

Tiong Seng Holdings

Bloomberg: TSNG SP

Reuters: TISE.SI

Price: SGD0.19

Date: August 15, 2011

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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**Results Review**

- TSH reported a net profit of SGD9.2 mln for 2Q11 (+38% YoY). 1H11 results were ahead of our expectations, making up about 90% of our original full-year net profit forecast. The stronger performance was due to a higher-than-expected EBIT margin of 5.7% (2011E: 5.3%); better-than-expected JV income and a lower effective tax rate of 11.0% (2011E: 18%).
- 1H11 group revenue increased 17% YoY to SGD145.5 mln, driven by (i) higher construction revenue (+21% YoY) mainly from higher works recognition for new and ongoing projects; (ii) higher direct sale and licensing revenue of SGD3.7 mln contributed by the Cobiax group (1H10: nil); partially offset by (iii) weaker property revenue (-58% YoY) due to lower sales of the remaining units of its Tianmen Jinwan property in Tianjin. We, however, expect property revenue to catch up in 2H11, with the maiden revenue contribution from Phase 1 of the City Residence project in Cangzhou where the units sold are expected to be handed over in 3Q11.
- 1H11 EBIT margin remained flat at 5.7%. Meanwhile, the group reported a decline in JV income by 14% YoY to SGD5.0 mln due to completion of certain projects in 2010. Meanwhile, the group reported a lower effective tax rate of 11.0% (-5.6%-pts YoY). The above net effect was an increase in 1H11 net profit by 16.4%. TSH's orderbook stands at SGD1.1 bln, with projects lasting till 2014. The construction outlook remains positive, with the sustained roll-out of public works and HDB's move to ramp up its supply of new flats.

Earnings Outlook / Estimates Revision

- After fine-tuning, we raise our 2011 and 2012 net profit forecasts by about 50% and 4% respectively after incorporating higher JV income mainly in 2011, better margins and a lower effective tax rate of 15% (18% previously). While management expects upward pressure on construction costs, coupled with rising work levies and material costs, the group's push toward productivity such as investment in the SGD26-mln Prefab Hub should help sustain margins.
- TSH recently announced its successful bid for an 85,510 sq m residential site in Suzhou, PRC, which will be developed into a high-end property development project that is expected to yield 880 residential units. With the group's new launches set to pick up pace, its property income should increase, going forward. Although the near-term policy tightening bias will continue to affect property demand in the PRC, we expect prospects for second-tier cities - particularly Tianjin, where TSH's properties are mainly located - to remain healthy. This is 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 formation of asset bubbles will likely adversely affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.19 - 0.29
Avg Vol - 12 months ('000 shares)	1,233.0
Price Performance (%)	
- 1 month	-18.3
- 3 month	-21.7
- 12 month	-21.7
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.6
Market Cap (SGD mln)	144.0
Enterprise Value (SGD mln)	204.4
Major Shareholders (%)	
Tiong Seng Shareholdings Pte Ltd	59.0
Pek Tiong Choon (Private) Ltd	7.0

Per Share Data

	2009	2010	2011E	2012E
FY Dec.				
Book Value (SG cents)	17.27	22.62	24.07	27.63
Cash Flow (SG cents)	7.3	2.9	2.8	4.9
Reported Earnings (SG cents)	7.3	3.0	2.5	4.6
Dividend (SG cents)	1.1	1.0	1.0	1.0
Payout Ratio (%)	15.2	40.0	40.8	21.9
PER (x)	2.6	6.3	7.7	4.1
P/Cash Flow (x)	2.6	6.4	6.6	3.8
P/Book Value (x)	1.1	0.8	0.8	0.7
Dividend Yield (%)	5.6	5.3	5.3	5.3
ROE (%)	49.0	14.1	10.5	17.6
Net Gearing (%)	8.9	0.0	27.3	23.8

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Earnings Performance

FY Dec. / SGD mln	2Q11	2Q10	% Change
Reported Revenue	83.9	70.2	19.5
Reported Operating Profit	5.5	4.8	14.4
Depreciation & Amortization	-0.7	-0.7	-6.2
Net Interest Income / (Expense)	0.0	0.0	NA
Reported Pre-tax Profit	9.9	7.7	29.7
Reported Net Profit	9.2	6.7	37.9
Reported Operating Margin (%)	6.6	6.8	-
Reported Pre-tax Margin (%)	11.8	10.9	-
Reported Net Margin (%)	11.0	9.5	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	375.6	252.3	330.5	476.0
Reported Operating Profit	48.3	11.6	20.0	36.9
Depreciation & Amortization	-1.8	-3.3	-2.9	-2.9
Net Interest Income / (Expense)	-2.7	-0.6	-0.8	-0.9
Reported Pre-tax Profit	65.5	27.2	27.4	41.1
Effective Tax Rate (%)	21.2	13.7	15.0	15.0
Reported Net Profit	41.4	21.4	18.8	34.9
Reported Operating Margin (%)	12.8	4.6	6.1	7.8
Reported Pre-tax Margin (%)	17.4	10.8	8.3	8.6
Reported Net Margin (%)	11.0	8.5	5.7	7.3

Source: Company data, S&P Equity Research

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