STANDARD & POOR'S

Tiong Seng Holdings

Bloomberg: **TSNG SP** | Reuters: **TISE.SI** | Price: **SGD0.25** | Date: **September 1, 2010**

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

Head Office Location: 510 Thomson Road, #08-00 SLF Building, Singapore 298135

Place of Operations: Singapore

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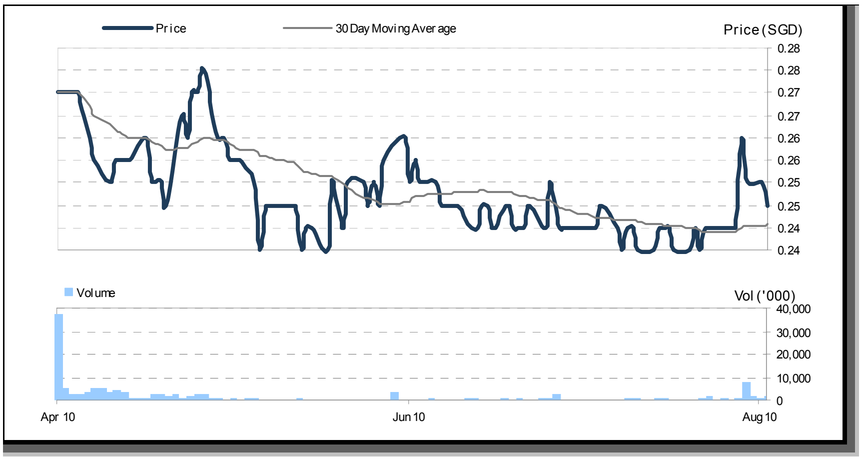

Investment Highlights

- Established since 1959, TSH is one of the key players in the construction industry in Singapore. The group has been involved in numerous large scale infrastructure and building projects and has completed more than SGD4 bln worth of projects to date. The group presently has an outstanding orderbook of about SGD1 bln, which should keep it busy over the next two to three years.
- TSH is also engaged in property development in various second-and third-tier cities in the People's Republic of China (PRC). The group has positioned itself strategically to take advantage of the potential of Tianjin Binhai New Area (TBNA) by developing properties in the Tianjin Eco-city, Dagang and Cangzhou cities.
- For 2010, we forecast a 39% decline in earnings following the group's strong performance in 2009. Although we expect construction revenue to pick-up as works done on newly secured projects gain momentum, this will be offset by a decline in property revenue with the absence of any completed projects in 2010. We have however, projected net profit to grow by 10% in 2011 on the back of higher property income.
- The mid-term outlook however, looks positive with the sustained demand for construction services. In addition, with the group's new launches set to pick up pace from 2H 2010, its property income should increase going forward. We expect property demand in second-tier cities particularly Tianjin, where TSH's properties are mainly located to remain healthy on the back of rising income levels, availability of affordable properties and its attraction as a hub for foreign investment.

Key Investment Risks

- **Sharp rise in labor material costs.** An unexpected hike in sub-contractor fees, workers' levy and material prices particularly steel will put pressure on the group's profit margins.
- **Project execution and cost overruns.** Failure to account for project costs accurately at the tender stage and in managing on-going project costs will adversely affect project viability and profitability.
- **Shortage of skilled labor.** This is an industry-wide problem which could result in project disruptions and delays with potential cost overruns.
- **Further cooling measures** imposed by the PRC government to prevent formation of an asset bubble will dampen the property market.
- **Forex.** Given its overseas operations, TSH naturally faces a certain degree of currency risks. While its construction segment is largely denominated in SGD, its property arm is denominated in CNY. Sharp foreign exchange fluctuation may impact margins.

Key Stock Statistics

52-week Share Price Range (SGD)		**0.24 - 0.28**
Avg Vol - 12 months ('000 shares)		**1,431.8**
Price Performance (%)	- 1 month	**0.0**
	- 3 month	**0.0**
	- 12 month	**-9.3**
No. of Outstanding Shares (mln)		**766.0**
Free Float (%)		**32.7**
Market Cap (SGD mln)		**187.7**
Enterprise Value (SGD mln)		**145.1**
Major Shareholders (%)		
Tiong Seng Shareholdings Pte Ltd		**59.9**
Pek Tiong Choon (Private) Ltd		**7.0**

Per Share Data

FY Dec.	2008	2009	2010E	2011E
Book Value (SG cents)	11.17	17.27	32.88	35.44
Cash Flow (SG cents)	2.0	7.2	3.6	3.9
Reported Earnings (SG cents)	1.6	7.3	3.3	3.6
Dividend (SG cents)	0.0	1.1	1.1	1.1
Payout Ratio (%)	0.0	15.4	32.1	29.3
PER (x)	14.9	3.3	7.4	6.8
P/Cash Flow (x)	12.5	3.4	6.9	6.3
P/Book Value (x)	2.2	1.4	0.7	0.7
Dividend Yield (%)	0.0	4.3	4.3	4.3
ROE (%)	16.0	48.5	14.5	10.6
Net Gearing (%)	101.8	8.9	0.0	0.0

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Background

Established since 1959, TSH is one of the key players in the construction industry in Singapore. The group is also engaged in property development in various second- and third-tier cities in the PRC. The group has positioned itself strategically to take advantage of the potential of TBNA by developing properties in the Tianjin Eco-city and Dagang area.

TSH was recently listed on the main board of SGX on Apr. 16, 2010. The group has established business presence in Singapore, Papua New Guinea (PNG) and the PRC. It possesses an "A1" classification with the Building and Construction Authority of Singapore (BCA) which enables it to tender for public contracts of unlimited value. The group has completed approximately SGD4 bln worth of projects to date and was involved in a wide range of building construction and civil engineering jobs for both the private and public sectors. The group's recent completed projects include Capella, Sky@Eleven, Wilkie and Tribeca. Together with its JV partners, TSH has also secured major projects in the Marina Bay Financial Centre and the Sentosa Integrated Resorts. Over the years, TSH has received numerous accreditations and awards from various government bodies in recognition of different aspects of its building and civil engineering construction work. Some of the buildings it has built have been awarded the BCA Green Mark.

TSH has an experienced management team led by Mr. Pek Lian Guan, its Executive Director and Chief Executive Officer (CEO) since 1990. The group also benefits from the expertise and advice of his father, Mr Pek Ah Tuan, the co-founder and Non-Executive Chairman, who has over 50 years of experience in the construction industry and is one of the early pioneers who ventured into property development in the PRC in the 1980s. He is a key shareholder of TSH with an effective stake of 15.7% including his indirect holdings in Tiong Seng Shareholders and Pek Tiong Choon (Private) Ltd (PTC).

Tiong Seng Shareholders, an investment holding company is a 47% associate of PTC. PTC is primarily engaged in the rental of heavy machinery and the provision of a wide range of equipment-related services such as fabrication facilities, repair workshop, as well as heavy vehicle parking lots. Meanwhile, TSH's board members include directors who have extensive experience in various fields of management and operations.

Board of Directors

Name	Title	Date of Appointment
Pek Ah Tuan	Non-Executive Chairman	February 2010
Pek Lian Guan	Executive Director/CEO	April 2008
Pay Sim Tee	Executive Director	February 2010
Lee It Hoe	Non-Executive Director	February 2010
Ong Lay Khiam	Lead Independent Director	February 2010
Ang Peng Koon, Patrick	Independent Director	February 2010

Source: Company data

Board Independence

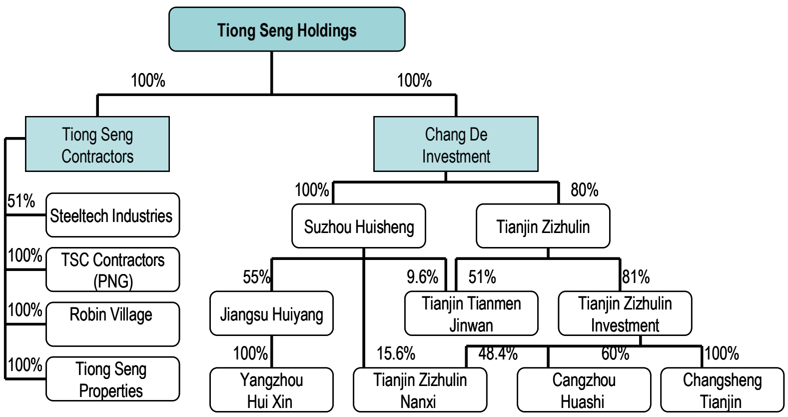
The board consists of six directors, of which two are independent directors. There is a separation of roles between the chairman and CEO, although Mr Pek Ah Tuan, the Chairman is the father of Mr Pek Lian Guan, the CEO. Nevertheless, the board has established various committees that comprise a majority of independent directors, i.e. Audit Committee (two of three), Nominating Committee (two of three) and Remuneration Committee (two of three).

Key Management

Name	Title	Date of Appointment
Pek Lian Guan	Executive Director/CEO	1990
Pek Dien Kee	Head of Asset Management	1975
Pay Teow Heng	Project Director	1992
Andrew Khng	Head of Administration	1981
Choo Hong Chun	Financial Controller	2003
Ong Chun Tiong	General Manager, Tianjin, PRC	1998
Bao Jian Feng	General Manager, Jiangsu, PRC	1996

Source: Company data

Corporate Structure



Key Subsidiaries & Associates

- 100%-owned Tiong Seng Contractors provides construction works
- 51%-owned Steeltech Industries provides construction engineering sub-contracting works for fabrication, supply and installation of pre-cast mould, metalwork, steelwork and aluminium works
- 100%-owned TSC Contractors (PNG) provides construction works and rental of equipment
- 100%-owned Robin Village provides pre-casting works
- 100%-owned Tiong Seng Properties is an investment holding company
- 100%-owned Chang De Investment is an investment holding company

- 100%-owned Suzhou Huisheng is a property development company
- 80%-owned Tianjin Zizhulin is a property development company
- 55%-owned Jiangsu Huiyang is a property development company
- 50.4%-owned Tianjin Tianmen Jinwan is a property development company
- 66%-owned Tianjin Zizhulin Investment is an investment holding company
- 55%-owned Yangzhou Hui Xin provides commercial property management and real estate mediatory services
- 47.5%-owned Tianjin Zizhulin Nanxi invests in real estate development
- 39.6%-owned Cangzhou Huashi is a property development company
- 66%-owned Changsheng (Tianjin) provides project management consulting

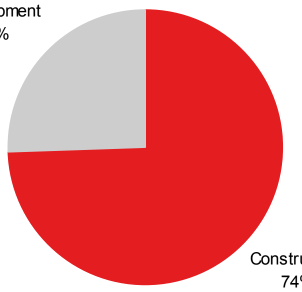
Business Segments / Key Revenue Streams

TSH's business can be organized into two main categories:

- Construction and civil engineering
- Property development.

In 2009, construction and civil engineering accounted for the lion's share of the group's revenue at 74%, although down from 96% in 2009. Meanwhile, revenue contribution from the property segment increased to 26% (from only 3% in 2008) coming mainly from the Tianmen Jinwan Building in Tianjin, which was completed in March 2009.

2009 Segmental Revenue Contribution



Source: Company data

Construction and Civil Engineering

TSH is capable of handling a diversified range of projects from different categories, namely residential, commercial, industrial, hotels, institutions, infrastructure and others. As such, the group is not overly dependent on a single project category which mitigates the risk of adverse change in market conditions. The group holds the highest A1 BCA grading and has completed approximately SGD4 bln worth of projects to date.

TSH has its own fleet of machinery and equipment, which reduces dependence on external third parties and also ensures availability of resources to meet its work commitments. Through the use of pre-casting and advanced formwork systems, TSH is able to shorten construction time and reduce its reliance on human labor, resulting in higher productivity and cost efficiency. While the pre-casting is presently done off-site, the group is building a factory on the site at Tuas South Avenue 1 (gross area of about 14,000 sqm) to undertake pre-casting work under sheltered conditions. The factory which will be ready by next year will help maintain its product quality and minimise disruptions due to bad weather conditions. In 2009, TSH secured a total of about SGD570 mln worth of contracts including its portion of works in the Central Boulevard office building and civil works for Stage 2 of the downtown line.

At present, TSH has an unbilled order book of about SGD1 bln mainly from local projects, with a small proportion in PNG (mainly civil projects). This should keep the group busy over the next two to three years. The bulk of TSH's projects are from the private sector. The group has so far secured projects worth about SGD450 mln this year. Its recent SGD146 mln contract to design-and-build a 429-unit Tree House condominium with unique eco-features at Chestnut Avenue, off Upper Bukit Timah has clinched the BCA's highest allocade – the Green Mark Platinum Award for its design specifications.

The division recorded a 7% rise in revenue in 2009 as a result of higher recognition of project works mainly from the Sentosa Integrated Resorts Project, Tribeca, Sky@Eleven, Hilltops, Shelford and Marina Boulevard. We expect projects secured in 4Q 2009 such as the Raffles City reconfigurations works, Volari apartment, hotel at Upper Pickering Street and the public works for Stage 2 downtown line to start contributing in 2010 as they hit key billing milestones.

The group's on-going projects are listed in the table below:

On-going Key Construction Projects

Projects	Client	Project Value (SGD 'Mln)	Commencement Date
Hilltops condominium at Cairnhill Circle	Taraville (under SC Global group)	158.2	June 2007
Shelford Suites at Shelford Road	City Development	51.6	October 2008
The Wharf condominium, at Tong Watt Road	Leonie Court (under the CapitaLand group)	87.0	September 2009
Raffles City basement refurbishment and underground linkway	CapitaLand Commercial Project Management	29.9	November 2009
The Volari condominium, Balmoral Road	City Developments	69.9	November 2009
Hotel at Upper Pickering Street	Hotel Plaza Property (Singapore)	128.9	December 2009
Kent Vale NUS staff housing	National University of Singapore	149.7	March 2010
Hundred Trees condominium, West Coast Drive	Grade-Terre Properties (under the City Developments group)	121.4	2Q 2010
Tree House condominium, Chestnut Avenue	JV between City Developments and Hong Realty (Private)	146.0	July 2010

Source: Company data

On-going Key Construction JV and PNG Projects

Projects (JV Developments)	Client	Project Value (SGD 'Mln)	Commencement Date
Local JV Projects			
Sentosa Integrated Resorts – hotels (A 40:60 JV with Kajima)	Resorts World at Sentosa	1,053	April 2008
Contract 913 – design and construction of stations and tunnels for Stage 2 Downtown Line (A 30:70 JV with GS Engineering & Construction Corp)	Land Transport Authority	430	August 2009
Marina Bay Financial Centre (A 30:70 JV with Kajima)	BFC Development	558	February 2007
Central Boulevard Office Building (A 30:70 JV with Kajima)	Central Boulevard Development	584	April 2009
PNG Projects			
Rehabilitation of the Korefegu-Nupuro Road in Eastern Highlands Province	Asian Development Bank	7.9	May 2007
Upgrading and sealing of Goro to Gumine roads in Simbu Province	Asian Development Bank	20.4	January 2007
Rehabilitation of the Kamaliki to Bekuvia road in Eastern Highlands Province	Asian Development Bank	11.5	May 2009
Rehabilitation of the Rypinka to Okapa station road in Eastern Highlands Province	Asian Development Bank	32.6	October 2010

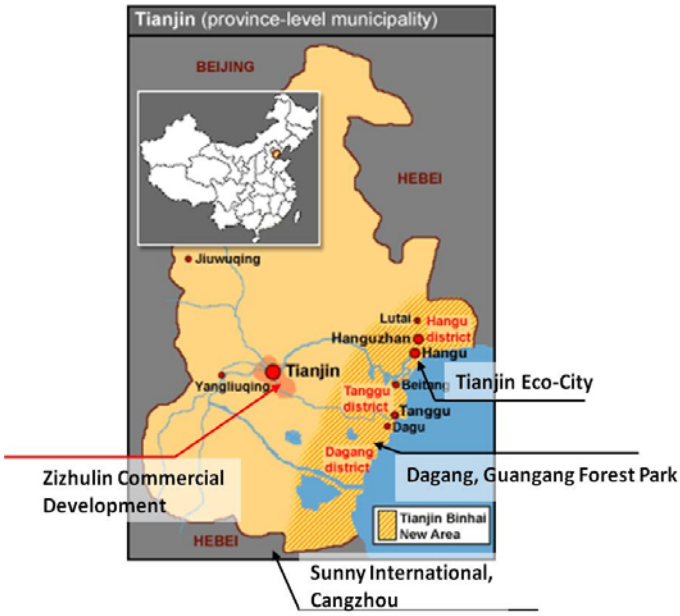
Source: Company data

Property Development

TSH's property development business focuses on developing residential and commercial properties in various second- and third-tier cities in the PRC. Recognising the PRC government's efforts to stimulate investments in the Bohai Economic Rim, the group ventured into Tianjin in 2006. The first project that the group completed was the Tianmen Jinwan Building, a mixed residential-commercial development with GFA of 66,700 sqm located in the heart of Tianjin city. The building development was the key contributor of the group's property income in 2009, the year it was completed. The group also has completed projects in Suzhou and Yangzhou.

To capitalize on the growth in the Bohai Economic Rim and the TBNA, TSH presently has four on-going projects in the area (see map). Together, the group has a potential development area of about 720,000 sqm including the 360,000 sqm area in Tianjin Eco-city via joint partnerships.

Location of TSH's On-going Property Projects



Source: Company data

- *Sunny International Project, Cangzhou*

  The project, a four-phase mixed residential-commercial development is located in Yunhe district, the city centre of Cangzhou, Hebei Province. It has a total GFA of 159,500 sqm comprising residential (141,300 sqm) and commercial (18,200 sqm). The entire project's estimated completion date is in 4Q 2014. Only sales for Phase 1 which consists of three residential blocks and a five-storey commercial building have commenced. It is expected to be completed by mid-2011.

  The construction of Phase 2 consisting of two residential blocks is expected to commence soon with target completion in 4Q 2012. The construction of Phase 3 and 4 will commence later in 2Q 2011 and 2Q 2012, respectively.

- *Dagang*

  The project is located in Guangang Forest Park, which belongs to the ecological zone of TBNA. It consists of landed properties and low rise developments and is part of the local authorities' master plan to transform Dagang into a leisure and entertainment area by 2014. The project, to be developed in four phases of 50,000 sqm each is currently in the design stage. Sales for Phase 1 are expected to commence soon. The entire project is expected to be completed in 1Q 2015.

- *Eco-City Project*

  The Tianjin Eco-city is a landmark bilateral project between China and Singapore. Located in TBNA (40km from Tianjin city centre), the theme of the Tianjin Eco-city is to create a sustainable future through an eco-friendly living and work space.

  On Apr. 20, 2010, TSH expanded its scope of participation in the development of Tianjin Eco-city with the signing of a JV contract with Sino-Singapore Tianjin Eco-city Investment and Development (SSTEC) and a new partner, Mitsui Fudosan Residential (Mitsui Fudosan), a subsidiary of one of Japan's largest real estate developers.

The JV parties will jointly develop two plots of land (Plot 12A and Plot 5) in Tianjin Eco-city and a possible partnership on a third plot of land (Plot 6) which will feature the first high-end riverfront eco-neighborhood. Including Plot 6, the total development area is estimated to be over 360,000 sq m with a total GDV value of CNY4.5 bln. TSH, which also provides construction management services, holds a 9% stake in the development.

Site Details

Plot Name	Development	Estimated Start and Completion Dates
Plot 12A	Mid to high-end condominiums	December 2009 to January 2012
Plot 5	Mid to high-end condominiums	July 2011 to February 2014
Plot 6	High-end low rise housing development	September 2010 to November 2013

Source: Company data

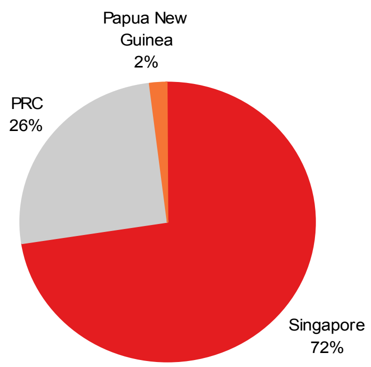
- *Zizhulin Commercial Development*

  The project is located in the heart of Tianjin city, approximately 100m from Haihe River and 1km from the high speed rail link station which links Beijing and Tianjin. The development has an estimated GFA of 12,000 sqm. TSH is presently evaluating options for this site, including building a boutique hotel, a commercial or condominium development or selling the site if there are attractive offers.

Major Markets

TSH has established business presence in Singapore, PRC and PNG. The group has benefited from the flurry of construction activities at home, and Singapore remains the group's key market contributor, accounting for 72% of the group's revenue in 2009. This was followed by PRC (26%) mainly from its property development projects and PNG (2%).

2009 revenue breakdown by geographical regions



Source: Company data

Industry Landscape

Construction Segment

The construction sector in Singapore continues to be the bright spot of the local economy, registering a growth rate of 11.5% YoY in 2Q 2010, compared to 10.2% growth in 1Q 2010. *(Source: MITI).* The sector grew 16% in 2009, albeit at a slower rate compared with 21% in 2008.

For the whole of 2010, the local construction industry is expected to grow at a slower pace compared with last year, as Las Vegas Sands and Genting Singapore complete a significant portion of their integrated resorts. Still, momentum will be sustained with the expansion of the rapid transit system (RTS) network. The government recently announced that it is spending SGD60 bln over the next ten years on improvements to the rail network to ease congestion and plans to double the RTS network to 280km by 2020 from 138km presently. The new lines are the Downtown line, the Thomson line, the Eastern Region line and further extensions.

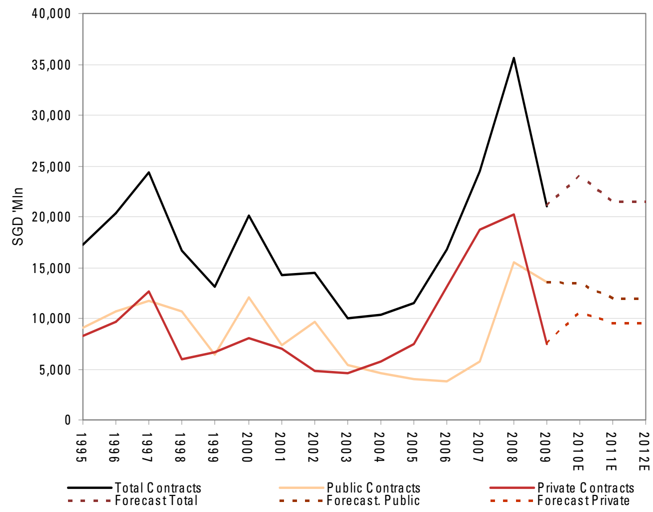
The construction sector remains a key engine of economic growth, contributing about 4%-5% of Singapore's GDP. The industry is estimated to employ more than 380,000 people, or roughly 12.7% of the workforce. To encourage innovation, the Government recently set aside SGD250 mln to help construction companies fund new and more productive equipment as well as train workers.

Growth years and construction demand in 2009

Following a prolonged downturn in the construction industry in Singapore, demand has been growing since 2004 (see graph below). The last few years have seen a renewed wave of soaring growth, led by a spike in private sector demand, with the two integrated resorts and an increase in residential and commercial projects. A high of SGD35.7 bln worth of contracts was awarded in 2008.

In 2009, total construction demand however, declined to SGD21.0 bln mainly due to weak private sector construction demand which fell sharply to SGD7.5 bln (from SGD20.2 bln in 2008). Private residential construction demand fell by almost half to SGD3.5 bln as developers held off projects amid the economic uncertainty and demand for commercial construction shrank to SGD1.2 bln (from a high of SGD8.3 bln in 2008) dampened by declines in occupancy rates and rental values. The decline was mitigated by sustained level of public sector construction demand, which contributed 64% of overall demand in 2009. This was supported by major contracts awarded for the MRT Downtown Line Stage 2, the North-South Line Extension and Jurong East Connection, expansion of road works and redevelopment of hospitals and new industrial space.

Historical and Forecast Construction Demand (1995-2012)



Source: BCA, CEIC

Actual and Forecast Construction Demand (2009-2012)

	2009A		2010F		2011-2012F (annual average)	
SGD bln	**Public**	**Private**	**Public**	**Private**	**Public**	**Private**
Residential	2.77	3.53	2.8-3.2	6.2-6.7	NA	NA
Commercial	0.07	1.22	0.1-0.2	1.8-3.7	NA	NA
Industrial	0.19	1.52	0.9	2.0-2.3	NA	NA
Institutional & others	2.42	0.52	2.8-4.3	1.2-1.5	NA	NA
Civil Eng. *	8.07	0.70	2.4-3.5	0.5-0.7	NA	NA
Total	**13.51**	**7.50**	**9.1-12.1**	**11.9-15.0**	**10.0-14.0**	**8.0-11.0**
Total (Public & Private)	**21.0**		**21.0-27.0**		**18.0-25.0**	

** Excl reclamation contracts*

Source: BCA

Construction to enjoy sustained activities in the medium term

Going forward, with the improved economic outlook and the recovery in the property sector, demand for construction services is projected to reach between SGD21 bln – SGD27 bln in 2010 according to BCA estimates (see table overleaf).

While public sector demand for construction services will remain resilient in the next few years, private sector demand is projected to be more upbeat in 2010 in tandem with the improved market sentiment. The BCA has projected private sector contracts to reach between SGD11.9 bln to SGD15 bln in 2010, up from last year's SGD7.5 bln. Residential private sector demand is expected to show the most improvement, with an estimate of SGD6.2 bln – SGD6.7 bln this year supported by the slew of recent property launches. The private sector will form the bulk (56%) of this year's projected total construction demand.

The public contracts, however is expected to decline slightly to range between SGD9.1 bln – SGD12.1 bln in 2010, from last year's SGD13.5 bln. Public sector demand will be underpinned by MRT contracts for Downtown Line Stage 3, widening of Keppel viaduct, major arterial road from CTE to Yishun Avenue 7 and other key road projects. Other projects in the pipeline include the LNG Terminal, Fusionopolis 2A, industrial facilities at Seletar Aerospace Park, common services tunnel phase 3B at Marina Bay, campus expansion of Institutes of Higher Learning and new healthcare facilities.

For 2011 and 2012, BCA has forecasted annual construction demand to range between SGD18 bln -SGD25 bln, of which public sector demand is expected to reach between SGD10 bln – SGD14 bln. Meanwhile, the momentum of the private sector is expected to be sustained with a forecast annual demand of SGD8 bln – SGD11 bln.

Property Segment

Overall: China's economy and property growth moderates amidst government curbs

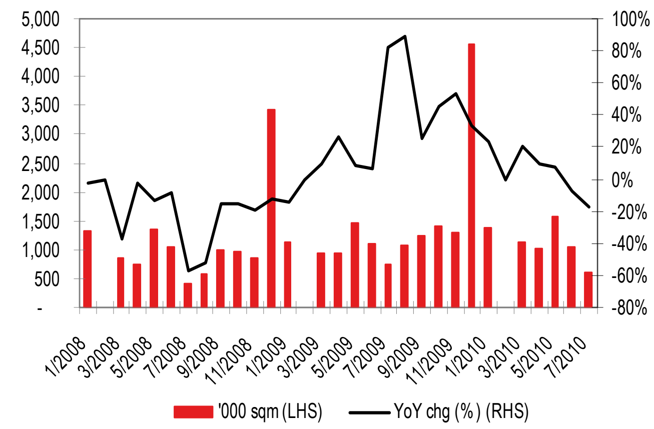
Recent leading economic indicator data suggest that China's growth may be slowing in the face of global growth concerns. China's 2Q 2010 GDP slowed to 10.3% YoY, down from 11.9% in 1Q. The moderating growth should not be surprising given 1Q's low base and easing government spending. S&P Equity Research has at this stage not changed its projected 2010 growth of 9.7%-10.2% although we note that growth should come in on the lower-end of this range.

Chinese property prices also recorded their first monthly fall in June this year since February 2009, providing further evidence that the government's cooling measures are working. Data from the National Bureau of Statistics (NBS) show that property prices in 70 major cities nationwide edged down 0.1% MoM in June. Prices were unchanged in July from June. The YoY increase in prices also slowed to 10.3% in July, compared with 11.4% in June and 12.4% in May. Meanwhile, the overall real estate volume slowed down to 15.4% YoY in 1H 2010 (compared with 51% in 2009). The Chinese government has introduced a slew of policy tightening measures to cool the pace of transactions in the property market. Some key measures introduced since the start of the year include the imposition of a 5.5% tax on homes sold within five years of purchase, developers to pay a higher deposit for land purchases and banks banned from lending to builders found to be hoarding land in anticipation of higher prices and down payments to be raised to 50% from 40% on the purchase of a second residential property.

Tianjin: Property Sales and Prices

In Tianjin, where TSH's properties are mostly located, data from NBS also show that overall real estate volume which has been on the rise since 2009 is beginning to slowdown. Total volume sold which hit 393.5 mln sqm in 1H 2010, slowed down to 10.4% YoY, from a growth of 27% registered in 2009. For the month of July 2010, the volume sold edged down 18% YoY (see chart below).

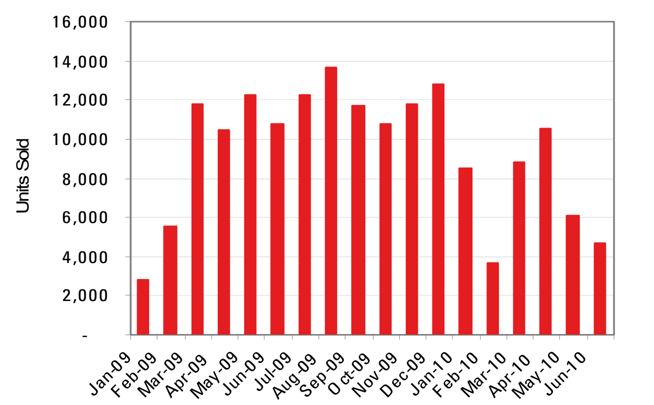
Tianjin: Property Sales



Source: National Bureau of Statistics

Based on data collated by Soufun.com (see chart below), Tianjin residential property sales similarly seems to have slowed down, with the number of units recorded in June at 4,663 (-23.4% MoM) and in May 6,087 units (-42.1% MoM).

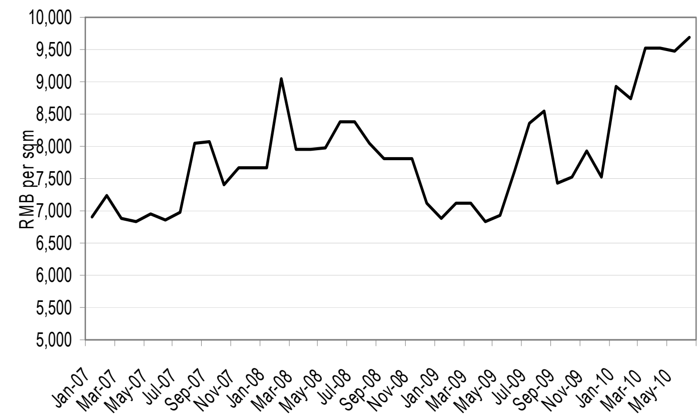
Tianjin: Units Sold



Source: Soufun.com

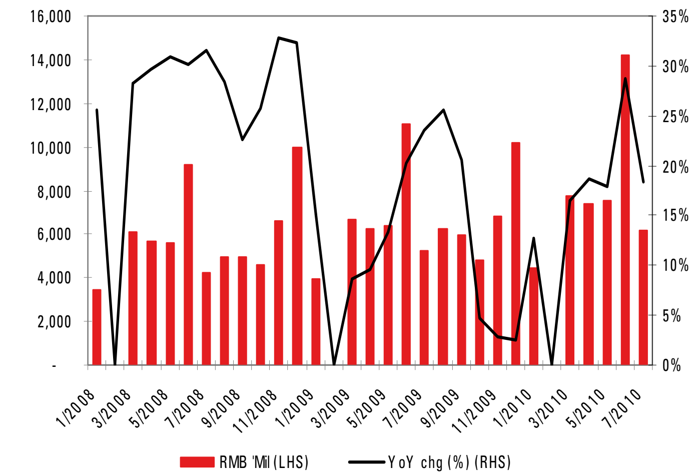
According to data from NDRC, residential property prices in Tianjin remain resilient despite the Chinese government's cooling measures. Although the average price declined slightly by 0.6% MoM in May this year, it picked up again in June, rising by 2.3% MoM to reach CNY9,690 per sqm. Tianjin's real estate investment also recorded a steady YoY growth of 18% and 29% in July and June 2010 (See chart below).

Tianjin: Property Prices



Source: Price Monitoring Centre, National Development and Reform Commission (NDRC)

Tianjin: Real Estate Investment



Source: National Bureau of Statistics

Outlook

In our opinion, risk of further market cooling policies in the PRC is easing, with a possible slowdown in transaction volumes and price increases. We however, expect any upward increase in property prices to be limited at least in the immediate term, with the more subdued Chinese economic growth and the government's determination to rein in property speculation.

Over the mid- to longer-term, we expect property demand in second-tier cities particularly Tianjin, where TSH's properties are located to remain firm. This is on the back of rising income levels, availability of affordable properties, continuing urbanisation and continued growth in the economy, albeit potentially slower than initially expected. These second-tier cities will continue to benefit from multinational companies shifting their operations from first-tier cities to cheaper locations like Tianjin. The port city's BNA, which houses high-tech companies, is a magnet for foreign investment, which will continue to spur demand for property there.

The higher purchasing power for real estate in the PRC is reflected in the increase in disposable income of urban households. According to data from the NBS, 1H 2010 per capita annual disposable income rose to CNY9,757, from CNY17,175 in 2009 and only CNY6,280 in 2000. China's urbanization is also in full swing which will continue to fuel the real estate market. According to the newly published 2009 City Development Report of China, during the past 60 years, China's urbanization pace has accelerated rapidly, from 10.6% in 1949 to 47% in 2009. Accordingly, China's urbanization still lacks behind the world average of 50% and 85% in developed countries, which leaves huge room for further development.

According to a recent report by Jones Lang LaSalle entitled "China 40 The rising Urban Stars", by 2020, China's second- and third-tier cities will play a significant role in the nation's real estate market and may account for more than 90% of China's commercial real estate activity. The second- and third-tier cities will continue to grow and experience dynamic development with massive infrastructure investments, reflecting the greater focus on domestic markets. The report also noted that Tianjin has further cemented its position as the leading second-tier city and possesses the greatest potential to become China's fifth first-tier city.

Growth Strategy

On the back of improving sentiments surrounding the Singapore economy and the sustained high level of public sector projects, the construction industry outlook seems positive going forward. As provided earlier, Singapore's construction demand for 2010 is projected to reach between SGD21 bln and SGD27 bln, a continuation of a sustained workload from last year's SGD21 bln worth of contracts awarded. In 2Q 2010, the construction sector grew 11.5% YoY, compared to 10.2% growth in 1Q 2010. In view of this, TSH intends to keep a focused approach to business in Singapore, which remains its key market. TSH will actively participate in tenders for both public and private sector projects. It will leverage on its established track record to secure repeat business from major developers and government bodies, as well as referrals for new businesses.

Management also plans to step up business development efforts and expand its geographical coverage via JVs and/or strategic alliances although competition will be stiff. The group will maintain its presence in PNG and PRC.

TSH will continue to be selective in their projects by conducting vigorous due diligence exercise to ensure projects accepted are viable and "cashflow positive" to avoid potential cost overruns and failure in project delivery. This has served the group well particularly in the previous downturns. Meanwhile, the group will continue to invest in equipment and machinery and increase its pre-casting activities by building an automated factory which will be ready next year. This will translate into cost savings in the long run and enable the group to provide dependable services to its customers.

For its property development arm, TSH will continue to actively search for land sites in the second- and third-tier cities in the PRC for development of residential and commercial properties with good potential. Growth in the property division is expected to mitigate the cyclical nature of the construction business and help the group broaden its income base to provide the necessary cushion in the event of any margin squeeze from its construction projects.

SWOT Analysis

Strengths

- TSH has an established track record of over 50 years of history. The group has undertaken a wide range of projects for the private and public sectors including building of residential apartments, commercial properties, warehouses, institutions and high end hotels.
- TSH has a strong focus on cost efficiencies, quality and reliability. By having its own fleet of machinery and equipment and specializing in pre-casting work with a new factory ready by next year, the group can be more cost competitive, efficient and less reliant on human labor.
- TSH is capable of handling a diversified range of projects from different sectors. By not being overly dependent on a single project category for its revenue, this helps to mitigate adverse changing market conditions.
- TSH holds the A1 classification for both general building and civil engineering which allows it to bid for public sector contracts of unlimited value.
- The management team, led by its CEO, Pek Lian Guan is supported by a team of key executives who are experienced and competent in their respective functions.
- With a respectable cash holding of SGD92 mln as at end-June 2010, we believe TSH is well-positioned to bid for larger projects.

Weaknesses

- TSH is dependent on the performance of the construction industry in Singapore, which is subject to the general local economy and health of the property market.
- TSH's reliance on construction revenue makes it vulnerable to cyclical downturns and competitive conditions. The group is however, trying to build up its property income base by expanding in the PRC.
- TSH's property development business is solely derived from its operations in PRC. As such, the property business is dependent on the PRC economy and any changes in the country's government policies, regulations and measures intended to discourage speculation in the PRC property market will adversely affect the group's profitability.
- It is dependent on the expertise and knowledge of local JV partners to identify and secure suitable land sites in the PRC for its property development business.

Opportunities

- TSH with its proven construction track record in government infrastructure projects is likely to benefit from the sustained high level of public projects in the next few years.
- TSH's on-going partnerships with JVs and/or strategic alliances in both construction and property development in the PRC will continue to give the group access to new markets and prospective customers
- There are potential business opportunities in emerging markets in Asia such as Vietnam, Cambodia, PNG, India and China which rely on foreign expertise for infrastructure development.

- Management can leverage on the demand for PRC private property and the growing economy.

Threats

- Stiff competition within the construction industry particularly in a weak economy will result in undercutting and erosion in margins.
- The commencement of certain construction, building and housing projects could be derailed by the lack of suitable funding, as the credit market is still adopting a cautious stance with banks more prudent in its lending.
- Rise in prices of some basic building materials costs like steel bars and fuel charges and most recently, foreign worker levies will put pressure on the group's margins.
- Further legislative measures from the PRC government may cool property demand and dampen sales.

Recent Key Developments

May 2010: Scope in Tianjin Eco-city JV expanded to a value of RMB4.5 bln after including a new partner, Mitsui Fudosan Residential

June 2010: Announced 1Q 2010 Results. Net profit was down 41% YoY.

June 2010: Awarded a SGD146 mln design-and-build contract for Tree House eco-condominium

June 2010: Its subsidiary, Tianjin Zizhulin secured financing for development of Dagang property project

August 2010: Announced 1H 2010 Results. Net profit was down 50% YoY.

Management Guidance

With the recovery in the Singapore economy and construction demand to be sustained over the next few years, the outlook seems positive going forward. In addition, given the PRC government's current focus and initiatives to develop the second- and third-tier cities, continued urbanization and improving affordability, price trends for these cities are likely to remain constant or increase in the near medium term. This should help support the group's property development projects in the PRC.

In 2010, key earnings contribution is expected to come from its construction division with works on the newly secured projects gaining momentum. With the present strong interest in the private residential property market as evidenced by the recent relatively high take-up rates at various launches, TSH should benefit from the demand trend and hopefully secure more construction projects in the near future.

For its property division, 2010 earnings will come from the sales of the remaining completed units of Tianmen Jinwan building. The Sunny International Project, Cangzhou (Phase 1) targeted for completion next year should only start contributing to the group's 2011 earnings onwards. Thereafter, the group is expected to complete its existing property developments in phases each year (until 2015).

Management views TSH's respectable cash holding position and order book backlog of about SGD1 bln as important competitive advantages to bid for larger and quality projects, source for potential land use rights in the PRC to boost its property income and sustain the group's earnings in 2010 and 2011. In addition, these factors will provide sufficient holding power to ride out the cyclicality of the construction industry over time.

Earnings Outlook

Despite the tough macro-economic environment in 2009, TSH managed to achieve a healthy financial performance. The group's net profit rose a significant 347% to SGD41.4 mln on the back of higher works recognition from its construction projects and a surge in property revenue with the completion of the Tianmen Jinwan Building in 1Q 2009. In addition, net profit was bolstered by higher JV income (+186%).

For 1H10, revenue dipped 43% YoY to SGD124.4 mln, while net profit declined 50% to SGD9.8 mln. The declines were mainly attributable to: (i) lower construction revenue due to some projects nearing completion/completed while new ones secured recently have yet to hit key billing milestones; (ii) completion of Tianmen Jinwan property in 2009 with sales for 1H 2010 derived only from the remaining completed units; and (iii) the absence of any completed property development projects this year.

For 2010, we forecast a 39% decline in earnings following the group's strong performance in 2009. Although we expect construction revenue to pick-up in 2H 2010 as work done on newly secured projects namely Volari, Hotel at Upper Pickering Street and NUS Kent Vale staff housing are expected to hit key billing milestones, this is expected to be offset by a decline in property revenue. In 1H 2010, SGD37.5 mln in revenue has yet to be recognized for work conducted on these newly commenced projects.

The group's property revenue in 2010 is expected to decrease with the lack of any completed property projects this year and sales will only be derived from the remaining completed units in Tianmen Jinwan Building. Although sales have started for the Sunny International Project, Cangzhou (Phase 1), revenue recognition can only be made upon its target completion in 2011, in line with the accounting policy.

We have projected gross margins to range between 12% -14% (a decline from 16.1% in 2009). We expect higher construction material costs with the recovery of the global economy and recent increase in the workers' levy announced in the Singapore budget to erode gross margins. This is mitigated by the group's active role in continuing to invest in technologies to maximize its cost efficiencies such as the new automated pre-casting facility which will be ready next year.

With the above assumptions, we estimate net profit to decrease by 39% to SGD25.3 mln in 2010. We have however, projected thereafter, net profit to increase by 10% to SGD27.7 mln in 2011 on the back of higher contribution from property income with the expected completion of the Cangzhou (Phase 1). This is partially offset by a decline in the JV income with some of the projects close to completion or completed by 2011.

Due to the niche nature of its property arm which is focused on the PRC market, we believe there are no direct comparables with TSH. We, however compare TSH with local construction companies of comparable size that are listed on the same exchange although their property development projects are mainly in Singapore.

Tiong Seng Holdings

Bloomberg: **TSNG SP** Reuters: **TISE.SI** Price: **SGD0.25** Date: **September 1, 2010**

Peer Comparison to Construction Companies

	Tiong Seng	Koh Brothers	Lian Beng Group	Chip Eng Seng
Share Price @ Aug. 31, 2010	SGD0.25	SGD0.195	SGD0.28	SGD0.36
Mkt. Cap (SGD mln)	187.7	93.5	148.3	237.0
PER Historical (x)	3.3	8.7	6.2	3.1
PER Current Year (x)	7.4	N/A	5.2	N/A
P/NTA Historical (x)	1.4	0.6	1.0	0.9
Latest FY (SGD Mln)				
Revenue	375.6	330.2	345.7	376.4
Pre-Tax Profit, as reported	65.5	10.6	29.0	78.3
Net Profit, as reported	41.4	10.7	24.0	75.3
Pre-Tax Profit Margin (%)	17.4	3.2	8.4	20.8
Net Profit Margin (%)	11.0	3.2	7.0	20.0

Source: Bloomberg, Company Data

Profit & Loss

FY Dec. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	272.3	375.6	328.5	429.0
Reported Operating Profit	4.4	45.9	26.1	36.3
Depreciation & Amortization	-1.8	-1.8	-1.9	-1.9
Net Interest Income / (Expense)	-0.7	-2.7	-2.7	-2.7
Reported Pre-tax Profit	10.7	65.5	36.2	40.4
Effective Tax Rate (%)	27.3	21.2	22.0	22.0
Reported Net Profit	9.3	41.4	25.3	27.7
Reported Operating Margin (%)	1.6	12.2	8.0	8.5
Reported Pre-tax Margin (%)	3.9	17.4	11.0	9.4
Reported Net Margin (%)	3.4	11.0	7.7	6.5

Source: Company data, S&P Equity Research

Balance Sheet

FY Dec. / SGD mln	2008	2009
Total Assets	366.0	367.3
Fixed Assets	38.6	23.1
Current Assets	272.8	281.3
Other LT Assets	54.6	62.9
Current Liabilities	250.5	188.0
LT Liabilities	21.7	35.1
Share Capital	20.0	20.0
Shareholders' Funds	63.1	97.6

Source: Company data, S&P Equity Research

Cash Flow

FY Dec. / SGD mln	2008	2009	2010E	2011E
Operating Cash Flow	4.1	64.3	-21.7	12.9
Investing Cash Flow	-33.9	-0.1	-28.7	-9.8
Financing Cash Flow	18.6	-27.4	138.0	-8.1
Net Cash Flow	-11.2	36.8	87.6	-4.9
Ending Cash	-6.9	29.9	117.5	112.6
Capex	-25.6	-5.4	-5.5	-5.5

Source: Company data, S&P Equity Research

Material Disclosures Including Interested Party Transactions

TSH engages PTC, its shareholder for the rental of machinery and vehicle services. The transaction values in 2008 and 2009 are SGD3.1 mln and SGD2.3 mln, respectively.

New Issues & Placements

April 2010: Listed on the main board of SGX which involved the sale of 189 mln new shares at SGD0.28 each.

Dividend Policy

TSH does not have a fixed dividend policy. Going forward, the quantum of dividend payment will be subject to the group's performance and profitability.

Auditors' History

2007 - present: KPMG LLP

2007 and earlier: Fok Oi Leng & Co

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