

GICS: Industrials/Construction & Engineering

Business Summary: Established since 1959, and listed recently on the main board of SGX in April 2010, Tiong Seng Holdings Ltd (TSH) is engaged in building construction and civil engineering in Singapore and property development in the PRC.

Country of Incorporation: Singapore

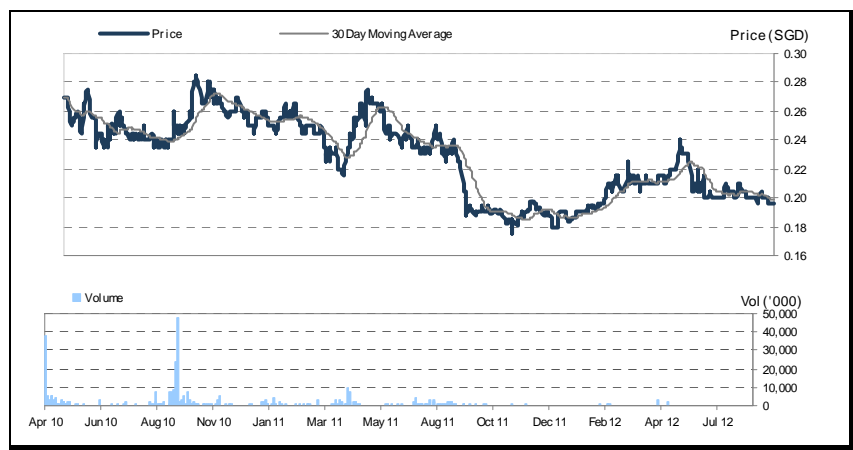
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Results Review

- TSH reported 2Q12 net profit of SGD9.7 mln (+6% YoY). Cumulative 1H12 results were ahead of our expectations, making up about 61% of our original full-year net profit forecast. The positive variance was mainly due to better-than-expected JV income and a lower effective tax rate of 9.9% (2012E:20%). These help to offset weaker-than-expected gross margin of 11.3% (2012E:13%).
- 1H12 group revenue increased 60% YoY to SGD233.0 mln, driven by higher construction revenue (+67% YoY) from more works recognition for new and ongoing projects and sales of its Cobiax green technology products (+9% YoY) despite subdued performance from property development (-100% YoY). The lack of any revenue recognised from its property division is due to the absence of any completed PRC development projects this year. As at 2Q12, the remaining 6 units of Phase 1 Sunny International project and 5 units of Tianmen Jinwan Building are fully sold, but yet to be recognised.
- 1H12 EBIT margin declined to 4.0% (-1.8%-pts YoY) due mainly to comparatively lower margin on on-going projects as compared to the corresponding period. This was offset by higher JV income which increased to SGD6.9 mln (+36% YoY). The above net effect was a 30% YoY increase in 1H12 net profit.
- TSH recently clinched a key construction contract worth SGD229 mln from NTUC Fairprice for the proposed 16-storey warehouse development at Benoi Road and Joo Koon Circle.

Earnings Outlook / Estimates Revision

- After fine-tuning, we increased our 2012 and 2013 net profit forecasts by 9% and 4% respectively after incorporating higher JV income and lower taxation offset partially by lower margins. TSH announced in May 2012, the official opening of its SGD36 mln Prefab Hub, the first automated precast manufacturing facility in Singapore. The group's push toward productivity should help sustain margins and mitigate the continual challenges such as upward pressure on construction costs coupled with rising foreign work levies.
- TSH's orderbook remains firm at SGD1.29 bln, of which majority are expected to be fulfilled over the next 12 to 30 months. The construction outlook remains positive, with the sustained rollout of public works and HDB's bumper supply of new flats though we see headwinds from a slowdown in private construction demand. Meanwhile, for the group's property projects in the PRC, sales for Phase 2 and 4 of the Sunny International project at Changzhou have commenced. For the Equinox project, sales of Phase 1 commenced in 4Q11 whilst sales for Phase 2 are expected to start in 3Q12.

Investment Risks

- A sharp rise in labor or material costs, shortage of skilled labor or increase in project execution costs will put pressure on the group's margins and profitability. Further cooling measures imposed by the PRC government to prevent the formation of an asset bubble will likely adversely affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.18 - 0.24
Avg Vol - 12 months ('000 shares)	178.0
Price Performance (%)	
- 1 month	-2.0
- 3 month	-6.7
- 12 month	4.3
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.8
Market Cap (SGD mln)	150.1
Enterprise Value (SGD mln)	320.9
Major Shareholders (%)	
Tiong Seng Shareholdings Pte Ltd	59.0
Pek Tiong Choon (Private) Ltd	7.0

Per Share Data

FY Dec.	2010	2011	2012E	2013E
Book Value (SG cents)	23.59	26.85	29.28	32.38
Cash Flow (SG cents)	4.2	4.1	4.0	4.7
Reported Earnings (SG cents)	4.0	3.6	3.4	4.1
Dividend (SG cents)	1.0	1.0	1.0	1.0
Payout Ratio (%)	26.6	28.2	29.1	24.4
PER (x)	4.9	5.5	5.7	4.8
P/Cash Flow (x)	4.6	4.8	4.9	4.1
P/Book Value (x)	0.8	0.7	0.7	0.6
Dividend Yield (%)	5.1	5.1	5.1	5.1
ROE (%)	20.7	14.1	12.2	13.3
Net Gearing (%)	0.0	58.7	73.0	60.6

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Earnings Performance

FY Dec. / SGD mln	2Q12	2Q11	% Change
Reported Revenue	130.0	83.9	54.9
Reported Operating Profit	4.2	5.5	-23.9
Depreciation & Amortization	-1.2	-0.7	74.6
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	10.2	9.9	3.2
Reported Net Profit	9.7	9.2	5.6
Reported Operating Margin (%)	3.2	6.6	-
Reported Pre-tax Margin (%)	7.9	11.8	-
Reported Net Margin (%)	7.5	11.0	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	252.3	414.5	468.0	532.0
Reported Operating Profit	18.8	18.1	23.3	36.6
Depreciation & Amortization	-3.7	-3.9	-4.4	-4.8
Net Interest Income / (Expense)	-0.6	-0.9	-1.0	-1.1
Reported Pre-tax Profit	34.4	37.8	32.1	41.6
Effective Tax Rate (%)	10.6	28.8	18.0	22.0
Reported Net Profit	28.8	27.2	26.3	31.4
Reported Operating Margin (%)	7.5	4.4	5.0	6.9
Reported Pre-tax Margin (%)	13.7	9.1	6.8	7.8
Reported Net Margin (%)	11.4	6.6	5.6	5.9

*2010 figures have been restated

Source: Company data, S&P Equity Research

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