

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

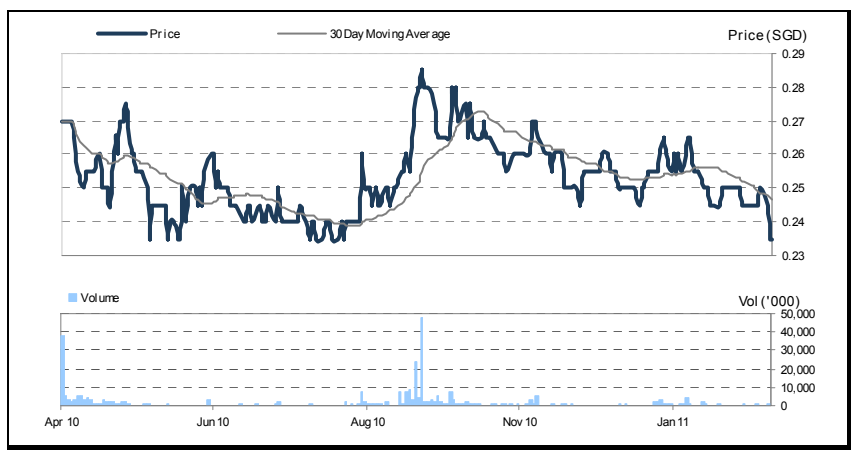
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**Results Review**

- TSH reported 2010 net profit of SGD21.4 mln (-48.2%), which was broadly within our expectations. The group's higher-than-expected gross margin of 14.4% (vs. 2010E:13.5%) and lower effective tax rate of 13.7% (vs. 2010E:20%) were offset by slower-than-expected construction revenue recognition. We believe, however, that earnings may catch up in subsequent quarters as projects hit key billing milestones. A first and final tax-exempt dividend of 1 cent was declared (2009:1.06 cents net).
- 2010 group revenue decreased 32.8% to SGD252.3 mln due to: (i) lower construction revenue with some projects nearing completion/completed while work done amounting to SGD34.6 mln for newly commenced projects such as Hundred Trees, Tree House and NUS staff housing have yet to hit key billing milestones; (ii) completion of Tianmen Jinwan property in 2009 with sales for 2010 derived only from the remaining units; (iii) the absence of any completed property development projects this year.
- 2010 EBIT margin also declined to 4.6% (-8.3 %-pts) due to higher selling expenses and staff costs with additional headcount to support new projects coupled with smaller contribution from the higher-margin property division. Meanwhile, JV income reduced 18% to SGD16.3 mln while the group reported a lower effective tax rate of 13.7% (-7.5%-pts YoY). These altogether resulted in a 48.2% decline in 2010 net profit. TSH's order book presently stands at SGD1.0 bln, with projects lasting to 2013.

Earnings Outlook / Estimates Revision

- We have kept our 2011 net profit forecast largely unchanged at SGD26.5 mln after: (i) pushing back recognition of some construction projects; offset by (ii) higher margins and a lower projected effective tax rate of 18% (vs. 20%). Meanwhile, we introduce our 2012 net profit forecast of SGD35.6 mln. Although the announcement of further foreign workers' levy increases in Budget 2011 is expected to erode gross margin, this should be mitigated by TSH's continued investment in technologies to reduce reliance on labor and increase cost efficiencies. The group recently announced that it is building a SGD26 mln Prefab Hub to supply pre-cast concrete component, to be completed in 3Q11.
- The outlook looks 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 formation of asset bubble will likely adversely affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.24 - 0.29
Avg Vol - 12 months ('000 shares)	1,607.1
Price Performance (%)	
- 1 month	-7.8
- 3 month	-6.0
- 12 month	-13.0
No. of Outstanding Shares (mln)	766.0
Free Float (%)	32.7
Market Cap (SGD mln)	180.0
Enterprise Value (SGD mln)	150.5
Major Shareholders (%)	
Tiong Seng Shareholdings Pte Ltd	59.9
Pek Tiong Choon (Private) Ltd	7.0

Per Share Data

FY Dec.	2009	2010	2011E	2012E
Book Value (SG cents)	17.27	22.62	25.08	28.73
Cash Flow (SG cents)	7.6	3.2	3.9	5.1
Reported Earnings (SG cents)	7.3	2.8	3.5	4.7
Dividend (SG cents)	1.1	1.0	1.0	1.0
Payout Ratio (%)	14.5	35.7	28.9	21.5
PER (x)	3.2	8.4	6.8	5.1
P/Cash Flow (x)	3.1	7.3	6.0	4.6
P/Book Value (x)	1.4	1.0	0.9	0.8
Dividend Yield (%)	4.5	4.3	4.3	4.3
ROE (%)	51.5	15.8	14.5	17.3
Net Gearing (%)	8.9	0.0	0.0	0.0

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Earnings Performance

FY Dec. / SGD mln	4Q10	4Q09	% Change
Reported Revenue	37.9	74.0	-48.8
Reported Operating Profit	-1.7	9.8	NM
Depreciation & Amortization	-1.0	-0.1	>100
Net Interest Income / (Expense)	-0.6	0.0	NM
Reported Pre-tax Profit	4.9	17.1	-71.4
Reported Net Profit	4.2	12.2	-65.2
Reported Operating Margin (%)	-4.6	13.3	-
Reported Pre-tax Margin (%)	12.9	23.1	-
Reported Net Margin (%)	11.2	16.5	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	375.6	252.3	392.5	503.1
Reported Operating Profit	48.3	11.6	29.1	42.0
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	37.1	45.3
Effective Tax Rate (%)	21.2	13.7	18.0	18.0
Reported Net Profit	41.4	21.4	26.5	35.6
Reported Operating Margin (%)	12.8	4.6	7.4	8.3
Reported Pre-tax Margin (%)	17.4	10.8	9.5	9.0
Reported Net Margin (%)	11.0	8.5	6.8	7.1

Source: Company data, S&P Equity Research

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