Singapore Result Snapshot

Tiong Seng Holdings

Bloomberg: TSNG SP | Reuters: TISE.SI

DBS Group Research . Equity

16 Nov 2011

Tighter margins hitting bottom-line

BUY S$0.19

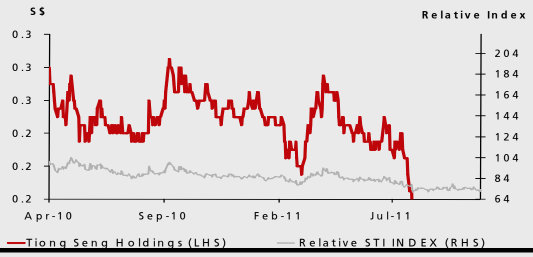
Price Target : S$ 0.24 (Prev S$ 0.31)

Reporting Period	Performance	Mkt Cap	FY	EPS Pre-Ex (S cts)	EPS Gth Pre-Ex (%)	EPS Revision	PE (x)	PBV (x)	Net Dividend Yield (%)
3Q 2011	Below	S$146m	2010A	2.8	(48)		6.8	0.8	5.3
		US$113m	2011F	3.1	10	-24%	6.1	0.8	5.3
			2012F	3.8	24	-12%	5.0	0.7	5.3

Result Summary

FY Dec (S$ m)	3Q2010	3Q2011	yoy chg
P&L Items			
Revenues	90.0	127.3	41%
Gross Profit	12.2	10.5	-14%
Other operating costs	(7.0)	(10.2)	46%
Other income	1.4	0.7	-47%
Operating profit	6.6	1.1	-83%
Net interest inc/(exp)	(0.4)	2.1	nm
JV/Associate income	3.2	6.0	88%
Exceptional Gain/(Loss)	0.0	0.0	nm
Pretax Profit	9.4	9.2	-2%
Net Profit (after tax and MI)	7.5	6.8	-8%
Gross Margin (%)	14%	8%	
Operating Margin (%)	7%	1%	
Pretax Profit margin (%)	10%	7%	

Price Relative



	3Q10	3Q11	% Chg
Construction	84.8	75.9	-11%
Development Properties	4.4	48.1	>100%
Rental Income & Others	0.8	3.3	>100%
Revenues	90.0	127.3	41%

At a Glance

- **3Q11 PATMI of S$6.8m below; 9M11 forms 58% of our FY11F**
- **Construction orderbook of S$1.0bn provides strong earnings visibility**
- **BUY, TP lowered to S$0.24 based on 45% (35% previously) discount to RNAV**

Comment on Results

Results in line. Tiong Seng reported a 41% y-o-y increase in topline to S$127.3m on the back of (i) higher recognition from its sales of development projects (S$48.1m, + >100% y-o-y) in China (phase 1 City Residences, totaling 440 units, 51,915sqm and 9 additional units at Tianmen Jinwan Building); and (ii) increase in sales of goods segment (Cobiax). Strong performances from the above 2 segments offset an 11% drop in construction revenues to S$75.9m due to decrease in volume of work completed with projects in Singapore and Papua New Guinea almost completed. Gross profit, however, fell 14% to S$10.5m due to tighter margins in China (which we reckon included certain upfront project costs) and lower margin construction projects in Singapore. Due to completion of JV projects during the quarter, the group also saw higher associate income. Taking the above factors, net profit after tax and MI declined 8% to S$6.8m.

Unrecognized revenues in China/Singapore to flow through in subsequent quarters; strong orderbook of S$1.0bn underpins earnings visibility over 2012-2013. While 3Q performance was below forecast, we note that Tiong Seng has yet to recognize (i) an additional 80 units from phase 1 City Residences and 9 units of Tianmen Jinwan Building that was sold; and (ii) a further S$20.2m from recently commenced construction projects in Singapore and PNG that should flow through in subsequent quarters. We adjust our FY11-12F earnings by 12-24% to account for lower margins for its City Residences project in China, and term out our construction recognition estimates.

Recommendation

BUY, TP reduced to S$0.24. Looking ahead, the group continues to offer strong earnings visibility supported by a construction orderbook of S$1.0bn. Our TP is reduced to S$0.24 as we widen our discount to 45% to RNAV (from 35% previously), in line with Singapore property peers.

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
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FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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