



BUY

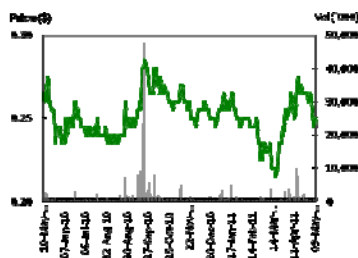
1Q11 Results

Analyst

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Price \$0.25
Target \$0.33
ST Index 3,156.26

Historical Chart



| Performance | 1m | 3m | 6m |
|--------------|------|------|------|
| Absolute (%) | -2.0 | 2.0 | -7.4 |
| Relative (%) | -1.8 | -0.5 | -3.4 |

Stock Information

| | |
|------------------------|-------------------------------|
| Ticker code | TISE.SI TNSG SP |
| Market cap (US\$m) | 155.5 |
| 52-week high (S\$) | 0.285 |
| 52-week low (S\$) | 0.215 |
| Shares issued (m) | 766.0 |
| 6m avg d.vol (US\$m) | 0.2 |
| Free float (%) | 34 |
| Major shareholders (%) | |
| | Tiong Seng Shareholdings (59) |
| | Peck Tiong Choon Limited (7) |

Key Indicators

| | |
|--------------------|------|
| ROE (%) | 18.7 |
| Net gearing (%) | 13.3 |
| RNAV (\$) | 0.59 |
| Interest cover (x) | 5.8 |

Tiong Seng Holdings

Orderbook strengthened

Event

- Tiong Seng announced a net profit of \$2.1m for 1Q11, albeit still short of our expectation. Revenue grew by 14% to \$56m, from \$49m a year ago, thanks to an increase in work done for ongoing projects such as The Wharf Residence and The Volari, as well as maiden recognition from the NUS staff housing project. Net profit fell by 30% YoY with the completion of major JV projects last year, including the Sentosa integrated resort and the MBFC Phase 1. Maintain BUY.

Our View

- Construction contributed 91% of overall revenue for 1Q11. Tiong Seng had recognised a total of \$56m from its orderbook with gross margin rising to 13%, from 10% in 1Q10. There is still a strong orderbook of \$1.1b to be recognised over the next 12-30 months, one of the highest among its listed peers.
- Last month, Tiong Seng replenished its orderbook by securing two contracts. The first, worth \$192m, was awarded by the Housing and Development Board (HDB) to build the first waterfront public housing project in Punggol, called Punggol Waterway Terraces. The contract reaffirms our belief that Tiong Seng's A1 grading from the Building and Construction Authority (BCA) enables it to tap on opportunities in the HDB segment, where 22,000 new flats are expected this year. The second contract, worth \$104m, is from City Developments for the construction of Glyndebourne at Dunearn Road.
- Although 1Q11 revenue from the construction segment did not meet our expectation, we believe it would be a matter of time before contributions would measure up as new projects enter into revenue recognition phases. In addition, the completion of the Cangzhou development project in 3Q11 should see at least \$60m in pre-sale proceeds bolstering full-year earnings.

Action & Recommendation

We reiterate our BUY recommendation and target price of \$0.33, based on SOTP valuation.

| Year End Dec 31 | 2009 | 2010 | 2011F | 2012F | 2013F |
|--------------------|-------|-------|-------|-------|-------|
| Sales (S\$ m) | 375.6 | 252.3 | 409.6 | 592.8 | 822.8 |
| Pre-tax (S\$ m) | 65.5 | 27.2 | 44.2 | 62.1 | 100.7 |
| Net profit (S\$ m) | 41.4 | 21.4 | 28.8 | 33.8 | 43.1 |
| EPS (S cts) | 7.3 | 2.8 | 3.8 | 4.4 | 5.6 |
| EPS growth (%) | 347 | -62 | 34 | 17 | 28 |
| PER (x) | 3.3 | 8.6 | 6.4 | 5.4 | 4.3 |
| EV/EBITDA (x) | 1.9 | 3.7 | 2.9 | 1.8 | 0.6 |
| Yield (%) | 4.4 | 4.2 | 4.2 | 4.2 | 4.2 |

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Orderbook replenished

In 1Q11, Tiong Seng recognised \$56m worth of work done from its orderbook. To replenish it, the company successfully clinched two new contracts last month.

The first, valued at \$192m, was a HDB contract to build Singapore's first waterfront public housing flats in Punggol, called Punggol Waterway Terraces. Winning this contract reaffirms our belief that Tiong Seng's A1 grading from the BCA has enabled it to seize opportunities in the HDB segment, where a record rollout of 22,000 flats is expected this year. The second contract, valued at \$104m, was awarded by City Developments for the construction of Glyndebourne, a freehold, high-end condominium development at Dunearn Road.

The two contracts together account for about 50% of our forecast contract wins this year, and should help Tiong Seng maintain its orderbook at above the \$1b mark.

Figure 1: Artists' impressions of Punggol Waterway Terraces and CDL's Glyndebourne



Source: Company data

Property development in China

Tiong Seng expects the maiden revenue contribution from Sunny International Project (SIP), its mixed development project in Cangzhou, Hebei Province, to be in excess of \$60m. This will be recognised after the project is completed in 3Q11. To recap, the entire project is divided into four phases. Phase 1 consists of three residential blocks and a five-storey commercial building. Tiong Seng owns a 40% equity stake in the project.

Figure 2: Sunny International Project in Cangzhou, Hebei

Source: Company data

Government infrastructure spending – Downtown Line Stage 3

Thus far, the contracts for the construction of five stations for Stage 3 of the Downtown MRT Line have all been won by foreign companies. The total value of the awarded contracts, including the standalone tunnelling and trackwork contracts, stands at \$1.3b. Most tenders have closed and are currently being evaluated by the Land Transport Authority. The results will be progressively announced between now and 3Q11. We estimate the remaining contracts are worth about \$2.5b. We are confident Tiong Seng has the ability to win at least one contract, either on its own or through a JV partnership.

Figure 3: Contracts for Downtown Line Stage 3

| Station number | Station name | Tender close date | Awarded to | Contract amount (\$m) |
|----------------|------------------|-------------------|-------------------------|-----------------------|
| DT20 | River Valley | April 2011 | <i>Under evaluation</i> | - |
| DT21 | Bencoolen | January 2011 | Sato Kogyo | \$177.6 |
| DT22 | Sungei Road | February 2011 | <i>Under evaluation</i> | - |
| DT23 | Jalan Besar | May 2011 | Open for tender | - |
| DT24 | Kallang Bahru | March 2011 | <i>Under evaluation</i> | - |
| DT25 | Mattar | January 2011 | Sato Kogyo | \$199.9 |
| DT26/CC10 | MacPherson | January 2011 | Hyundai | \$188.0 |
| DT27 | Ubi | December 2010 | SK E&C | \$161.7 |
| DT28 | Kaki Bukit | March 2011 | <i>Under evaluation</i> | - |
| DT29 | Bedok Town Park | December 2010 | Sato Kogyo | \$268.7 |
| DT30 | Bedok Reservoir | February 2011 | <i>Under evaluation</i> | - |
| DT31 | Tampines West | March 2011 | <i>Under evaluation</i> | - |
| DT32/EW2 | Tampines Central | April 2011 | <i>Under evaluation</i> | - |
| DT33 | Tampines East | April 2011 | <i>Under evaluation</i> | - |
| DT34 | Upper Changi | May 2011 | Open for tender | - |
| DT35/CG1 | Expo | February 2011 | <i>Under evaluation</i> | - |

Source: Company data

Figure 4: Tiong Seng's 1Q11 results snippets

| | 1Q11 (\$m) | 1Q10 (\$m) | 4Q10 (\$m) | QoQ change | YoY change | Remarks |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---|
| Revenue | 61.5 | 54.2 | 37.9 | 62% | 13% | Increase in work done and maiden contributions from new projects. Fewer units in Tianjin Jinwan Building sold. |
| - Construction contracts | 56.0 | 48.9 | 29.1 | 92% | 15% | |
| - Property development | 3.6 | 5.1 | 7.4 | -51% | -29% | |
| - Direct sales | 1.7 | - | 1.1 | 55% | Na | |
| - Rental income | 0.3 | 0.2 | 0.3 | 0% | 50% | |
| Operating profit | 3.1 | 3.1 | (2.1) | Na | 0% | |
| PBT | 3.5 | 5.3 | 4.9 | -29% | -34% | Lower contribution from JV projects. |
| Net profit | 2.1 | 3.8 | 4.2 | -50% | -45% | |

Source: Company data

Profit and loss

| YE Dec (\$m) | 2009 | 2010 | 2011F | 2012F | 2013F |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 375.6 | 252.3 | 409.6 | 592.8 | 822.8 |
| Cost of goods sold | -315.0 | -216.0 | -352.2 | -505.9 | -684.9 |
| Gross Profit | 60.6 | 36.3 | 57.4 | 87.0 | 137.8 |
| Operating expenses | -22.0 | -30.0 | -29.6 | -36.2 | -44.4 |
| Operating Profit | 47.4 | 12.6 | 34.8 | 57.8 | 100.5 |
| Net interest | -1.8 | -1.7 | -1.7 | -1.7 | -1.7 |
| Interest income | 3.6 | 2.0 | 2.0 | 2.0 | 2.0 |
| Interest expense | -5.5 | -3.7 | -3.7 | -3.7 | -3.7 |
| Net investment income/(loss) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net other non-op. JV+Assoc. | 20.0 | 16.3 | 11.1 | 6.0 | 1.9 |
| Net exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax income | 65.5 | 27.2 | 44.2 | 62.1 | 100.7 |
| Income taxes | -13.9 | -3.7 | -8.8 | -15.5 | -30.2 |
| Minority Interest | 10.2 | 2.0 | 6.6 | 12.8 | 27.4 |
| Net profit | 41.4 | 21.4 | 28.8 | 33.8 | 43.1 |
| EBITDA | 77.6 | 41.4 | 59.0 | 89.7 | 140.4 |
| EPS basic (\$ cts) | 7.3 | 2.8 | 3.8 | 4.4 | 5.6 |
| EPS fully diluted (\$ cts) | 7.3 | 2.8 | 3.8 | 4.4 | 5.6 |

Source: Company data, Kim Eng estimates

Balance sheet

| YE Dec (\$m) | 2009 | 2010 | 2011F | 2012F | 2013F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total assets | 367.3 | 549.7 | 513.3 | 552.3 | 635.7 |
| Current assets | 281.3 | 465.7 | 405.2 | 445.8 | 530.6 |
| Cash and bank balances | 32.8 | 86.5 | 71.3 | 82.5 | 154.9 |
| Development properties | 80.2 | 207.0 | 188.9 | 218.4 | 230.7 |
| Accounts receivable | 168.3 | 172.1 | 145.0 | 145.0 | 145.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 86.0 | 84.0 | 108.1 | 106.5 | 105.1 |
| Property, plant & Eqt | 22.7 | 21.0 | 22.1 | 23.2 | 24.3 |
| Investment properties | 23.1 | 30.4 | 53.9 | 51.2 | 48.6 |
| Others | 40.3 | 32.6 | 32.1 | 32.1 | 32.1 |
| Total liabilities | 223.1 | 327.6 | 247.2 | 233.6 | 233.6 |
| Current liabilities | 188.0 | 277.1 | 196.6 | 183.0 | 183.0 |
| Creditors & accruals | 147.4 | 241.5 | 161.6 | 148.0 | 148.0 |
| ST borrowings | 19.5 | 13.1 | 15.0 | 15.0 | 15.0 |
| Others | 21.1 | 22.5 | 20.0 | 20.0 | 20.0 |
| Long-term liabilities | 35.1 | 50.5 | 50.6 | 50.6 | 50.6 |
| Long-term debts | 22.0 | 44.0 | 44.0 | 44.0 | 44.0 |
| Others | 13.1 | 6.6 | 6.6 | 6.6 | 6.6 |
| Shareholder's equity | 144.3 | 222.1 | 257.4 | 304.0 | 374.5 |
| Paid-in capital | 20.0 | 154.6 | 154.6 | 154.6 | 154.6 |
| Reserve | -1.5 | -79.7 | -79.7 | -79.7 | -79.7 |
| Others | 125.8 | 147.2 | 182.5 | 229.1 | 299.6 |

Source: Company data, Kim Eng estimates

Cash flow

| YE Dec (\$m) | 2009 | 2010 | 2011F | 2012F | 2013F |
|------------------------------|--------------|--------------|--------------|-------------|--------------|
| Operating cash flow | 64.4 | -27.6 | -7.8 | 9.4 | 82.7 |
| Net Profit | 47.4 | 12.6 | 34.8 | 57.8 | 100.5 |
| Depreciation & amortisation | 18.8 | 8.4 | 1.5 | 2.7 | 2.6 |
| Change in working capital | 1.9 | -37.9 | -35.2 | -43.1 | -12.3 |
| Others | -3.7 | -10.8 | -9.0 | -8.0 | -8.0 |
| Investment cash flow | -0.1 | 20.9 | -7.0 | 2.0 | -10.0 |
| Net capex | -1.9 | -10.2 | -25.0 | -10.0 | -10.0 |
| Change in LT investment | 3.7 | 33.6 | 18.0 | 12.0 | 0.0 |
| Change in other assets | -1.9 | -2.5 | 0.0 | 0.0 | 0.0 |
| Cash flow after invt. | 64.3 | -6.7 | -14.8 | 11.4 | 72.7 |
| Financing cash flow | -27.2 | 61.7 | 1.9 | 0.0 | 0.0 |
| Change in share capital | 0.0 | 54.7 | 0.0 | 0.0 | 0.0 |
| Net change in debt | -19.0 | 15.0 | 1.9 | 0.0 | 0.0 |
| Change in other LT liab. | -8.1 | -8.0 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 37.2 | 55.0 | -13.0 | 11.4 | 72.7 |

Source: Company data, Kim Eng estimates

Key ratios

| YE Dec | 2009 | 2010 | 2011F | 2012F | 2013F |
|--------------------------------|-------|-------|-------|-------|-------|
| Growth (% YoY) | | | | | |
| Sales | 38 | -33 | 62 | 45 | 39 |
| OP | 1625 | -73 | 176 | 66 | 74 |
| EBITDA | 117 | -47 | 42 | 52 | 57 |
| NP | 347 | -48 | 34 | 17 | 28 |
| EPS | 347 | -62 | 34 | 17 | 28 |
| Profitability (%) | | | | | |
| Operating margin | 13 | 5 | 8 | 10 | 12 |
| EBITDA margin | 21 | 16 | 14 | 15 | 17 |
| Net Profit margin | 11 | 9 | 7 | 6 | 5 |
| ROA | 11 | 4 | 6 | 6 | 7 |
| ROE | 54 | 19 | 23 | 30 | 37 |
| Stability | | | | | |
| Gross debt/equity (%) | 29 | 26 | 23 | 19 | 16 |
| Net debt/equity (%) | 6 | -13 | -5 | -8 | -26 |
| Int. coverage (X) | 7.6 | 5.8 | 7.8 | 9.2 | 11.7 |
| Int. & ST debt coverage (X) | -41.5 | 7.2 | 16.3 | 24.7 | 35.5 |
| Cash flow int. coverage (X) | -41.5 | 7.2 | 16.3 | 24.7 | 35.5 |
| Cash flow int. & ST debt (X) | 6.8 | 14.9 | -3.5 | 3.1 | 19.7 |
| Current ratio (X) | 1.5 | 1.7 | 2.1 | 2.4 | 2.9 |
| Quick ratio (X) | 1.5 | 1.3 | 1.8 | 2.1 | 2.3 |
| Net debt (\$m) | 8.7 | -29.5 | -12.3 | -23.5 | -95.9 |
| Per share data (\$ cts) | | | | | |
| EPS basic | 7.3 | 2.8 | 3.8 | 4.4 | 5.6 |
| CFPS | 11.4 | -3.6 | -1.0 | 1.2 | 10.8 |
| BVPS | 25.5 | 29.0 | 33.6 | 39.7 | 48.9 |
| SPS | 66.5 | 32.9 | 53.5 | 77.4 | 107.4 |
| EBITDA/share | 13.7 | 5.4 | 7.7 | 11.7 | 18.3 |
| DPS | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |

Source: Company data, Kim Eng estimates

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Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY
 -15% to +15%: HOLD
 -15% or worse: SELL

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AND
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