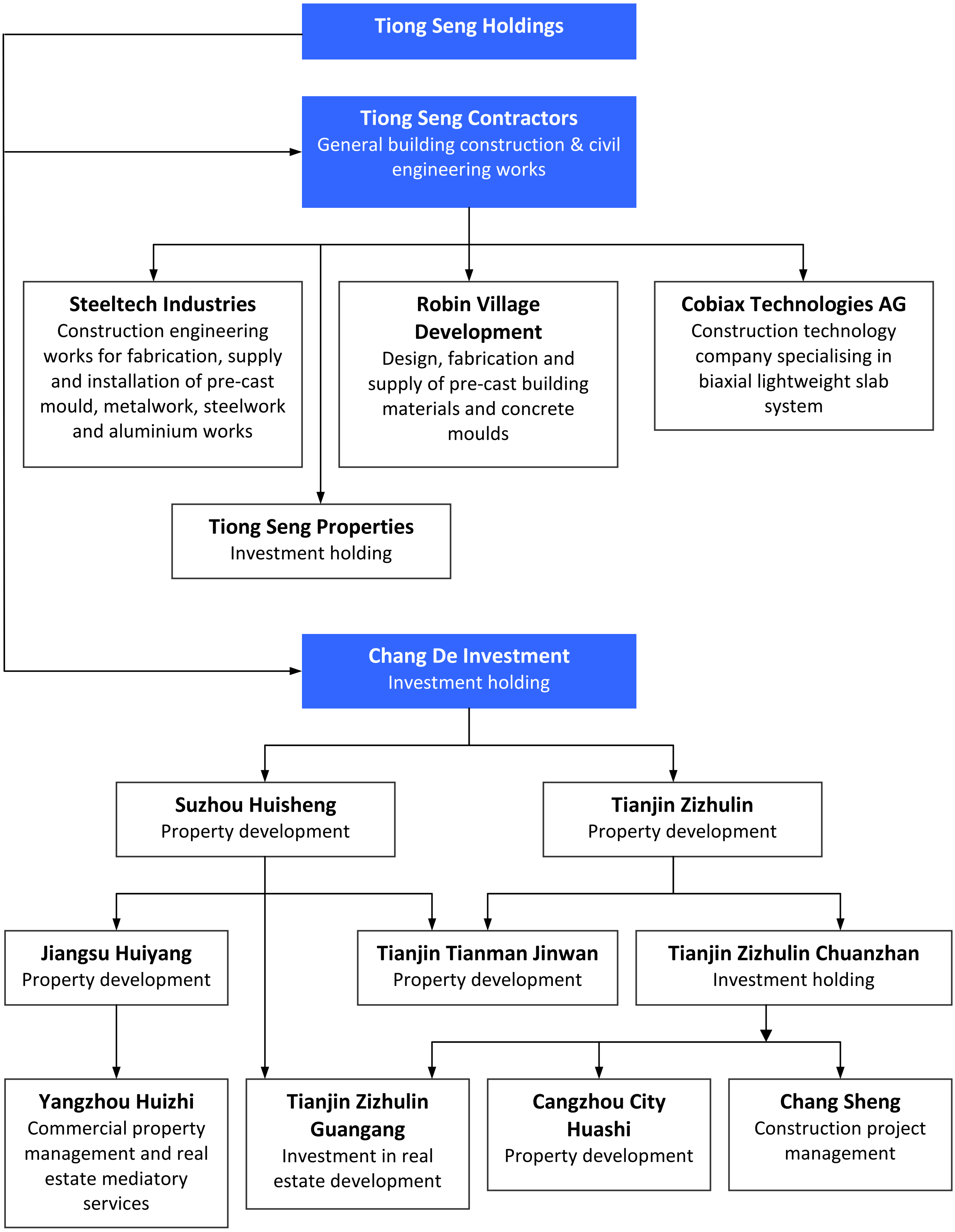
Today, the company is a market leader in Singapore's construction sector and a champion of green designs. This leading industry player recognises the economic value of going green, and takes pride in its efficient use of resources and ability to design and construct environmentally-friendly buildings.

Tiong Seng listed on the Singapore Exchange in April last year.

Major milestones

1959	The founders came together to form a business partnership and named it Tiong Seng. The business provided excavation, earth moving and trucking services.
1964	Converted partnership into a private limited company called Tiong Seng Contractors (Private) Limited, specialising in earthwork. Undertakes projects from the government.
1989	Maiden overseas project in Papua New Guinea.
1990	Built and managed serviced apartments in Vietnam.
1997	Clinched contract for a road construction project in Laos. Built Guilin View, its first private sector project in Singapore.
2002	Built low-cost housing in Hyderabad, India. Developed first property project in Suzhou.
2004	Developed commercial project in Yangzhou.
2006	Ventured into Tianjin with development of a mixed project.
2010	Listed on the Singapore Exchange. Acquired a majority stake in Swiss concrete technology company, Cobiax.
2011	Expected completion of Singapore's first automated pre-cast facility in the third quarter.

Company structure



Profit and loss

YE Dec (S$m)	2009	2010	2011F	2012F	2013F
Sales	**375.6**	**252.3**	**409.6**	**592.8**	**822.8**
Cost of goods sold	-315.0	-216.0	-352.2	-505.9	-684.9
Gross Profit	**60.6**	**36.3**	**57.4**	**87.0**	**137.8**
Operating expenses	-22.0	-30.0	-29.6	-36.2	-44.4
Operating Profit	**47.4**	**12.6**	**34.8**	**57.8**	**100.5**
Net interest	-1.8	-1.7	-1.7	-1.7	-1.7
Interest income	3.6	2.0	2.0	2.0	2.0
Interest expense	-5.5	-3.7	-3.7	-3.7	-3.7
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	20.0	16.3	11.1	6.0	1.9
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax income	65.5	27.2	44.2	62.1	100.7
Income taxes	-13.9	-3.7	-8.8	-15.5	-30.2
Minority Interest	10.2	2.0	6.6	12.8	27.4
Net profit	41.4	21.4	28.8	33.8	43.1
EBITDA	77.6	41.4	59.0	89.7	140.4
EPS basic (S cts)	**7.3**	**2.8**	**3.8**	**4.4**	**5.6**
EPS fully diluted (S cts)	**7.3**	**2.8**	**3.8**	**4.4**	**5.6**

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (S$m)	2009	2010	2011F	2012F	2013F
Total assets	**367.3**	**549.7**	**513.3**	**552.3**	**635.7**
Current assets	281.3	465.7	405.2	445.8	530.6
Cash and bank balances	32.8	86.5	71.3	82.5	154.9
Development properties	80.2	207.0	188.9	218.4	230.7
Accounts receivable	168.3	172.1	145.0	145.0	145.0
Others	0.0	0.0	0.0	0.0	0.0
Other assets	86.0	84.0	108.1	106.5	105.1
Property, plant & Eqt	22.7	21.0	22.1	23.2	24.3
Investment properties	23.1	30.4	53.9	51.2	48.6
Others	40.3	32.6	32.1	32.1	32.1
Total liabilities	**223.1**	**327.6**	**247.2**	**233.6**	**233.6**
Current liabilities	188.0	277.1	196.6	183.0	183.0
Creditors & accruals	147.4	241.5	161.6	148.0	148.0
ST borrowings	19.5	13.1	15.0	15.0	15.0
Others	21.1	22.5	20.0	20.0	20.0
Long-term liabilities	35.1	50.5	50.6	50.6	50.6
Long-term debts	22.0	44.0	44.0	44.0	44.0
Others	13.1	6.6	6.6	6.6	6.6
Shareholder's equity	**144.3**	**222.1**	**257.4**	**304.0**	**374.5**
Paid-in capital	20.0	154.6	154.6	154.6	154.6
Reserve	-1.5	-79.7	-79.7	-79.7	-79.7
Others	125.8	147.2	182.5	229.1	299.6

Source: Company data, Kim Eng estimates

Cash flow

YE Dec (S$m)	2009	2010	2011F	2012F	2013F
Operating cash flow	**64.4**	**-27.6**	**-7.8**	**9.4**	**82.7**
Net Profit	47.4	12.6	34.8	57.8	100.5
Depreciation & amortisation	18.8	8.4	1.5	2.7	2.6
Change in working capital	1.9	-37.9	-35.2	-43.1	-12.3
Others	-3.7	-10.8	-9.0	-8.0	-8.0
Investment cash flow	**-0.1**	**20.9**	**-7.0**	**2.0**	**-10.0**
Net capex	-1.9	-10.2	-25.0	-10.0	-10.0
Change in LT investment	3.7	33.6	18.0	12.0	0.0
Change in other assets	-1.9	-2.5	0.0	0.0	0.0
Cash flow after invt.	64.3	-6.7	-14.8	11.4	72.7
Financing cash flow	**-27.2**	**61.7**	**1.9**	**0.0**	**0.0**
Change in share capital	0.0	54.7	0.0	0.0	0.0
Net change in debt	-19.0	15.0	1.9	0.0	0.0
Change in other LT liab.	-8.1	-8.0	0.0	0.0	0.0
Net cash flow	37.2	55.0	-13.0	11.4	72.7

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2009	2010	2011F	2012F	2013F
Growth (% YoY)					
Sales	38	-33	62	45	39
OP	1625	-73	176	66	74
EBITDA	117	-47	42	52	57
NP	347	-48	34	17	28
EPS	347	-62	34	17	28
Profitability (%)					
Operating margin	13	5	8	10	12
EBITDA margin	21	16	14	15	17
Net Profit margin	11	9	7	6	5
ROA	11	4	6	6	7
ROE	54	19	23	30	37
Stability					
Gross debt/equity (%)	29	26	23	19	16
Net debt/equity (%)	6	-13	-5	-8	-26
Int. coverage (X)	7.6	5.8	7.8	9.2	11.7
Int. & ST debt coverage (X)	-41.5	7.2	16.3	24.7	35.5
Cash flow int. coverage (X)	-41.5	7.2	16.3	24.7	35.5
Cash flow int. & ST debt (X)	6.8	14.9	-3.5	3.1	19.7
Current ratio (X)	1.5	1.7	2.1	2.4	2.9
Quick ratio (X)	1.5	1.3	1.8	2.1	2.3
Net debt (S$m)	8.7	-29.5	-12.3	-23.5	-95.9
Per share data (S cts)					
EPS basic	7.3	2.8	3.8	4.4	5.6
CFPS	11.4	-3.6	-1.0	1.2	10.8
BVPS	25.5	29.0	33.6	39.7	48.9
SPS	66.5	32.9	53.5	77.4	107.4
EBITDA/share	13.7	5.4	7.7	11.7	18.3
DPS	1.1	1.0	1.0	1.0	1.0

Source: Company data, Kim Eng estimates

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+15% and above: BUY
-15% to +15%: HOLD
-15% or worse: SELL

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