

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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Place of Operations: Singapore

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Results Review

- TSH reported 1Q11 net profit of SGD2.14 mln (-30.4% YoY). The results were below our expectations, making up about 10% of our original full-year net profit forecast. The negative variance was due to: (i) slower-than-expected construction revenue recognition; and (ii) weaker-than-expected EBIT margin of 4.6% (vs. 2011E:7.4%) as a result of higher-than-expected selling and staff costs. This was partially offset by a lower effective tax rate of 13.9% (vs. 2011E:18%). We believe, however, that earnings may catch up in subsequent quarters as projects hit key billing milestones.
- Group revenue increased 14% YoY to SGD61.5 mln, driven by: (i) higher construction revenue (+14% YoY) mainly from higher works recognition for new/on-going projects while work done amounting to SGD21.8 mln for newly commenced projects such as Hundred Trees and Tree House have yet to hit key billing milestones; (ii) higher direct sale and licensing revenue of SGD1.7 mln contributed by the Cobiax group (1Q10:nil); partially offset by (iii) weaker property revenue (-31% YoY) due to lower sales of the remaining units of its Tianmen Jinwan property in Tianjin.
- 1Q11 EBIT margin also increased to 4.6% (+0.4%-pts YoY) due to the group's on-going investment in technologies and prudent cost management. This was offset by a decline in JV income by 79% YoY due to completion of some projects. Meanwhile, the group reported a lower effective tax rate of 13.9% (-14.2%-pts YoY). The above overall net effect was a decline in 1Q11 net profit by 30.4%. TSH's order book presently stands at SGD1.1 bln, with projects lasting to 2014.

Earnings Outlook / Estimates Revision

- We have reduced our 2011 and 2012 net profit forecasts by about 50% and 6%, respectively after pushing back recognition of some construction projects in 2011 and incorporating higher selling and staff expenses. The group's continued investment in technologies such as the SGD26 mln Prefab Hub to supply precast concrete (to be completed in 3Q11) will help the group sustain its margins by reducing its reliance on labor and increase its cost efficiencies. TSH was recently awarded: (i) SGD104 mln contract from CDL to build the 150-unit Glyndebourne apartment; and (ii) SGD192 mln HDB contract to build 1,072 units in Punggol West, the "Waterway Terraces" which have already been included in our forecasts.
- The outlook seems positive with the sustained roll-out of public works in the next few years. In addition, with the group's new launches set to pick up pace, 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.

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 an asset bubble will likely adversely affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.22 - 0.29
Avg Vol - 12 months ('000 shares)	1,269.6
Price Performance (%)	
- 1 month	-3.8
- 3 month	2.0
- 12 month	-5.7
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.6
Market Cap (SGD mln)	191.5
Enterprise Value (SGD mln)	189.3
Major Shareholders (%)	
Tiong Seng Shareholdings Pte Ltd	59.0
Pek Tiong Choon (Private) Ltd	7.0

Per Share Data

FY Dec.	2009	2010	2011E	2012E
Book Value (SG cents)	17.27	22.62	23.26	26.64
Cash Flow (SG cents)	7.3	2.9	2.1	4.8
Reported Earnings (SG cents)	7.3	3.0	1.6	4.4
Dividend (SG cents)	1.1	1.0	1.0	1.0
Payout Ratio (%)	15.2	40.0	61.1	22.8
PER (x)	3.4	8.3	15.3	5.7
P/Cash Flow (x)	3.4	8.5	12.1	5.2
P/Book Value (x)	1.4	1.1	1.1	0.9
Dividend Yield (%)	4.2	4.0	4.0	4.0
ROE (%)	49.0	14.1	7.1	17.6
Net Gearing (%)	8.9	0.0	0.0	0.0

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Earnings Performance

FY Dec. / SGD mln	1Q11	1Q10	% Change
Reported Revenue	61.5	54.2	13.5
Reported Operating Profit	2.9	2.3	23.9
Depreciation & Amortization	-0.8	-0.7	4.0
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	3.5	5.3	-34.0
Reported Net Profit	2.1	3.1	-30.4
Reported Operating Margin (%)	4.6	4.3	-
Reported Pre-tax Margin (%)	5.6	9.7	-
Reported Net Margin (%)	3.5	5.7	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	375.6	252.3	278.9	491.3
Reported Operating Profit	48.3	11.6	14.8	39.6
Depreciation & Amortization	-1.8	-3.3	-3.3	-3.4
Net Interest Income / (Expense)	-2.7	-0.6	-0.7	-0.8
Reported Pre-tax Profit	65.5	27.2	19.6	42.7
Effective Tax Rate (%)	21.2	13.7	18.0	18.0
Reported Net Profit	41.4	21.4	12.5	33.6
Reported Operating Margin (%)	12.8	4.6	5.3	8.1
Reported Pre-tax Margin (%)	17.4	10.8	7.0	8.7
Reported Net Margin (%)	11.0	8.5	4.5	6.8

Source: Company data, S&P Equity Research

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