Singapore Industry Focus

Singapore Construction

DBS Group Research . Equity 25 Mar 2011

High demand and high costs

- **Construction demand forecast for 2011 revised up; civil engineering works will be main driver in 2011 while private residential demand will slow down**
- **Rising raw material prices and higher wages/ levies will be the key risks, but can be managed**
- **Top picks are Tiong Seng, Yongnam and Pan United; downgrade OKP to HOLD on lower growth expectations; avoid Tat Hong**

BCA ups the forecast for 2011. According to Building & Construction Authority (BCA) statistics, construction demand increased by 14% y-o-y to S$25.7bn in 2010. Looking ahead, the BCA expects construction demand to range between S$22-28bn in 2011, which is higher than its previous forecast range of S$18-25bn, and is in line with the bullish expectations outlined in our December 1 2010 report titled "Public sector to provide impetus". The public sector demand is estimated at about 55% of the total. The demand is likely to stem from growth in public residential and institutional construction demand as well as public transport projects, led by the MRT projects. Private residential construction projects could take a breather, following the exuberance in 2010, after recent government efforts to cool down the property market.

Tender Price Index (TPI) flattening out, costs are not. With crude oil prices going up, wage pressures and inflation concerns rising, construction costs will move up in 2011, but TPI is more likely to be flattish, given the adequate local contracting capacity as well as a moderating global recovery outlook. In the recent Singapore government budget, the government has proposed to raise employer's contribution rate to CPF by 0.5% to 16%, but what impacts the construction sector more are the hikes in foreign workers' levies, owing to the sector's heavy reliance on foreign workers.

Time to be selective. While we are more positive on civil engineering players than building construction players in 2011, we continue to favour Tiong Seng owing to strong revenue visibility over FY11/12 (order book of S$1bn+) and use of pre-fab production methods, which improves productivity and mitigates impact of higher wages. Among civil engineering players, we prefer Yongnam owing to its best-in-class margins and ability to withstand higher steel prices. Pan-United Corp also continues to be a BUY as it stands to benefit from higher ready mixed concrete prices. We downgrade OKP to HOLD despite its attractive dividend yield, as we believe growth could flatten out amidst cost pressures. For Tat Hong, we believe crane rentals will remain weak amidst oversupply and we would look to avoid the stock in the near term.

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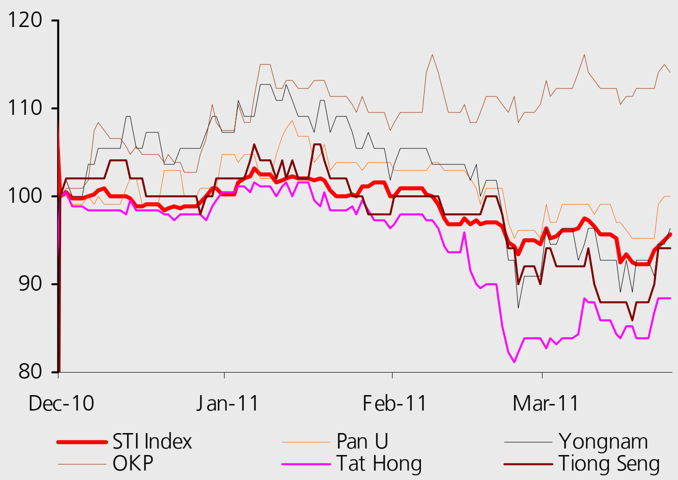
STOCK PICKS

	Price S$	Mkt Cap US$m	Target Price S$	Rating
Yonggnam	0.26	257	0.37	BUY
Pan-United	0.515	226	0.62	BUY
Tiong Seng	0.235	142	0.31	BUY
OKP Holdings	0.61	136	0.63	HOLD
Tat Hong	0.845	332	0.83	FULLY VALUED

Source: DBS Vickers

Share price movements of stocks under coverage relative to STI



Source: Bloomberg, DBS Vickers

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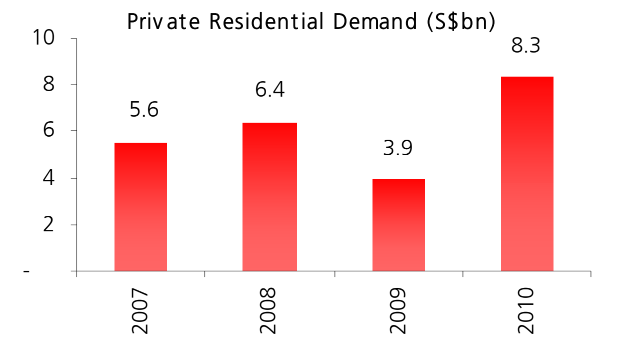
Construction demand growth momentum set to continue in 2011

Construction demand grew by 14% in 2010. According to Building & Construction Authority (BCA) statistics, construction demand increased by 14% y-o-y to S$25.7bn in 2010, which was in the upper range of BCA forecast of between S$21-27bn, and largely in line with our estimates. The public sector accounted for about one-thirds of this – slightly lower than expected – as some of the public transport contracts were deferred to 2011. Private sector demand at S$17.6bn more than doubled from 2009, fuelled by the buoyant private residential market in Singapore.

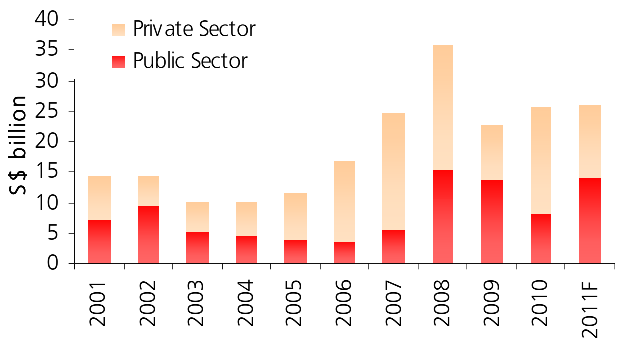
Private residential construction contracts key driver in 2010



Source: BCA

And BCA ups the forecast for 2011. Looking ahead, the BCA expects construction demand to range between S$22-28bn in 2011, which is higher than its previous forecast range of S$18-25bn, and is in line with the bullish expectations outlined in our December 1 2010 report titled "Public sector to provide impetus". The public sector demand is estimated at between S$12-15bn, or about 55% of the total. The demand is likely to stem from growth in public residential and institutional construction demand as well public transport projects led by the MRT projects.

Construction demand trend across public and private sectors



Source: BCA

Private sector residential growth will likely moderate in 2011, after the strong showing in 2010, as sentiments among private property developers will likely be cautious following the series of measures announced by the Singapore Government last year to cool the property market. Nevertheless, the level of demand would still be higher than that during 1998-2005 low years, and private residential construction demand would be fuelled by launches including City Developments' "H20 Residences" at Sengkang, Far East's "The Scotts Tower" at Scotts Road, and other condominium developments at 5 Shenton Way, Pasir Ris Grove, Grange Road, Leonie Hill Road and Meyer Road.

Breakdown of private sector contracts expected in 2011

	2011F (S$bn)	Proportion	2010 (S$bn)
Residential	5.1-6.1	49%	8.3
Commercial	2.1-3.0	22%	2.7
Industrial	1.8-2.6	19%	3.0
Institutional & Others	0.5-0.6	5%	2.7
Civil Engineering Work	0.5-0.7	5%	0.8
Private Sector	**10.0-13.0**	**100%**	**17.6**

Source: BCA

Commercial and Industrial demand should remain stable. Commercial construction demand will likely remain at a similar level as in 2010. Some of the major projects in the pipeline include City Developments' South Beach at Beach Road, Ho Bee's Office Development at North Buona Vista, MGPA's Asia Square Tower 2 at Marina View and Perennial / Pontiac Land / Top Global Consortium's Capitol Building Redevelopment at Stamford Road and other office buildings at Science Park Drive and along Robinson Road. Industrial construction demand is likely to be dominated by high-specification and state-of-the-art technological buildings like JTC's Fusionopolis Phase 2A at One-North, JTC's Very Large Floating Structure (VLFS) for oil storage and Sembcorp Industries' Multi-Utilities Center at Jurong Island.

Public institutional building demand will provide fillip. Public institutional construction demand is anticipated to improve over last year's volume. Significant support to this category is expected to come from campus expansion of various Institutes of Higher Learning (IHLs) including main contract for ITE's 3rd regional campus at Ang Mo Kio, main contract for the development of Jurong General Hospital with a community hospital at Jurong East, Changi Prison Complex Phase 2 development at Upper Changi Road North and redevelopment of Victoria Theatre and Victoria Concert Hall at Empress Place.

But the main drivers will be public housing and transport/ civil engineering projects. Sustained by the continual strong public housing demand as evidenced in the over-subscription for HDB flat applications, total public residential construction demand is projected to be between $2.8bn and $3.3bn, slightly higher than last year's level. Around 70% of this will be accounted for by building of new HDB units to meet ongoing demand, while other government programs like Lift Upgrading Programme and Neighbourhood Renewal Programme will make up the remaining.

Civil engineering construction demand is expected to go up to between $7.0 billion and $8.5 billion in 2011. About 65% of the demand is likely to be contributed by various construction contracts for the MRT Downtown Line Stage 3. In its bid to improve road network to facilitate traffic flow, LTA has also earmarked a number of road construction projects to proceed this year. Some of the other major projects expected to go ahead in 2011 include reconstruction of Newton Flyover, construction of viaduct from TPE to PIE (Westbound) and sewerage and drainage improvement works at various locations such as Jalan Boon Lay and Pioneer Road.

Breakdown of public sector contracts expected in 2011

	2011F (S$bn)	Proportion	2010 (S$bn)
Residential	2.8-3.3	23%	2.8
Commercial	0.1-0.1	1%	0.1
Industrial	0.2-0.7	3%	1.0
Institutional & Others	2.5-3.1	21%	2.1
Civil Engineering Work	6.4-7.8	53%	2.2
Public Sector	12.0-15.0	100%	8.1

Source: BCA

Medium term outlook remains positive as well. According to BCA estimates, the average construction demand is projected to be between S$19bn and S$26bn in 2012/13, and will continue to be supported by public sector projects. The public sector is projected to account for more than 55% of demand. 65% of this demand will be from building construction projects, while civil engineering projects are likely to account for the remaining 35%. Some of the public sector projects earmarked to proceed from 2012 onwards include development of Singapore University of Technology and Design (SUTD) at Upper Changi Road, Phase 3C development of residence halls at Nanyang Technological University (NTU), Phase 3 development of Singapore Police Force's Home Team Tactical Centre at Mandai Road, expansion of KPE/TPE Interchange, construction of major arterial road from CTE to Yishun Avenue7, and Tuas Extension MRT Line.

List of HDB projects in the pipeline in 2011

Project Description	Location	Estimated Tender Date
Road Works	Punggol	2Q 2011
Bukit Batok West Avenue 6 Extension (Part 1)	Bukit Batok	4Q 2011
Earthworks	Sengkang	4Q 2011
Edgefield Plains (Part 3)	Punggol	1Q 2011
Edgefield Plains (Part 4)	Punggol	1Q 2011
Earthworks	Woodlands	4Q 2011
Earthworks	Yishun	1Q 2011
Earthworks	Bukit Panjang	4Q 2011
Earthworks	Bukit Batok	4Q 2011
70 Units of Motor Workshop	Kaki Bukit	1Q 2011
220 Units of Motor Workshop	Sin Ming	4Q 2011
New Public Housing and Redevelopment Programme	Various Locations	2011
Home Improvement Programme	Various Locations	2011
Lift Upgrading Programme	Various Locations	2011
Neighbourhood Renewal Programme	Various Locations	2011

Source: BCA

Key projects by LTA expected to be launched in 2011

Project Description	Location	Estimated Tender Date
Construction of Sengkang West Road from Yio Chu Kang Road to TPE	Yio Chu Kang Road	1Q 2011
Widening of Upper Paya Lebar Rd from Upper Serangoon Rd to Bartley Rd	Upper Paya Lebar Road	4Q 2011
Widening of Benoi Road from Upper Jurong Road to Pioneer Road	Benoi Road	3Q 2011
Proposed viaduct from TPE to PIE (Westbound) and Upper Changi Road East	TPE	2Q 2011
Expansion of KPE/TPE Interchange to Punggol Central and Pasir Ris Drive 1	KPE/ TPE Interchange	4Q 2011
M&E Services including water handling equipment	Sentosa	2Q 2011
MRT North-South Line Extension - Tunnel Ventilation, ECS	NSLE	1Q 2011
MRT North-South Line Extension - Electrical Services	NSLE	1Q 2011
MRT Downtown Line 2 - E&M Building Services - Tunnel Ventilation and ECS	Downtown Line 2	1Q 2011
MRT Downtown Line 2 - E&M Building Services - Electrical Services	Downtown Line 2	1Q 2011
MRT Downtown Line 2 - E&M Building Services - Fire Protection System	Downtown Line 2	1Q 2011
MRT Downtown Line 3 - Tunnel Ventilation and ECS	Downtown Line 3	3Q 2011
MRT Downtown Line 3 - Electrical Services	Downtown Line 3	3Q 2011
MRT Downtown Line 3 - Fire Protection System	Downtown Line 3	3Q 2011
MRT Downtown Line 3 - Tunnel between Tampines East & Upper Changi	Downtown Line 3	1Q 2011
MRT Downtown Line 3: Upper Changi & Tunnels & TSA	Downtown Line 3	1Q 2011
MRT Downtown Line 3: Jalan Besar & Tunnels & TSA	Downtown Line 3	1Q 2011
MRT Downtown Line 3: Tampines East & Tunnels	Downtown Line 3	1Q 2011
MRT Downtown Line 3: River Valley & Tunnels	Downtown Line 3	1Q 2011
Tuas Extension Line (West)	Tuas	1Q 2011
Bus Interchange	Hougang	4Q 2011
Bus Interchange	Jurong East	3Q 2011

Source: BCA

Key projects by JTC expected to be launched in 2011

Agency	Project Description	Location	Estimated Tender Date
JTC Corporation	Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok	3Q 2011
JTC Corporation	Construction of Outlet Drain at Pulau Ayer Merbau	Jurong Island	1Q 2011
JTC Corporation	Infrastructure Works at Demolished Seletar WRP Phase 3 Area	Seletar	1Q 2011
JTC Corporation	66 KV substation at Hougang Logistic Park	Tampines Rd	2Q 2011
JTC Corporation	Infrastructure Works at Jalan Buroh Abbatoir	Jalan Buroh	2Q 2011
JTC Corporation	Final Premix Surfacing to Roads @ Jurong Island	Jurong Island	2Q 2011
JTC Corporation	Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok	3Q 2011

Source: BCA

Key projects by other key Government agencies expected to be launched in 2011

Agency	Project Description	Location	Estimated Tender Date
JTC Corporation	Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok	3Q 2011
JTC Corporation	Construction of Outlet Drain at Pulau Ayer Merbau	Jurong Island	1Q 2011
JTC Corporation	Infrastructure Works at demolished Seletar WRP Phase 3	Seletar	1Q 2011
JTC Corporation	66 KV substation at Hougang Logistic Park	Tampines Rd	2Q 2011
JTC Corporation	Infrastructure Works at Jalan Buroh Abbatoir	Jalan Buroh	2Q 2011
JTC Corporation	Final Premix Surfacing to Roads @ Jurong Island	Jurong Island	2Q 2011
JTC Corporation	Implementation of Very Large Floating Structure (VLFS) for Oil Products and Petrochemical Storage	Pulau Sebarok	3Q 2011
Ministry of Health	A 200-250 bedded nursing home for the relocation of Singapore Christian Home	Sembawang Crescent	1Q 2011
Ministry of Health	A 200-250 bedded nursing home for the relocation of Bright Hill Evergreen Home	Punggol East	1Q 2011
Ministry of Health	A 300 bed Psychiatric Nursing Home	Buangkok	2Q 2011
Ministry of Health	Superstructure - New development of Jurong General Hospital (Integrated with Jurong Commnity Hospital)	Jurong East	3Q 2011
Ministry of National Development	Seletar and Gerald Drive Estate - Estate Upgrading Programme (EUP) Batch 6	Seletar and Gerald Drive	2011
Ministry of National Development	Widening of Jalan Bahar from Pan Island Expressway to Old Choa Chu Kang Road	Jalan Bahar	2Q 2011
NTU	Phase 3C Teaching Block	NTU	2Q 2011
National Arts Council	Development of Victoria Theatre and Victoria Concert Hall	Empress Place	2Q 2011
National Parks Board	ECP Upgrading Phase 3 - Upgrading of Golf Driving Range and Car Parks	East Coast Park	2Q 2011
National Parks Board	Park Improvement at Windsor Area	Venus Drive, Central Nature Reserve	4Q 2011
National Parks Board	Park Improvement at Chestnut Area	Bukit Timah/Kranji Expressway	1Q 2011
National Parks Board	Improvements to Fort Canning Park	River Valley Road	1Q 2011
National Parks Board	Phase 2 - Sungei Buloh Wetland Reserve Masterplan	Neo Tiew Crescent	1Q 2011
Ministry of Education	Extension of Metta School	Simei Street 1	1Q 2011
Ministry of Education	Ungrading of Rivervale Primary	Rivervale Drive	1Q 2011
Ministry of Education	Upgarding Keming Primary School	Bukit Batok	3Q 2011
Ministry of Education	Upgarding Rulang Primary School	Jurong West	3Q 2011
Ministry of Education	Upgrading of Farrer Park Primary	Farrer Park	1Q 2011
Ministry of Education	Upgrading of Compassvale Primary	Compassvale Street	1Q 2011
Ministry of Education	Upgrading of CHIJ (Toa Payoh) Primary	Lorong 1 Toa Payoh	3Q 2011
Ministry of Education	Upgrading of Sembawang Primary	Sembawang Drive	3Q 2011
Ministry of Education	Upgarding of Mee Toh School	Edgedale Plains	1Q 2011
Ministry of Education	New Primary School	Jurong West	1Q 2011
Ministry of Education	New Primary School	Along Punggol Walk	1Q 2011
Ministry of Education	New Primary School	Along Fernvale Road	1Q 2011
Ministry of Education	New Primary School	Compassvale Bow	1Q 2011
Ministry of Education	New Primary School	Alexandra Road	4Q 2011
Ministry of Education	New Primary School	Bukit Panjang	4Q 2011

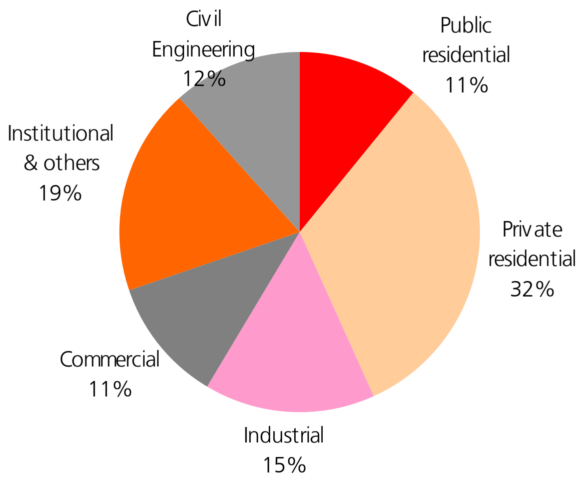
Source: BCA

Civil engineering demand will outstrip building construction demand in 2011

Lower number of civil engineering contracts in 2010. As a result of the renewed optimism and rebound in the private residential building segment, at least in 1H10, private residential contracts commanded the lion's share of 32% of all construction contracts in 2010, while civil engineering works accounted for only 12% of demand in 2010, compared to a usual range of 30-40% of contracts. However, with the Singapore government clamping down on the exuberance in the property market, new building construction activity has cooled off since 4Q10.

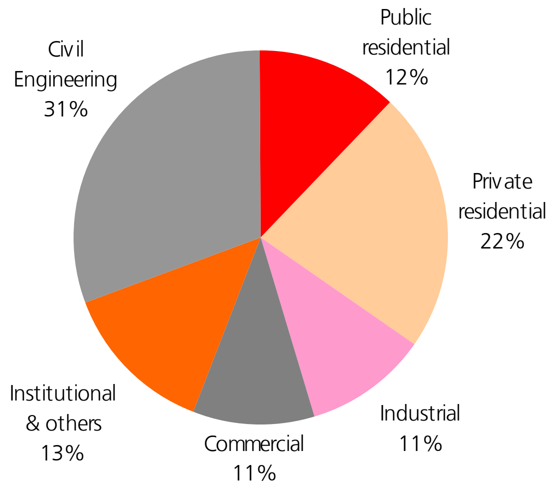
Civil engineering contractors will have a better 2011. This is largely because of the deferment of the Downtown Line 3 (DTL3) MRT contracts, which were expected to be handed out in 4Q10 but now look more likely in 2Q-3Q 2011. However, going into 2011, we expect civil engineering works to account for a larger 30%+ share of the total pie of about S$25bn worth of contracts likely to be awarded in 2011. A bulk of this amount will be from the award of the aforementioned DTL3 contracts.

Breakdown of construction contracts in 2010



Source: BCA, DBS Vickers

Likely breakdown of construction contracts in 2011



Source: BCA, DBS Vickers

Construction orderbooks have dipped off a bit since 3Q10, set to recover in 2011

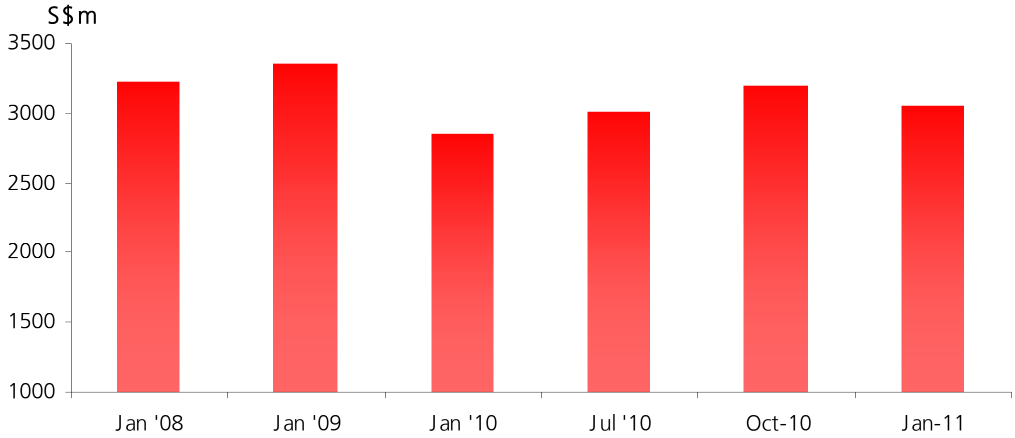
With the Singaproe government clamping down on the exuberance in the property market and the delays in award of contracts for the DTL3 project, construction orderbooks have tailed off slighlty since 3Q10, as evident from the table below. The drop was especially evident for builders with more exposure to property developments.

Orderbook trend of select construction players

Company	Jan '08	Jan '09	Orderbook (S$m) Jan '10	Jul '10	Oct-10	Jan-11
Yong Nam	162	504	492	460	451	450
CSC Holdings	448	190	120	180	210	230
Lian Beng	608	660	600	846	875	762
BBR Holdings	518	321	410	520	520	620
Chip Eng Seng	684	698	391	233	406	333
OKP Holdings	209	302	266	312	328	310
Hock Lian Seng	600	680	574	465	409	350
Total	3229	3355	2853	3016	3199	3055
		+3.9%	-15.0%	+5.7%	+6.1%	-4.5%

Source: Companies, DBS Vickers

Aggregate orderbook trend of select construction players

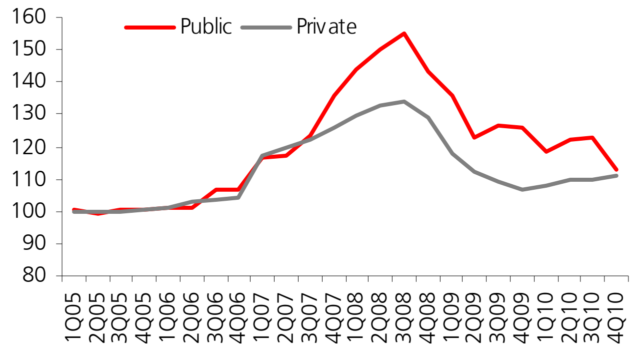


Source: Companies, DBS Vickers

Concerns on the cost side

Tender Price Index (TPI) flattening out, costs are not. Construction costs remained largely stable in 2010, and the average yearly TPI was only slightly down y-o-y. However, with prices of major construction materials like concrete and steel rebars going up in recent months, the flat trend in TPI would hurt constructor margins, in our opinion. With crude oil prices going up, wage pressures and inflation concerns rising, construction costs will move up in 2011, but TPI is more likely to be flattish, given the adequate local contracting capacity as well as a moderating global recovery outlook.

Tender Price Index for Public and Private Sector projects



Source: BCA

Rise in CPF rate and foreign worker levy in recent budget will hurt construction margins. In the recent budget announced by the Singapore government, the government has proposed to raise employer's contribution rate to CPF by 0.5% to 16% (maximum of $25 per head) as well as raise CPF salary ceiling from $4500 to $5000 ($80 per head) per month. As a result of both changes, employers will pay up to $105 per head more for employees with average salaries of $5000 or more. This will impact labour intensive industries, but what impacts the construction sector more are the hikes in foreign workers' levies, owing to the sector's heavy reliance on foreign workers. The government has proposed to raise foreign workers' levy for construction sector by S$200, the highest increase among all sectors. This is in addition to last year's increase of about S$100 to S$130, and is to be phased in over six months intervals from Jan 2012 to July 2013.

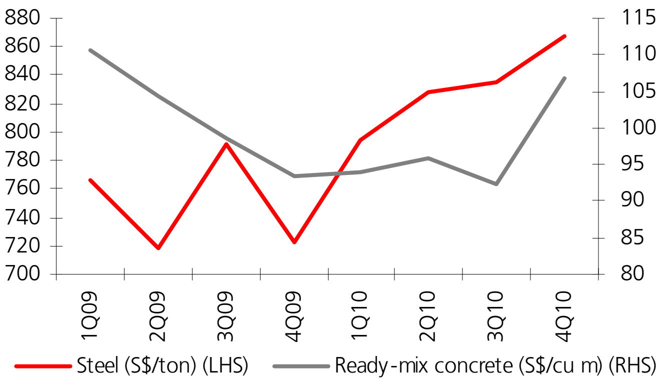
Construction levies and foreign worker dependency are the highest among all sectors

Sector	Dependency Ratio	Worker Category	Monthly Levy Rate (S$)
Manufacturing	Tier 1	Skilled	170
		Unskilled	270
	Tier 2	Skilled	210
		Unskilled	310
	Tier 3	Skilled	450
		Unskilled	
Construction	**1 local full-time worker to 7 foreign workers**	**Skilled**	**160**
		Experienced	**310**
		Unskilled	**470**
Marine	1 local full-time worker to 5 foreign workers	Skilled	170
		Unskilled	300
Process	1 local full-time worker to 7 foreign workers	Skilled	160
		Experienced	310
		Unskilled	300
Services	Tier 1	Skilled	170
		Unskilled	270
	Tier 2	Skilled	300
		Unskilled	
	Tier 3	Skilled	450
		Unskilled	

Source: Ministry of Manpower

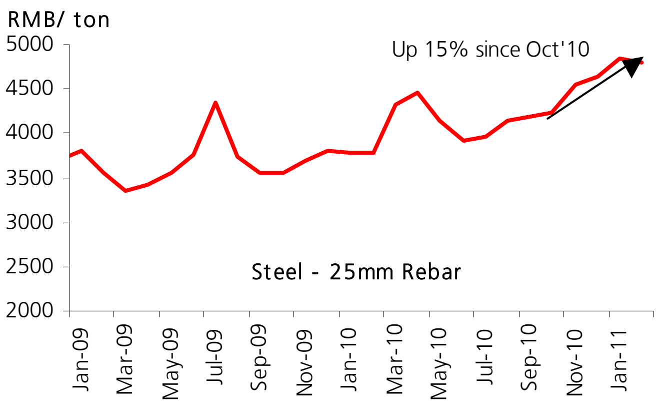
Steel prices driven up by natural disasters. The severe flooding in Australia's Queensland province late last year drove up coking coal prices and hence, led to an increase in production costs for steel makers and steel prices. In light of the recent Japan earthquake, we expect short-term supply of steel to decline as a number of production facilities have been affected. This may affect steel product prices as Japan is a major net exporter of steel products, accounting for about 30m tons annually. In the medium to long term, we also expect demand for construction steel would be higher in Japan, which could further restrict exports from Japanese steel mills and reduce global export supply. Thus, steel prices are expected to remain high in 2011, and thus could affect margins of construction companies if the higher costs cannot be passed through.

Steel and concrete price trend in 2009/10



Source: BCA

Steel prices moving up further in 2011



Source: Bloomberg, DBS Vickers

Yongnam can manage steel and wage costs to a high degree. While average steel prices were up almost 13% in FY10 compared to FY09, Yongnam was able to register higher gross margins in both business segments and overall gross margin improved from 23.2% in FY09 to 28.6% in FY10 – albeit partly due to a change in sales mix. For the Structural Steel segment, steel accounts for only about 30% of total costs, and Yongnam will typically order all the steel needed for a particular project upfront, in order to minimize fluctuations in steel price. For new contracts, higher steel prices can be largely priced in. For the Civil Engineering Services division, depreciation, labour and equipment costs form the bulk of the costs. Steel used in this segment can be recycled and the payback period for the steel is about two and a half to three years. Given that Yongnam has a reusable inventory of 140,000 tons of steel struts bought at cheaper prices in the past, margins can actually expand in a high steel price environment.

On the wages front, while Yongnam has about 1100 foreign workers on its rolls, almost all are skilled workers (significantly lower levies) and management expects impact to be limited between S$1-2m in FY11/12.

Tiong Seng's focus on using pre-cast and advanced formworks technologies has enabled them to reduce their reliance on labour, and shortens the construction lead time by up to 50% when compared against conventional construction methods. While government's recent initiative to raise foreign worker levies will likely have a negative impact on the group's margins, it reinforces the critical need for construction companies in Singapore to employ latest technologies to enhance cost efficiencies and productivity going forward. The group continues to be on the front to improve efficiency - with the completion of its prefabrication Hub in 3Q11 and investment in Switzerland-base Cobiax Technologies will further enhance the group's productivity levels and reduce its use of concrete slab by over 30% respectively.

OKP faces challenges on the labour cost aspect. The recent set of results for 4Q10 was above our expectations, as the Group registered higher-than-expected gross margin of 34% – compared to the usual range of 17-19% margins – owing to one-off high margin variation orders on some projects. While we expect costs to be well managed, the rising costs of foreign labour and material prices (concrete, steel rebars) will cap upside in margins, going forward. As a result, we lower our FY11/12 EPS estimates by 5% and 3% respectively.

Stock Picks

Yongnam Holdings (BUY, TP S$0.37). Yongnam continued to register improving margins throughout FY10 across both segments, despite increasing steel prices, demonstrating its ability to effectively counter increasing costs through project management expertise and use of its low-cost reusable strutting steel inventory. We still factor in about 1 ppt decline in margins for FY11 to account for higher wage and raw material costs.

Yongnam will be bidding for close to S$1.4b worth of contracts in 2011 (commencing in 2011/12), of which potential Specialised Civil Engineering contracts account for 30%, a higher proportion than last year. Singapore contracts make up 90% of this, in line with our expectation of a strong year for civil engineering players. We believe Yongnam could potentially win at least 35-40% of these jobs and end the year with a bigger orderbook, translating to strong EPS growth over FY10-12. Adding to the visibility are potential Downtown Line 3 MRT contracts in Singapore in 3Q/4Q 2011, and tenders for the National Art Gallery and Singapore Sports Hub, which should be announced in 2Q11.

Pan-United Corp (BUY, TPS$0.62). 4Q10 numbers represented the first upturn in earnings since 2Q09 as net profit climbed 53% qoq to S$6.1m on strong margin recovery of 5.4ppt to 18.2% and revenue growth of 9%. Margin expansion was largely attributable to higher ASP for ready-mixed concrete (RMC). Pan-United's RMC volume is expected to pick up with the commencement of public sector works such as MRT Downtown Line 2/3, HDB projects, Sports Hub, SLNG Terminal, Seletar Aerospace Park etc. Port segment should continue to see uplift in cargo throughput. However, operating environment for shipping segment remains challenging in view of the bleak outlook for dry bulk shipping.

Additionally, Pan-United has embarked on a series of proactive M&A plans to drive its long-term growth. Recent acquisitions in Indonesia and Vietnam are still pending regulatory approvals. The upstream acquisition in Indonesia is expected to improve Pan-United's margins with own supply of granites and aggregates while the JV with the Vietnamese government should fuel Pan-United's topline growth in the mid-term. We have yet to factor these into our forecasts. Dividend yield remains attractive at ~6%, in line with management's effort to reward shareholders.

Tiong Seng Holdings (BUY, TP S$0.36). While we are more confident of contractors with more exposure to civil engineering segment in 2011, Tiong Seng is an exception. With cS$34.6m of unrecognized revenues from newly commenced projects and an order-book of c.S$1.0bn, TSNG should offer very good earnings visibility over the next 12-30 months. While we expect the group to encounter margin pressures from the recent government's initiative to increase foreign worker levies, impact should be somewhat mitigated by the group's use of effective construction technologies & pre-casts construction methods Completion of its prefabrication hub in 3Q11 is timely and will reduce labor requirements for pre-casting by over 50-70% and these savings should filter into TSNG numbers in the longer term. Our BUY call is maintained, TP S$0.31 based on 35% discount to SOTP of S$0.47.

OKP Holdings (HOLD, TP S$0.63). OKP has won close to S$150m of new orders since October 2010. Leveraging on its relationship with China Sonangol Land, OKP also won its first building construction contract in a JV with Soilbuild, which could pave the way for further contracts in this space, in addition to its niche position as the premier road works contractor in Singapore. Currently, net outstanding orderbook of about S$200m covers more than 80% of our FY11 revenue estimate, and about 30% of FY12 revenue.

While we expect costs to be well managed, the rising costs of foreign labour and material prices (concrete, steel rebars) will cap upside in margins, going forward. While OKP remains well poised to capture civil engineering and road construction demand, we think it is unlikely to win any MRT (Downtown Line 3) contracts in the near term, given the lack of experience. Thus, even though the Group is likely to maintain its generous dividend payout of 5Scts per share (8.4% yield) – given net cash per share of S$0.37 at the end of FY10 – the revised earnings CAGR of 2% over FY10-12 does not look attractive enough. Downgrade to HOLD, TP reduced to S$0.63 on lower multiples.

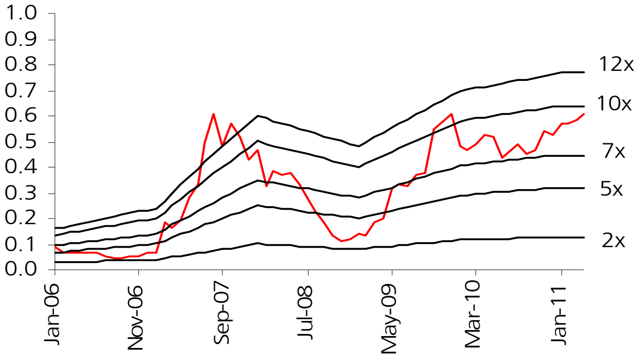
Tat Hong (FULLY VALUED, TP S$0.83). Competition worsens in major markets, i.e. Australia, Singapore and Malaysia, which will continue to suppress crane rental rates and selling prices in the near term. The saving grace is the potential reconstruction demand in Australia post flood. We expect actual reconstruction works to pick up 3-6 months from now though, as planning and tender of projects will take time.

Singapore Construction Players – Valuation Summary

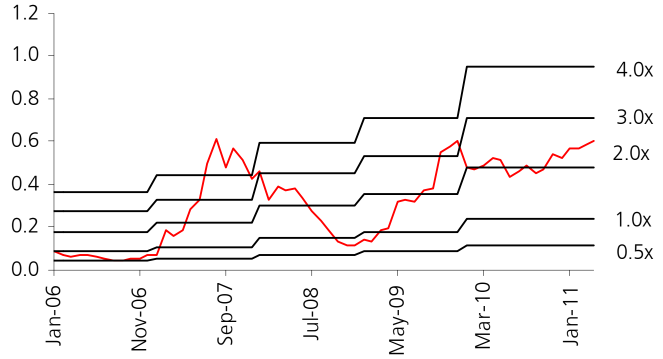
Company	FYE	Price (Local $)	Mkt Cap (S$m)	CY10 PE	CY11 PE	P/B	P/S	ROE (%)	Opg Margin	Div Yield	2 Yr EPS CAGR
Building											
Chip Eng Seng	Dec	0.47	313.7	N/A	N/A	0.9	0.6	36.2	5.9	N/A	N/A
Tiong Seng	Dec	0.235	180.0	5.7	5.3	1.0	0.7	15.8	4.7	4.3%	33.6%
Wee Hur Holdings	Dec	0.285	184.6	3.4	N/A	2.0	1.1	28.9	14.7	8.8%	N/A
Hock Lian Seng	Dec	0.29	147.9	N/A	N/A	1.7	0.6	33.0	11.3	N/A	N/A
Lian Beng	May	0.3	158.9	3.6	3.2	1.0	0.4	18.1	8.3	3.3%	38.4%
OKP Holdings	Dec	0.605	170.3	9.5	9.2	2.3	1.1	26.5	14.4	8.3%	2.3%
KSH Holdings	Mar	0.23	78.7	4.0	3.8	0.6	0.2	18.1	7.9	8.7%	-7.7%
BBR Holdings	Dec	0.245	75.5	4.3	4.1	0.9	0.4	27.7	9.3	2.4%	-2.9%
Average				**5.1**	**5.1**	**1.3**	**0.6**	**25.5**	**9.6**	**5.6%**	**12.7%**
Foundation/ Piling											
CSC Holdings	Mar	0.135	165.5	8.4	7.1	0.9	0.6	14.1	8.8	6.7%	-1.8%
Ryobi Kiso	Jun	0.16	122.4	7.7	7.0	1.1	0.9	35.5	29.3	6.3%	-25.8%
PSL Holdings	Dec	0.185	57.2	N/A	N/A	1.5	1.1	12.4	10.5	N/A	N/A
Koon Holdings	Dec	0.28	45.9	N/A	N/A	1.0	0.6	30.9	14.2	N/A	N/A
Average				**8.0**	**7.0**	**1.1**	**0.8**	**23.2**	**15.7**	**6.5%**	**-13.8%**
Niche Players											
Yong Nam	Dec	0.265	332.0	5.6	5.1	1.4	1.0	25.7	22.0	1.5%	3.6%
TTJ Holdings	Jul	0.185	64.8	7.1	6.9	1.1	0.7	14.8	17.9	N/A	3.0%
TEE International	May	0.26	86.0	5.3	4.9	1.7	0.3	33.2	11.6	6.2%	14.5%
Average				**6.0**	**5.6**	**1.4**	**0.7**	**24.6**	**17.2**	**3.8%**	**7.0%**
Materials/ Equipment											
Hong Leong Asia	Dec	2.75	1028.0	8.5	8.4	1.3	0.2	16.3	9.5	4.7%	0.8%
Tat Hong	Mar	0.85	422.2	11.6	8.9	0.9	0.9	9.2	12.8	2.9%	18.4%
Pan United	Dec	0.515	286.1	11.4	8.7	1.0	0.7	7.2	N/A	N/A	N/A
Tiong Woon	June	0.33	122.6	8.1	6.2	0.5	1.0	12.0	0.2	1.8%	-10.5%
Average				**9.9**	**8.0**	**1.0**	**0.7**	**11.2**	**7.5**	**3.1%**	**2.9%**

Source: Bloomberg, DBS Vickers Source: Bloomberg, DBS Vickers

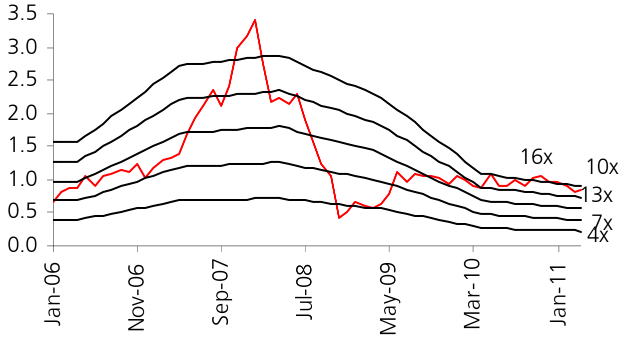
OKP Holdings – PE Band



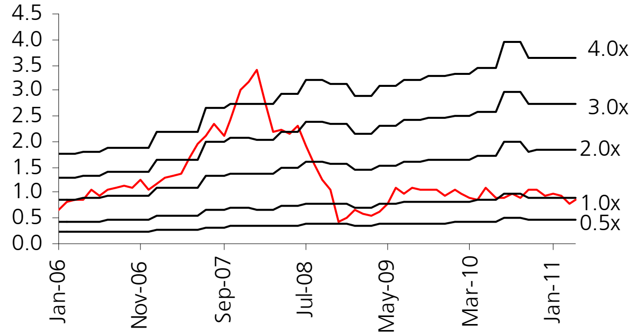
OKP Holdings – PB Band



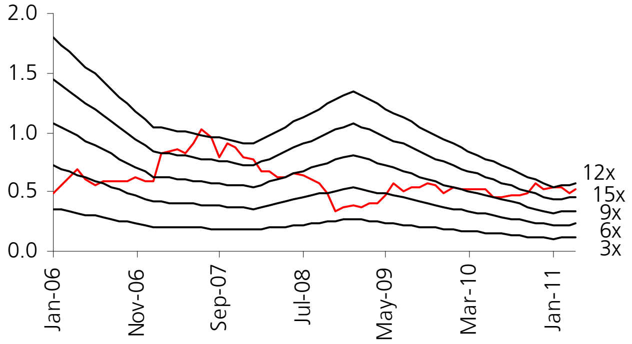
Tat Hong – PE Band



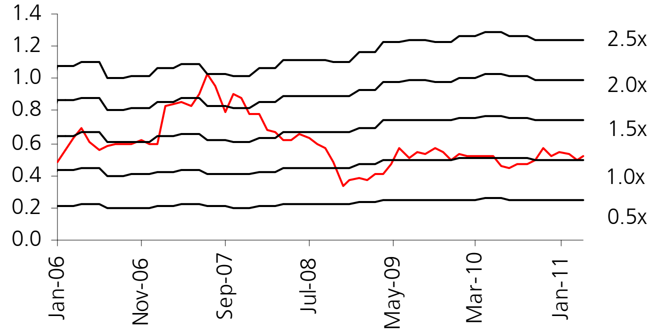
Tat Hong – PB Band



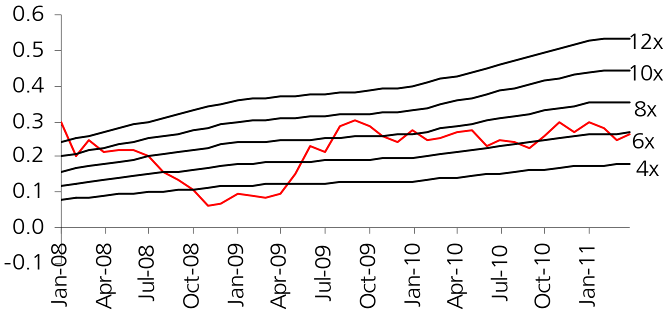
Pan United Corp – PE Band



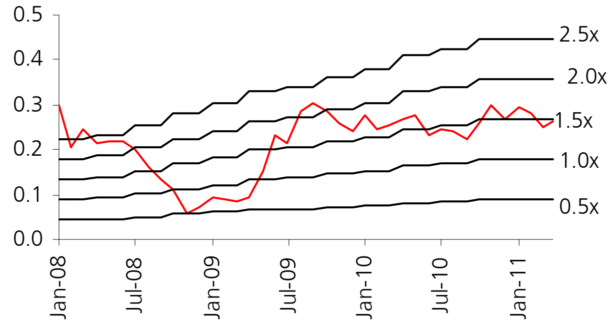
Pan United Corp – PB Band



Yongnam Holdings – PE Band



Yongnam Holdings – PB Band



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Stock Profiles

Industry Focus

Yongnam Holdings

Bloomberg: YNH SP | Reuters: YNAM.SI

BUY S$0.26 STI : 3,022.19

Price Target : 12-Month S$ 0.37 (Prev S$ 0.47)
Potential Catalyst: New contract wins

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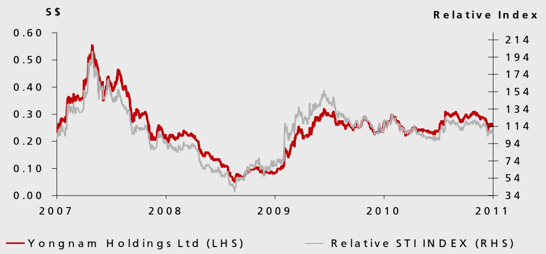
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2009A	2010A	2011F	2012F
Turnover	347	335	356	412
EBITDA	71	91	92	103
Pre-tax Profit	49	68	70	78
Net Profit	40	54	57	64
Net Pft (Pre Ex.)	40	54	57	64
EPS (S cts)	3.3	4.4	4.6	5.1
EPS Pre Ex. (S cts)	3.3	4.4	4.6	5.1
EPS Gth Pre Ex (%)	17	34	5	11
Diluted EPS (S cts)	3.2	4.1	4.3	4.8
Net DPS (S cts)	0.5	0.7	0.7	0.8
BV Per Share (S cts)	15.3	19.0	22.9	27.3
PE (X)	8.0	5.9	5.6	5.1
PE Pre Ex. (X)	8.0	5.9	5.6	5.1
P/Cash Flow (X)	5.6	4.3	4.3	3.8
EV/EBITDA (X)	6.5	4.8	4.8	4.4
Net Div Yield (%)	1.9	2.5	2.7	3.0
P/Book Value (X)	1.7	1.4	1.1	1.0
Net Debt/Equity (X)	0.8	0.5	0.4	0.4
ROAE (%)	23.9	25.7	22.0	20.5
Earnings Rev (%):			-0.8	1.2
Consensus EPS (S cts):			4.8	5.3
Other Broker Recs:		B: 3	S: 0	H: 0

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: Yongnam provides structural steelworks for construction and also operates specialised civil engineering businesses
Source of all data: Company, DBS Vickers, Bloomberg

Good prospects

- **Orderbook should be boosted by civil engineering contracts in Singapore and overseas**
- **Managing rising material costs well**
- **Maintain BUY with lower TP of S$0.37**
- **Catalyst would be securing more order wins**

Margins sustainable. Yongnam's margins continued to improve in FY10 at both business units despite rising steel prices, proving its ability to effectively manage rising costs with strong project management expertise and using its low-cost reusable strutting steel inventory. However, we still factored in 1 ppt drop in FY11F margin to reflect higher wage and raw material costs

Civil engineering projects should boost orderbook. Yongnam will be bidding for close to S$1.4b worth of contracts in 2011 (commencing in 2011/12), of which Specialised Civil Engineering contracts could account for 30%, higher than last year. Singapore contracts will make up 90% of this, in line with our expectation of a strong year for civil engineering players. Yongnam could potentially win at least 35 of these jobs and end the year with a larger orderbook, translating into strong EPS growth over FY10-12. Adding to visibility are potential Downtown Line 3 MRT contracts in Singapore in 3Q/4Q 2011, and tenders for the National Art Gallery and Singapore Sports Hub expected out in 2Q11.

Maintain BUY, TP lowered to S$0.37. Valuations look undemanding at 6x FY11 and 5x FY12 PE, compared to its average mid-cycle valuation of 8x. Although we downgraded our target valuation multiple to 8x because of higher market uncertainties and rising costs, our reduced target price still represents more than 40% upside from the current share price.

At A Glance

Issued Capital (m shrs)	1,253
Mkt. Cap (Sm/USm)	326 / 257
Major Shareholders	
Soon Yong Seow (%)	5.5
Yongnam Private Ltd (%)	5.1
Free Float (%)	89.3
Avg. Daily Vol.('000)	3,997

Income Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	347	335	356	412
Cost of Goods Sold	(266)	(239)	(258)	(302)
Gross Profit	80	96	98	110
Other Opng (Exp)/Inc	(29)	(22)	(25)	(29)
Operating Profit	52	73	73	81
Other Non Opg (Exp)/Inc	2	0	1	1
Associates & JV Inc	0	(2)	0	0
Net Interest (Exp)/Inc	(5)	(4)	(4)	(4)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	49	68	70	78
Tax	(9)	(13)	(13)	(14)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	40	54	57	64
Net Profit before Except.	40	54	57	64
EBITDA	71	91	92	103
Sales Gth (%)	2.7	(3.4)	6.3	15.7
EBITDA Gth (%)	40.5	28.4	1.2	11.8
Opg Profit Gth (%)	22.8	42.0	0.2	10.9
Net Profit Gth (%)	18.1	35.7	5.3	11.5
Effective Tax Rate (%)	17.9	19.7	18.0	18.0

Balance Sheet (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	223	269	311	351
Invts in Associates & JVs	3	1	1	1
Other LT Assets	2	4	4	4
Cash & ST Invts	17	21	18	12
Inventory	76	72	74	86
Debtors	179	151	184	213
Other Current Assets	6	5	5	5
Total Assets	507	522	596	671
ST Debt	67	69	69	69
Other Current Liab	149	125	151	172
LT Debt	93	68	68	68
Other LT Liabilities	11	24	24	24
Shareholder's Equity	188	236	284	339
Minority Interests	0	0	0	0
Total Cap. & Liab.	507	522	596	671
Non-Cash Wkg. Capital	112	102	112	132
Net Cash/(Debt)	(142)	(116)	(120)	(125)

Cash Flow Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	49	68	70	78
Dep. & Amort.	17	19	18	21
Tax Paid	(1)	0	(1)	(13)
Assoc. & JV Inc/(loss)	0	2	0	0
Chg in Wkg.Cap.	(11)	22	(21)	(22)
Other Operating CF	(4)	(13)	0	0
Net Operating CF	50	98	65	64
Capital Exp.(net)	(84)	(83)	(60)	(60)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	(2)	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	14	0	0
Net Investing CF	(86)	(69)	(60)	(60)
Div Paid	(5)	(6)	(9)	(10)
Chg in Gross Debt	20	(22)	0	0
Capital Issues	1	2	0	0
Other Financing CF	(2)	0	0	0
Net Financing CF	15	(27)	(9)	(10)
Currency Adjustments	0	0	0	0
Chg in Cash	(21)	2	(3)	(5)

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Gross Margins (%)	23.2	28.6	27.6	26.8
Opg Profit Margin (%)	14.9	21.9	20.6	19.8
Net Profit Margin (%)	11.6	16.2	16.1	15.5
ROAE (%)	23.9	25.7	22.0	20.5
ROA (%)	8.6	10.6	10.2	10.1
ROCE (%)	13.4	15.6	14.3	14.1
Div Payout Ratio (%)	15.3	14.8	15.0	15.0
Net Interest Cover (x)	11.0	19.4	17.9	19.8
Asset Turnover (x)	0.7	0.7	0.6	0.7
Debtors Turn (avg days)	177.2	180.1	171.9	176.0
Creditors Turn (avg days)	178.4	183.7	166.0	163.2
Inventory Turn (avg days)	100.1	122.5	110.8	103.8
Current Ratio (x)	1.3	1.3	1.3	1.3
Quick Ratio (x)	0.9	0.9	0.9	0.9
Net Debt/Equity (X)	0.8	0.5	0.4	0.4
Net Debt/Equity ex MI (X)	0.8	0.5	0.4	0.4
Capex to Debt (%)	52.5	60.9	43.8	43.8
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (S cts)	(11.6)	(9.4)	(9.6)	(10.1)
Opg CFPS (S cts)	4.9	6.1	7.0	6.9
Free CFPS (S cts)	(2.8)	1.2	0.4	0.3

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	84	84	81	86
Cost of Goods Sold	(60)	(60)	(58)	(61)
Gross Profit	25	24	22	25
Other Oper. (Exp)/Inc	(7)	(7)	(4)	(5)
Operating Profit	18	18	18	19
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	(2)
Net Interest (Exp)/Inc	(1)	(1)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	17	17	17	17
Tax	(3)	(4)	(4)	(3)
Minority Interest	0	0	0	0
Net Profit	14	13	14	14
Net profit bef Except.	14	13	14	14
EBITDA	22	23	23	18
Sales Gth (%)	3.9	0.0	(4.0)	6.5
EBITDA Gth (%)	30.8	4.0	2.7	(24.0)
Opg Profit Gth (%)	89.6	(1.5)	3.1	6.8
Net Profit Gth (%)	70.6	(3.4)	2.4	(0.2)
Gross Margins (%)	29.1	29.0	27.6	28.5
Opg Profit Margins (%)	21.3	21.0	22.6	22.6
Net Profit Margins (%)	16.4	15.8	16.9	15.8

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (S$ m)				
Structural Steelworks	257	211	174	194
Specialist Civil Engineering	90	124	183	218
Others	0	0	0	0
Total	347	335	356	412
Revenue (S$ m)				
Structural Steelworks	53	51	40	43
Specialist Civil Engineering	27	41	58	68
Others	0	0	0	0
Total	80	92	98	110
Revenue Margins (%)				
Structural Steelworks	20.8	24.0	23.0	22.0
Specialist Civil Engineering	30.0	33.0	32.0	31.0
Others	0.0	N/A	N/A	N/A
Total	23.2	27.3	27.6	26.8
Key Assumptions				
Orderbook - Start	504.0	492.0	450.0	513.3
New Orders	334.8	293.1	419.5	350.0
Orderbook - End	492.0	450.0	513.3	451.3

Source: Company, DBS Vickers

Industry Focus

Pan-United Corporation

Bloomberg: PAN SP | Reuters: PANU.SI

BUY S$0.515 STI : 3,022.19

Price Target : 12-Month S$ 0.62
Potential Catalyst: Stronger RMC prices, M&A

Analyst
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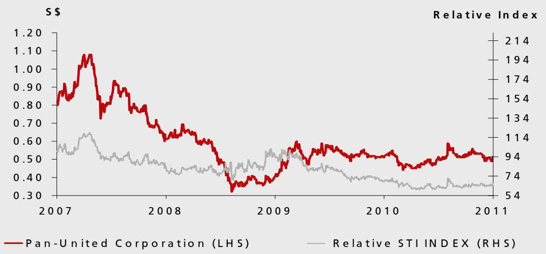
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2009A	2010A	2011F	2012F
Turnover	471	391	436	493
EBITDA	68	56	67	77
Pre-tax Profit	46	32	43	52
Net Profit	35	20	25	33
Net Pft (Pre Ex.)	35	20	25	33
EPS (S cts)	6.3	3.6	4.5	5.9
EPS Pre Ex. (S cts)	6.3	3.6	4.5	5.9
EPS Gth Pre Ex (%)	(22)	(42)	24	31
Diluted EPS (S cts)	6.3	3.6	4.5	5.9
Net DPS (S cts)	3.0	3.0	3.0	3.0
BV Per Share (S cts)	50.4	50.7	52.2	55.2
PE (X)	8.2	14.1	11.4	8.7
PE Pre Ex. (X)	8.2	14.1	11.4	8.7
P/Cash Flow (X)	5.7	7.6	6.7	5.7
EV/EBITDA (X)	4.9	5.9	4.8	3.8
Net Div Yield (%)	5.8	5.8	5.8	5.8
P/Book Value (X)	1.0	1.0	1.0	0.9
Net Debt/Equity (X)	0.0	0.0	CASH	CASH
ROAE (%)	12.9	7.2	8.8	11.0
Earnings Rev (%):			-	-
Consensus EPS (S cts):			4.6	5.9
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry : Industrials
ICB Sector: Industrial Transportation
Principal Business: Diversified industrial group with interests in marine, port, shipping and industrial & trading across the Asia-Pacific region.
Source of all data: Company, DBS Vickers, Bloomberg

Concrete yields

- **Earnings rising as RMC prices firm up**
- **Bright outlook as infrastructure projects and M&A plans start to kick in**
- **Total 3.0Scts DPS declared for FY10, translating into 6% yield**
- **Maintain BUY and S$0.62 TP**

Improving outlook. Pan-United's RMC volume is expected to pick up with the commencement of public sector works such as MRT Downtown Line 2/3, HDB projects, Sports Hub, SLNG Terminal, Seletar Aerospace Park, etc. Port segment should continue to see rising cargo throughput. However, the operating environment for shipping remains challenging in view of the bleak outlook for dry bulk shipping.

M&A to drive long-term growth. Pan-United has embarked on a series of proactive M&A plans to drive long term growth. Recent acquisitions in Indonesia and Vietnam are pending regulatory approvals. Acquisition of upstream assets in Indonesia is expected to improve margins as it now has its own supply of granite and aggregates, while the JV with the Vietnamese government should fuel Pan-United's topline growth in the medium term. We have yet to factor these developments into our forecasts.

BUY into Pan United's concrete yield. The group declared a final 1.5 Scents DPS to take FY10 dividend to 3.0 Scents, similar to previous years. This translates into 82% payout ratio, in line with efforts to reward shareholders with stable dividends. Pan-United will be a key beneficiary of robust infrastructure demand in Singapore, and potentially Asia Pacific with its overseas expansion strategy. Maintain Buy and S$0.62 TP.

At A Glance

Issued Capital (m shrs)	556
Mkt. Cap (Sm/USm)	286 / 226
Major Shareholders	
Han Whatt Ng (%)	61.6
Bee Soon Ng (%)	4.5
Free Float (%)	33.9
Avg. Daily Vol.('000)	73

Income Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	471	391	436	493
Cost of Goods Sold	(403)	(337)	(370)	(415)
Gross Profit	68	55	66	79
Other Opng (Exp)/Inc	(18)	(20)	(20)	(23)
Operating Profit	50	35	46	56
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	1	2	2	2
Net Interest (Exp)/Inc	(5)	(5)	(5)	(6)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	46	32	43	52
Tax	(5)	(4)	(8)	(8)
Minority Interest	(6)	(7)	(10)	(11)
Preference Dividend	0	0	0	0
Net Profit	35	20	25	33
Net Profit before Except.	35	20	25	33
EBITDA	68	56	67	77
Sales Gth (%)	(15.4)	(16.9)	11.4	13.2
EBITDA Gth (%)	(11.6)	(18.7)	20.9	14.4
Opg Profit Gth (%)	(19.5)	(30.3)	33.1	20.8
Net Profit Gth (%)	(30.9)	(41.5)	24.3	30.7
Effective Tax Rate (%)	10.7	13.6	17.5	15.8

Balance Sheet (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	280	264	265	264
Invts in Associates & JVs	5	5	6	8
Other LT Assets	17	17	17	17
Cash & ST Invts	75	95	117	167
Inventory	13	14	17	19
Debtors	82	92	104	99
Other Current Assets	2	2	2	2
Total Assets	473	490	528	576
ST Debt	0	5	6	8
Other Current Liab	61	61	74	83
LT Debt	87	94	99	109
Other LT Liabilities	9	11	11	11
Shareholder's Equity	278	282	290	306
Minority Interests	38	37	47	58
Total Cap. & Liab.	473	490	528	576
Non-Cash Wkg. Capital	36	47	48	36
Net Cash/(Debt)	(12)	(4)	12	50

Cash Flow Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	46	32	43	52
Dep. & Amort.	17	19	19	19
Tax Paid	(9)	(3)	(1)	(8)
Assoc. & JV Inc/(loss)	(1)	(2)	(2)	(2)
Chg in Wkg.Cap.	24	(10)	(7)	11
Other Operating CF	(7)	(5)	0	0
Net Operating CF	69	31	52	73
Capital Exp.(net)	(46)	(10)	(20)	(18)
Other Invts.(net)	9	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	1	2	0	0
Other Investing CF	3	4	0	0
Net Investing CF	(33)	(4)	(20)	(18)
Div Paid	(14)	(17)	(17)	(17)
Chg in Gross Debt	(13)	17	6	12
Capital Issues	0	2	0	0
Other Financing CF	(2)	(7)	0	0
Net Financing CF	(29)	(4)	(11)	(5)
Currency Adjustments	0	(2)	0	0
Chg in Cash	7	21	21	50

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Gross Margins (%)	14.4	14.0	15.2	15.9
Opg Profit Margin (%)	10.6	8.9	10.6	11.3
Net Profit Margin (%)	7.4	5.2	5.8	6.7
ROAE (%)	12.9	7.2	8.8	11.0
ROA (%)	7.2	4.2	5.0	6.0
ROCE (%)	11.0	7.1	8.7	10.0
Div Payout Ratio (%)	47.8	82.2	66.1	50.6
Net Interest Cover (x)	9.4	7.3	9.1	9.2
Asset Turnover (x)	1.0	0.8	0.9	0.9
Debtors Turn (avg days)	79.0	81.5	82.2	74.9
Creditors Turn (avg days)	62.3	64.2	62.7	62.3
Inventory Turn (avg days)	16.3	15.5	16.1	16.5
Current Ratio (x)	2.8	3.1	3.0	3.1
Quick Ratio (x)	2.6	2.8	2.7	2.9
Net Debt/Equity (X)	0.0	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	0.0	0.0	0.0	(0.2)
Capex to Debt (%)	53.5	10.1	19.0	15.4
Z-Score (X)	2.9	3.3	3.1	3.2
N. Cash/(Debt)PS (S cts)	(2.1)	(0.7)	2.1	8.9
Opg CFPS (S cts)	8.1	7.4	10.7	11.1
Free CFPS (S cts)	4.2	3.8	5.8	9.9

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	99	102	91	99
Cost of Goods Sold	(87)	(89)	(79)	(81)
Gross Profit	12	13	12	18
Other Oper. (Exp)/Inc	(3)	(4)	(4)	(8)
Operating Profit	9	9	8	10
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	1
Net Interest (Exp)/Inc	(1)	(1)	(1)	(1)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	8	8	7	9
Tax	(1)	(1)	(1)	(1)
Minority Interest	(2)	(2)	(1)	(2)
Net Profit	5	5	4	6
Net profit bef Except.	5	5	4	6
EBITDA	14	14	13	10
Sales Gth (%)	2.2	3.0	(10.7)	9.3
EBITDA Gth (%)	(12.4)	0.4	(9.3)	(20.0)
Opg Profit Gth (%)	(10.9)	2.8	(13.9)	27.3
Net Profit Gth (%)	(11.7)	(2.6)	(19.9)	52.7
Gross Margins (%)	12.0	12.8	12.8	18.2
Opg Profit Margins (%)	8.7	8.7	8.4	9.8
Net Profit Margins (%)	5.2	4.9	4.4	6.2

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (S$ m)				
Port	46	53	55	59
Shipping	40	30	38	48
Basic Building Materials	385	309	344	386
Total	471	391	436	493
Net Profit Ex EI (S$ m)				
Port	6	10	7	9
Shipping	7	(1)	1	3
Basic Building Materials	18	12	16	21
Total	31	21	25	34
Net Profit Ex EI Margins (%)				
Port	13.2	19.1	13.7	15.7
Shipping	18.3	(2.2)	3.1	6.8
Basic Building Materials	4.6	3.8	4.8	5.4
Total	6.6	5.4	5.8	6.8
Key Assumptions				
RMC sales volume (m3)	2,991.5	2,607.2	2,713.0	0.0
RMC prices (S$ / m3)	102.9	92.4	101.8	0.0

Source: Company, DBS Vickers

Industry Focus

Tiong Seng Holdings

Bloomberg: TSNG SP | Reuters: TISE.SI

BUY S$0.235 STI : 3,022.19

Price Target : 12-Month S$ 0.31
Potential Catalyst: Securing more order wins

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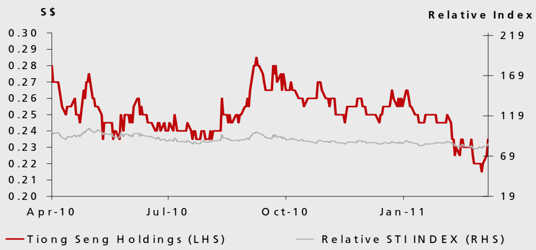
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2009A	2010A	2011F	2012F
Turnover	376	252	468	472
EBITDA	86	37	67	67
Pre-tax Profit	66	27	57	59
Net Profit	41	21	31	34
Net Pft (Pre Ex.)	41	21	31	34
EPS (S cts)	5.4	2.8	4.1	4.4
EPS Pre Ex. (S cts)	5.4	2.8	4.1	4.4
EPS Gth Pre Ex (%)	347	(48)	47	7
Diluted EPS (S cts)	5.4	2.8	4.1	4.4
Net DPS (S cts)	0.0	1.0	1.0	1.0
BV Per Share (S cts)	12.7	22.6	25.7	29.1
PE (X)	4.3	8.4	5.7	5.3
PE Pre Ex. (X)	4.3	8.4	5.7	5.3
P/Cash Flow (X)	4.5	13.2	6.2	6.9
EV/EBITDA (X)	2.6	4.3	2.0	2.5
Net Div Yield (%)	0.0	4.3	4.3	4.3
P/Book Value (X)	1.8	1.0	0.9	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	51.5	15.8	17.0	16.0
Earnings Rev (%):			-	-
Consensus EPS (S cts):			3.8	4.6
Other Broker Recs:		B: 1	S: 0	H: 0

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: 0

Source of all data: Company, DBS Vickers, Bloomberg

On productivity drive

- **Leader in construction technology**
- **S$1.0bn construction order-book underpins future earnings**
- **BUY, TP remains at S$0.31, at 35% discount to SOTP valuation**

Leader in construction technology. Tiong Seng stays ahead with a keen eye on productivity in its construction processes. It is proficient in the use of advanced formwork systems and off-site pre-casting, which cut time and labor content by up to 50% compared with conventional construction methods. In addition, its prefabrication hub is on track to be completed by 3Q11, which upon completion, will give Tiong Seng a further competitive edge i.e. lower construction lead-time and labor cost.

S$1.0bn orderbook to underpin earnings over next two years. With c.S$34.6m of unrecognized revenues from newly commenced projects and c.S$1.0bn orderbook, Tiong Seng offers good earnings visibility over the next 12-30 months. While the group is expected to encounter margin pressure following the government's recent move to raise foreign worker levies, the impact should be mitigated by its use of effective construction technologies and pre-casts construction methods.

At the forefront of technology; maintain BUY and S$0.31 TP. The completion of its prefabrication hub in 3Q11 will be timely and in line with the government's push for increased productivity in the construction sector. The new hub will reduce labor content for pre-casting by over 50-70%, and the savings should filter into Tiong Seng's P&L in the longer term. Our target price is at 35% discount to SOTP valuation of S$0.47. Re-rating catalyst would be securing more order wins to enhance orderbook and earnings visibility.

At A Glance

Issued Capital (m shrs)	766
Mkt. Cap (Sm/USm)	180 / 142
Major Shareholders	
Tiong Seng Shareholdings (%)	59.0
Peck Tiong Choon (%)	7.0
Free Float (%)	34.0
Avg. Daily Vol.('000)	436

Income Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	376	252	468	472
Cost of Goods Sold	(315)	(216)	(396)	(403)
Gross Profit	61	36	72	69
Other Opng (Exp)/Inc	(13)	(24)	(25)	(26)
Operating Profit	47	13	47	43
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	20	16	11	16
Net Interest (Exp)/Inc	(2)	(2)	(1)	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	66	27	57	59
Tax	(14)	(4)	(13)	(13)
Minority Interest	(10)	(2)	(13)	(13)
Preference Dividend	0	0	0	0
Net Profit	41	21	31	34
Net Profit before Except.	41	21	31	34
EBITDA	86	37	67	67
Sales Gth (%)	37.9	(32.8)	85.6	0.8
EBITDA Gth (%)	251.2	(56.7)	78.8	1.2
Opg Profit Gth (%)	1,624.8	(73.4)	276.7	(9.1)
Net Profit Gth (%)	346.5	(48.2)	46.6	7.1
Effective Tax Rate (%)	21.2	13.7	22.0	22.0

Balance Sheet (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	23	30	32	29
Invts in Associates & JVs	27	11	21	37
Invt & Devt Properties	23	23	23	N/A
Other LT Assets	12	12	12	N/A
Cash & ST Invts	47	124	164	141
Dev Props held for sale	80	123	80	N/A
Inventory	0	1	0	0
Debtors	127	107	167	169
Other Current Assets	27	27	27	N/A
Total Assets	367	550	571	614
ST Debt	19	13	13	13
Other Current Liab	169	264	248	252
LT Debt	22	44	44	44
Other LT Liabilities	13	7	7	7
Shareholder's Equity	98	173	197	223
Minority Interests	47	49	62	75
Total Cap. & Liab.	367	550	571	614
Non-Cash Wkg. Capital	66	77	38	67
Net Cash/(Debt)	5	67	107	84

Cash Flow Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	66	27	57	59
Dep. & Amort.	19	8	8	8
Tax Paid	(10)	(21)	(23)	(13)
Assoc. & JV Inc/(loss)	(20)	(16)	(11)	(16)
Chg in Wkg.Cap.	(5)	(13)	50	(30)
Other Operating CF	15	(13)	0	0
Net Operating CF	64	(28)	82	9
Capital Exp.(net)	(2)	(10)	(10)	(5)
Other Invts.(net)	0	(6)	(25)	(20)
Invts in Assoc. & JV	3	0	0	0
Div from Assoc & JV	0	40	0	0
Other Investing CF	(1)	(2)	0	0
Net Investing CF	0	21	(35)	(25)
Div Paid	0	0	(8)	(8)
Chg in Gross Debt	(19)	10	0	0
Capital Issues	0	55	0	0
Other Financing CF	(8)	(3)	0	0
Net Financing CF	(27)	62	(8)	(8)
Currency Adjustments	(15)	0	0	0
Chg in Cash	22	55	40	(23)

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Gross Margins (%)	16.1	14.4	15.4	14.7
Opg Profit Margin (%)	12.6	5.0	10.1	9.1
Net Profit Margin (%)	11.0	8.5	6.7	7.1
ROAE (%)	51.5	15.8	17.0	16.0
ROA (%)	11.3	4.7	5.6	5.7
ROCE (%)	19.4	4.5	12.2	9.8
Div Payout Ratio (%)	0.0	35.7	24.4	22.7
Net Interest Cover (x)	25.8	7.5	54.7	NM
Asset Turnover (x)	1.0	0.6	0.8	0.8
Debtors Turn (avg days)	113.2	169.4	106.9	129.8
Creditors Turn (avg days)	170.4	292.0	185.1	180.9
Current Ratio (x)	1.5	1.7	1.7	1.7
Quick Ratio (x)	0.9	0.8	1.3	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.1)	(0.4)	(0.5)	(0.4)
Capex to Debt (%)	5.5	18.2	17.5	8.8
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (S cts)	0.7	8.8	13.9	10.9
Opg CFPS (S cts)	9.1	(1.9)	4.3	5.1
Free CFPS (S cts)	8.1	(5.0)	9.4	0.6

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	54	70	90	38
Cost of Goods Sold	(48)	(61)	(79)	(31)
Gross Profit	6	9	11	7
Other Oper. (Exp)/Inc	(5)	(5)	(5)	(11)
Operating Profit	1	5	5	(4)
Other Non Opg (Exp)/Inc	2	0	1	2
Associates & JV Inc	3	3	3	7
Net Interest (Exp)/Inc	(1)	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	5	8	9	5
Tax	(1)	(1)	(2)	0
Minority Interest	(1)	0	0	(1)
Net Profit	3	7	7	4
Net profit bef Except.	3	7	7	4
EBITDA	6	8	10	5
Sales Gth (%)	N/A	29.6	28.2	(57.9)
EBITDA Gth (%)	N/A	29.2	24.9	(46.8)
Opg Profit Gth (%)	N/A	518.1	15.5	(180.2)
Net Profit Gth (%)	N/A	117.7	11.5	(43.3)
Gross Margins (%)	11.0	13.5	11.8	18.2
Opg Profit Margins (%)	1.3	6.4	5.8	(11.0)
Net Profit Margins (%)	5.7	9.5	8.3	11.2

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (S$ m)				
Construction	279	227	380	355
Property Development	96	23	86	114
Others	1	3	2	2
Total	376	252	468	472
(S$ m)				
Construction	34	27	42	37
Property Development	25	8	29	31
Others	0	0	1	1
Total	60	35	72	69
Margins (%)				
Construction	12.3	11.9	11.0	10.5
Property Development	26.5	35.8	34.2	27.0
Others	0.0	0.0	49.8	47.4
Total	15.9	13.9	15.4	14.7
Key Assumptions				
Order wins (S$'m)			450	-

Source: Company, DBS Vickers

OKP Holdings

Bloomberg: OKP SP EQUITY | Reuters: OKPH.SI

HOLD S$0.61 STI : 3,022.19

Downgrade from BUY
Price Target : 12-Month S$ 0.63 (Prev S$ 0.70)
Potential Catalyst: Significant new order wins, M&A

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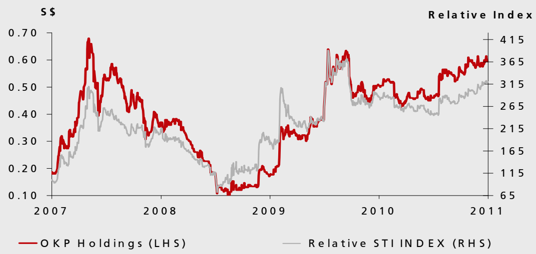
Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2009A	2010A	2011F	2012F
Turnover	130	140	154	157
EBITDA	20	23	23	24
Pre-tax Profit	17	20	21	21
Net Profit	14	17	17	18
Net Pft (Pre Ex.)	14	17	17	18
EPS (S cts)	5.8	6.4	6.4	6.6
EPS Pre Ex. (S cts)	5.8	6.4	6.4	6.6
EPS Gth Pre Ex (%)	(9)	9	1	3
Diluted EPS (S cts)	5.8	6.4	6.4	6.6
Net DPS (S cts)	3.0	5.0	5.0	5.0
BV Per Share (S cts)	23.8	26.0	27.4	29.0
PE (X)	10.5	9.6	9.5	9.2
PE Pre Ex. (X)	10.5	9.6	9.5	9.2
P/Cash Flow (X)	8.9	8.2	8.3	8.1
EV/EBITDA (X)	3.9	2.7	3.0	2.9
Net Div Yield (%)	4.9	8.2	8.2	8.2
P/Book Value (X)	2.6	2.3	2.2	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	29.2	26.5	24.1	23.4
Earnings Rev (%):			-5.0	-2.7
Consensus EPS (S cts):			7.3	9.0
Other Broker Recs:		B: 3	S: 0	H: 0

ICB Industry : Industrials
ICB Sector: Construction & Materials
Principal Business: OKP Holdings Limited ('OKP') is involved in the construction and maintenance of roads in Singapore.

Source of all data: Company, DBS Vickers, Bloomberg

Growth might plateau

- **Margins under threat from rising labour and material prices; EPS growth might plateau**
- **But dividend yield remains attractive at 8.4%**
- **TP revised down to S$0.63, downgrade to HOLD given limited upside at current price**

Margins will normalise. 4Q10 results beat our expectations because of higher-than-expected gross margin of 34% against its normal 17-19%. This was due to one-off high-margin variation orders for some projects. While we expect costs to be well managed, rising costs of foreign labour and materials (concrete, steel rebars) will cap margins going forward.

Order momentum remains strong. Since our initiation report in October 2010, OKP has won close to S$150m of new orders, including the much-publicized road-raising works along Orchard Road. Leveraging on its relationship with China Sonangol Land, OKP also won its first building construction contract in a JV with Soilbuild, which could pave the way for more contracts in this space, in addition to its niche position as the premier road works contractor in Singapore.

Growth might plateau, TP cut to S$0.63. Currently, its S$200m net outstanding orderbook covers more than 80% of our FY11 revenue estimate, but only 30% of FY12 revenue. While OKP remains poised to capture more civil engineering and road construction works, we think it is unlikely to win any MRT (Downtown Line 3) contracts in the near term because it lack experience. The Group is likely to maintain its generous dividend payout of 5Scts per share (8.2% yield) given S$0.37 net cash per share at end FY10, but our revised earnings CAGR of 2% over FY10-12 is no longer attractive. Downgrade to HOLD, with TP reduced to S$0.63 pegged to a lower target multiple.

At A Glance

Issued Capital (m shrs)	281
Mkt. Cap (Sm/USm)	172 / 136
Major Shareholders	
Kim Peow Investment (%)	54.8
China Sonangol (%)	8.0
Free Float (%)	37.2
Avg. Daily Vol.('000)	634

Income Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Turnover	130	140	154	157
Cost of Goods Sold	(107)	(110)	(126)	(128)
Gross Profit	23	29	28	29
Other Opng (Exp)/Inc	(6)	(9)	(7)	(8)
Operating Profit	17	21	21	21
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	17	20	21	21
Tax	(3)	(4)	(4)	(4)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	14	17	17	18
Net Profit before Except.	14	17	17	18
EBITDA	20	23	23	24
Sales Gth (%)	27.7	7.6	10.2	2.0
EBITDA Gth (%)	34.6	18.5	(0.6)	2.2
Opg Profit Gth (%)	39.2	19.1	0.9	2.4
Net Profit Gth (%)	50.3	17.4	1.0	2.7
Effective Tax Rate (%)	15.6	17.4	17.0	17.0

Balance Sheet (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Net Fixed Assets	14	17	19	22
Invts in Associates & JVs	0	0	0	0
Other LT Assets	3	5	5	5
Cash & ST Invts	78	100	94	96
Inventory	2	3	3	3
Debtors	8	7	11	11
Other Current Assets	19	21	21	21
Total Assets	122	153	153	158
ST Debt	1	1	1	1
Other Current Liab	60	82	78	79
LT Debt	2	1	1	1
Other LT Liabilities	0	0	0	0
Shareholder's Equity	59	69	73	77
Minority Interests	1	0	0	0
Total Cap. & Liab.	122	153	153	158
Non-Cash Wkg. Capital	(32)	(51)	(43)	(44)
Net Cash/(Debt)	75	98	92	94

Cash Flow Statement (S$ m)

FY Dec	2009A	2010A	2011F	2012F
Pre-Tax Profit	17	20	21	21
Dep. & Amort.	2	3	3	3
Tax Paid	(3)	(3)	(4)	(4)
Assoc. & JV Inc/(loss)	0	0	0	0
Chg in Wkg.Cap.	28	19	(8)	1
Other Operating CF	0	0	0	0
Net Operating CF	45	39	12	21
Capital Exp.(net)	(5)	(6)	(5)	(5)
Other Invts.(net)	0	0	0	0
Invts in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	0	(2)	0	0
Net Investing CF	(5)	(8)	(5)	(5)
Div Paid	(3)	(11)	(13)	(13)
Chg in Gross Debt	(2)	(1)	0	0
Capital Issues	7	4	0	0
Other Financing CF	0	(1)	0	0
Net Financing CF	3	(9)	(13)	(13)
Currency Adjustments	0	0	0	0
Chg in Cash	42	22	(7)	3

Rates & Ratio

FY Dec	2009A	2010A	2011F	2012F
Gross Margins (%)	18.0	21.1	18.3	18.4
Opg Profit Margin (%)	13.3	14.7	13.5	13.5
Net Profit Margin (%)	11.1	12.1	11.1	11.2
ROAE (%)	29.2	26.5	24.1	23.4
ROA (%)	14.5	12.3	11.2	11.3
ROCE (%)	27.2	25.5	23.6	22.9
Div Payout Ratio (%)	51.4	78.4	77.7	75.6
Net Interest Cover (x)	93.0	136.4	137.6	206.7
Asset Turnover (x)	1.3	1.0	1.0	1.0
Debtors Turn (avg days)	18.4	19.2	21.0	24.8
Creditors Turn (avg days)	100.5	167.3	172.7	164.9
Inventory Turn (avg days)	6.3	7.8	8.5	8.9
Current Ratio (x)	1.7	1.6	1.6	1.6
Quick Ratio (x)	1.4	1.3	1.3	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(1.3)	(1.4)	(1.3)	(1.2)
Capex to Debt (%)	184.3	311.1	271.6	271.6
Z-Score (X)	NA	NA	NA	NA
N. Cash/(Debt)PS (S cts)	30.3	37.0	34.5	35.5
Opg CFPS (S cts)	6.9	7.7	7.4	7.6
Free CFPS (S cts)	16.0	12.5	2.5	6.0

Quarterly / Interim Income Statement (S$ m)

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	34	40	37	30
Cost of Goods Sold	(28)	(33)	(29)	(20)
Gross Profit	6	7	7	10
Other Oper. (Exp)/Inc	(2)	(1)	(2)	(4)
Operating Profit	4	5	6	6
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	4	5	6	5
Tax	(1)	(1)	(1)	(1)
Minority Interest	0	0	0	0
Net Profit	4	4	5	5
Net profit bef Except.	4	4	5	5
EBITDA	5	6	6	6
Sales Gth (%)	1.6	17.3	(7.9)	(19.1)
EBITDA Gth (%)	2.8	20.4	6.8	3.1
Opg Profit Gth (%)	1.7	22.5	6.4	(0.9)
Net Profit Gth (%)	(3.6)	22.5	5.3	2.9
Gross Margins (%)	17.1	16.5	19.4	33.8
Opg Profit Margins (%)	12.6	13.2	15.2	18.6
Net Profit Margins (%)	10.3	10.8	12.3	15.7

Segmental Breakdown / Key Assumptions

FY Dec	2009A	2010A	2011F	2012F
Revenues (S$ m)				
Construction	98	116	131	127
Maintenance	32	24	23	30
Total	130	140	154	157
Gross Profit (S$ m)				
Construction	16	23	24	23
Maintenance	7	7	5	6
Total	23	29	28	29
Gross Profit Margins (%)				
Construction	16.6	19.8	18.0	18.0
Maintenance	22.2	27.4	20.0	20.0
Total	18.0	21.1	18.3	18.4
Key Assumptions				
Initial orderbook	167.8	266.0	292.7	262.1
New orders won	228.2	166.5	123.5	160.0
Closing orderbook	266.0	292.7	262.1	265.0

Source: Company, DBS Vickers

Industry Focus

Tat Hong

Bloomberg: TAT SP | Reuters: TAT.SI

FULLY VALUED S$0.845 STI : 3,022.19

Price Target : 12-month S$ 0.83
Potential Catalyst: Demand growth in Singapore and China, reconstruction demand in Australia

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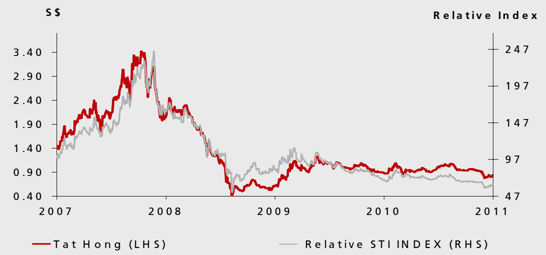
Price Relative



Forecasts and Valuation

FY Mar (S$ m)	2009A	2010A	2011F	2012F
Turnover	632	495	586	671
EBITDA	152	121	117	138
Pre-tax Profit	97	58	49	65
Net Profit	69	39	32	46
Net Pft (Pre Ex.)	69	39	32	46
EPS (S cts)	13.7	6.8	5.6	8.2
EPS Pre Ex. (S cts)	13.7	6.8	5.6	8.2
EPS Gth Pre Ex (%)	(24)	(50)	(17)	45
Diluted EPS (S cts)	13.7	6.8	5.6	8.2
Net DPS (S cts)	5.0	2.5	1.7	2.4
BV Per Share (S cts)	77.1	87.5	91.0	97.1
PE (X)	6.2	12.5	15.1	10.4
PE Pre Ex. (X)	6.2	12.5	15.1	10.4
P/Cash Flow (X)	4.5	5.6	6.3	5.4
EV/EBITDA (X)	4.4	6.2	7.0	5.1
Net Div Yield (%)	5.9	3.0	2.0	2.9
P/Book Value (X)	1.1	1.0	0.9	0.9
Net Debt/Equity (X)	0.4	0.3	0.4	0.2
ROAE (%)	18.1	8.7	6.3	8.7
Earnings Rev (%):			-	-
Consensus EPS (S cts):			5.9	8.8
Other Broker Recs:		B: 0	S: 4	H: 3

ICB Industry : Industrials
ICB Sector: Industrial Engineering
Principal Business: Heavy equipment distributor and crane rental company.

Source of all data: Company, DBS Vickers, Bloomberg

Squeezed at both ends

- **Results will remain weak as the low rental rates situation is aggravated by higher costs**
- **Tighter competition in major markets clouds outlook**
- **Australia's recovery and reconstruction demand will take time**
- **Maintain FULLY VALUED and S$0.83 TP**

3Q11 result disappoint. Tat Hong's 3Q11 (FYE Mar) net profit fell short of our and consensus estimates by c.60/50%. Revenue grew 12% yoy, as expected, largely due to full quarter contribution from its additional 29.6% stake in Australian subsidiary, Tutt Bryant Group (TBG). But net profit plunged 60% due to weaker rental rates amid keener competition and rising costs. As a result, gross margin fell 3.6ppt to 34.4%, its lowest since 1Q08.

Recovery will take time. Intensifying competition in major markets, i.e. Australia, Singapore and Malaysia, will continue to suppress crane rental rates and selling prices in the near term. The saving grace is potential reconstruction demand in Australia after the floods. We expect actual reconstruction works to pick up 3-6 months from now as planning and tender of projects will take time.

Maintain FULLY VALUED and S$0.83 TP. We recently cut FY11F/12F earnings by 29%/20% after cutting gross margin assumption by 2.3ppt in view of keen competition. Our S$0.83 target price is pegged to 12x blended FY11/FY12 revised earnings. The share price could weaken further following the weak 3Q11 result. In addition, earnings visibility remains weak and there are no near term catalysts.

At A Glance

Issued Capital (m shrs)	497
Mkt. Cap (Sm/USm)	420 / 332
Major Shareholders	
Chew Cheng & Sons (%)	49.9
Ng Chwee Cheng (%)	12.3
Free Float (%)	37.9
Avg. Daily Vol.('000)	239

Income Statement (S$ m)

FY Mar	2009A	2010A	2011F	2012F
Turnover	632	495	586	671
Cost of Goods Sold	(391)	(304)	(378)	(430)
Gross Profit	**241**	**191**	**208**	**241**
Other Opng (Exp)/Inc	(146)	(119)	(148)	(167)
Operating Profit	**95**	**71**	**60**	**74**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	15	1	6	11
Net Interest (Exp)/Inc	(12)	(14)	(17)	(19)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	**97**	**58**	**49**	**65**
Tax	(21)	(13)	(12)	(16)
Minority Interest	(8)	(7)	(5)	(3)
Preference Dividend	0	0	0	0
Net Profit	**69**	**39**	**32**	**46**
Net Profit before Except.	69	39	32	46
EBITDA	152	121	117	138
Sales Gth (%)	(1.3)	(21.6)	18.4	14.4
EBITDA Gth (%)	(7.3)	(20.4)	(3.4)	18.3
Opg Profit Gth (%)	(27.2)	(24.7)	(16.1)	23.0
Net Profit Gth (%)	(23.3)	(44.0)	(17.2)	45.3
Effective Tax Rate (%)	21.3	21.9	24.0	25.0

Balance Sheet (S$ m)

FY Mar	2009A	2010A	2011F	2012F
Net Fixed Assets	386	520	477	431
Invts in Associates & JVs	89	72	78	89
Other LT Assets	50	59	59	59
Cash & ST Invts	46	77	6	129
Inventory	218	201	168	149
Debtors	98	113	195	168
Other Current Assets	0	0	0	0
Total Assets	**886**	**1,041**	**982**	**1,024**
ST Debt	85	91	91	91
Other Current Liab	196	185	102	106
LT Debt	132	154	154	154
Other LT Liabilities	11	17	17	17
Shareholder's Equity	389	499	519	553
Minority Interests	73	95	100	102
Total Cap. & Liab.	**886**	**1,041**	**982**	**1,024**
Non-Cash Wkg. Capital	120	128	261	211
Net Cash/(Debt)	(171)	(168)	(239)	(116)

Cash Flow Statement (S$ m)

FY Mar	2009A	2010A	2011F	2012F
Pre-Tax Profit	97	58	49	65
Dep. & Amort.	45	49	51	54
Tax Paid	(31)	(17)	(6)	(12)
Assoc. & JV Inc/(loss)	(15)	(1)	(6)	(11)
Chg in Wkg.Cap.	(97)	(70)	(138)	45
Other Operating CF	10	9	0	0
Net Operating CF	**9**	**29**	**(51)**	**142**
Capital Exp.(net)	(8)	(60)	(8)	(8)
Other Invts.(net)	(12)	5	0	0
Invts in Assoc. & JV	(2)	(4)	0	0
Div from Assoc & JV	2	2	0	0
Other Investing CF	0	0	0	0
Net Investing CF	**(20)**	**(57)**	**(8)**	**(8)**
Div Paid	(37)	(13)	(12)	(12)
Chg in Gross Debt	30	4	0	0
Capital Issues	2	64	0	0
Other Financing CF	(10)	0	0	0
Net Financing CF	**(15)**	**54**	**(12)**	**(12)**
Currency Adjustments	(3)	4	0	0
Chg in Cash	(29)	30	(71)	123

Rates & Ratio

FY Mar	2009A	2010A	2011F	2012F
Gross Margins (%)	38.2	38.5	35.5	35.9
Opg Profit Margin (%)	15.0	14.4	10.2	11.0
Net Profit Margin (%)	10.9	7.8	5.5	6.9
ROAE (%)	18.1	8.7	6.3	8.7
ROA (%)	8.0	4.0	3.2	4.6
ROCE (%)	11.5	7.2	5.3	6.2
Div Payout Ratio (%)	36.6	36.9	30.0	30.0
Net Interest Cover (x)	7.7	5.0	3.5	3.8
Asset Turnover (x)	0.7	0.5	0.6	0.7
Debtors Turn (avg days)	61.0	77.5	95.9	98.8
Creditors Turn (avg days)	206.3	257.5	150.2	86.9
Inventory Turn (avg days)	222.5	298.2	205.4	153.2
Current Ratio (x)	1.3	1.4	1.9	2.3
Quick Ratio (x)	0.5	0.7	1.0	1.5
Net Debt/Equity (X)	0.4	0.3	0.4	0.2
Net Debt/Equity ex MI (X)	0.4	0.3	0.5	0.2
Capex to Debt (%)	3.6	24.6	3.1	3.1
Z-Score (X)	2.5	2.0	1.9	2.3
N. Cash/(Debt)PS (S cts)	(33.9)	(29.6)	(42.0)	(20.4)
Opg CFPS (S cts)	21.0	17.4	15.3	17.0
Free CFPS (S cts)	0.2	(5.4)	(10.3)	23.7

Quarterly / Interim Income Statement (S$ m)

FY Mar	4Q2010	1Q2011	2Q2011	3Q2011
Turnover	131	149	146	137
Cost of Goods Sold	(82)	(94)	(92)	(90)
Gross Profit	**49**	**54**	**54**	**47**
Other Oper. (Exp)/Inc	(34)	(34)	(40)	(36)
Operating Profit	**15**	**20**	**14**	**11**
Other Non Opg (Exp)/Inc	0	0	0	0
Associates & JV Inc	3	2	2	1
Net Interest (Exp)/Inc	(5)	(4)	(5)	(5)
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	**14**	**18**	**11**	**7**
Tax	(2)	(5)	(3)	(2)
Minority Interest	(2)	(3)	(1)	(1)
Net Profit	**10**	**10**	**7**	**5**
Net profit bef Except.	10	10	7	5
EBITDA	18	22	16	27
Sales Gth (%)	6.5	13.7	(2.2)	(5.9)
EBITDA Gth (%)	(44.0)	21.4	(28.8)	70.9
Opg Profit Gth (%)	(22.5)	36.6	(31.4)	(22.7)
Net Profit Gth (%)	(15.2)	5.7	(31.7)	(34.1)
Gross Margins (%)	37.1	36.6	37.0	34.4
Opg Profit Margins (%)	11.4	13.7	9.6	7.9
Net Profit Margins (%)	7.5	7.0	4.9	3.4

Segmental Breakdown / Key Assumptions

FY Mar	2009A	2010A	2011F	2012F
Revenues (S$ m)				
Equipment Sales	255	171	205	237
Crane Rental	204	199	240	279
Spare Parts	55	53	43	41
General Rental	117	72	99	113
Total	632	495	586	671

Source: Company, 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)
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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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