



BUY

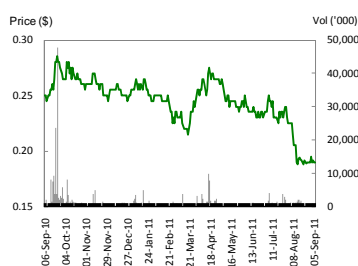
Company Updates

Analyst

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Price \$0.19
Target \$0.27
ST Index 2,774.33

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-11.6	-20.8	-17.4
Relative (%)	-4.6	-11.1	-8.7

Stock Information

Ticker code	TISE.SI
	TSNG SP
Market cap (\$m)	120.2
52-week high (\$)	0.285
52-week low (\$)	0.188
Shares issued (m)	766.0
6m avg d.vol (\$m)	0.2
Free float (%)	34
Major shareholders (%)	
	Tiong Seng Shareholdings (59)
	Peck Tiong Choon Limited (7)

Key Indicators

ROE (%)	11
Net gearing – Jun 11 (%)	34
NAV (\$)	0.2321
Interest cover (x)	7.8

Tiong Seng Holdings

Builder for costliest flats

Event

- Tiong Seng submitted the lowest bid for the most costly HDB project to date, the 804-unit Punggol Waterway Terraces (PWT) II. Last week, the award of the last 3 contracts wraps up the tender for Downtown Line (DTL) Stage 3, it was overall disappointing for local builders. The upcoming launch of 3 Balmoral by Tong Eng is expected to set Balmoral's primary market prices at \$2,350 to \$2,600psf. At this price, Tiong Seng's redevelopment of Balmoral Condo yields 10-15% profit margins. The stock is grossly undervalued, the current price values its stable construction business at just 2x P/E. Maintain BUY with adjusted target price of \$0.27.

Our View

- HDB released PWT II in May 2011's BTO, priced at \$354,000-\$456,000 for 5-room flats. Its construction tender, closed last week, saw 5 bids with the lowest from Tiong Seng, at \$146.6m or \$182,392 per unit (2% higher than PWT I awarded to Tiong Seng in April 2011). The expected win brings the total contract this year to \$443m, on track to meet our \$600m forecast.
- Last week, the LTA awarded the last 3 contracts for DTL Stage 3. In all, 18 contracts worth a total of \$3.5b have been awarded to foreign companies, with the exception of Tampines Central Station. The number of new foreign entrants in the civil engineering space surprised most local builders. The added competition has driven margins in this space to a new low.
- The launch of 3 Balmoral by Tong Eng will set new prices for Balmoral. The last condominium launch in Balmoral was two years ago when 85-unit Volari sold for \$2,000 psf in 2009. Units at 3 Balmoral are priced in the range of \$2,350 to \$2,600 psf. Using an ASP of \$2,500 psf, the redevelopment of Balmoral Condo yields 15% pre-tax margins (breakeven of \$2,070 psf).
- The Building and Construction Authority (BCA) revised its construction demand forecast on 5 August 2011 from \$22-\$28b to \$24-\$30b after taking into account the stronger demand from the public residential sector. This bodes well for Tiong Seng as it is the biggest winner of HDB contracts in 2011, securing nearly 10% (including the expected win of PWT II) of the total \$3.5b building contract year-to-date by HDB.

Action & Recommendation

We maintain a BUY recommendation with revised SOTP target price of \$0.27.

Year End Dec 31	2009	2010	2011F	2012F	2013F
Sales (\$m)	375.6	252.3	409.6	524.8	722.3
Pre-tax (\$m)	65.5	27.2	44.2	57.7	78.9
Net profit (\$m)	41.4	21.4	28.8	30.5	33.9
EPS (S cts)	7.3	2.8	3.8	4.0	4.4
EPS growth (%)	347	-62	34	6	11
PER (x)	2.6	6.8	5.1	4.8	4.3
EV/EBITDA (x)	1.8	5.5	3.9	2.5	1.2
Yield (%)	5.6	5.3	5.3	5.3	5.3

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1: Artists' impression of Punggol Waterway Terraces II

Source: HDB

Figure 2: HDB contracts in 2011

Tender close	Estate	Housing units	Contractor	Value (\$m)	Per unit cost
07-Jan-11	Sengkang	504	Straits Construction Singapore	72.0	142,857
14-Jan-11	Jurong West	465	Jian Huang	51.5	110,753
31-Jan-11	Bukit Panjang	741	Poh Lian	102.9	138,839
02-Mar-11	Punggol	1,072	Tiong Seng	192.2	179,291
18-Mar-11	Bukit Batok	180	Fujian Chengjian	13.9	76,992
09-Mar-11	Yishun	1,408	Tembuild	189.0	134,233
28-Mar-11	Woodlands	1,329	China Construction	168.7	126,938
18-Apr-11	Yishun	696	Wee Hur	109.0	156,609
20-Apr-11	Yishun	948	LC&T	124.5	131,329
27-Apr-11	Bukit Panjang	577	Vigcon	73.3	127,036
11-May-11	Sengkang	745	China Jingye	94.8	127,217
13-May-11	Sengkang	521	Wan Chung	69.5	133,397
16-May-11	Sengkang	382	Progressive Builders	61.0	159,686
06-Jun-11	Yishun	1,400	Straits Construction Singapore	192.0	137,129
29-Jun-11	Sengkang	1,036	LC&T	145.0	139,961
06-Jul-11	Jurong West	491	CCM Industrial	68.2	138,829
11-Jul-11	Sembawang	578	Yau Lee*	76.9	133,076
13-Jul-11	Hougang	792	Chip Eng Seng	113.0	142,677
18-Jul-11	Bukit Panjang	690	Kay Lim*	109.8	159,130
29-Jul-11	Sengkang	1,011	Kay Lim*	143.0	141,444
01-Aug-11	Punggol West	1,010	Expand Construction*	157.6	156,040
03-Aug-11	Tampines	522	V3 Construction*	57.9	110,858
05-Aug-11	Tampines	960	Soil Build*	131.0	136,458
08-Aug-11	Sengkang	675	Wee Hur*	98.3	145,600
10-Aug-11	Yishun	364	Ken-Pal*	62.5	171,703
12-Aug-11	Jurong West	232	Meng Yeow*	18.2	78,241
15-Aug-11	Punggol West	682	Fonda Global*	97.8	143,402
17-Aug-11	Sengkang	717	Progressive Builders*	106.7	148,815
19-Aug-11	Pasir Ris	1,386	Singapore Piling & Civil Engineering*	179.0	129,131
22-Aug-11	Punggol East	1,312	Sunhuan*	207.8	158,384
26-Aug-11	Bukit Panjang	300	Ningbo*	49.7	165,533
29-Aug-11	Pasir Ris	185	Meng Yeow*	14.7	79,238
02-Sep-11	Punggol West	804	Tiong Seng*	146.6	182,392
Total				3,498.0	

Source: HDB, *Based on lowest bid in provisional results, actual results might vary

Figure 3: Downtown Line Stage 3 contracts

Tender close	Contract	Contractor	Country	Value (\$m)
29-Nov-10	Tunnels between Ubi and Kaki Bukit Stations	Nishimatsu Construction	Japan	211.7
03-Dec-10	Bedok Town Park Station and tunnels	Sato Kogyo	Japan	268.7
06-Dec-10	Trackworks	CTCI Corporation	Taiwan	136.0
15-Dec-10	Ubi Station and tunnels	SK Engineering and Construction	Korea	161.7
03-Jan-11	Bencoolen Station	Sato Kogyo	Japan	177.6
04-Jan-11	Mattar Station and tunnels	Sato Kogyo	Japan	199.9
20-Jan-11	Macpherson Station and tunnels	Hyundai	Korea	188.0
10-Feb-11	Expo Station and tunnels	Samsung C&T	Korea	211.4
18-Feb-11	Sungei Road Station and tunnels	Leighton Offshore - John Holland	Australia	171.5
25-Feb-11	Bedok Reservoir Station and tunnels	Cooperativa Muratori & Cementisti - C.M.C di Ravenna	Italy	196.5
04-Mar-11	Kallang Bahru Station	China State Construction Engineering	China	123.0
18-Mar-11	Tampines West Station and tunnels	Cooperativa Muratori & Cementisti - C.M.C di Ravenna	Italy	226.9
21-Mar-11	Kaki Bukit Station	China State Construction Engineering	China	93.8
08-Apr-11	Tampines Central Station	KTC Civil Engineering & Construction	Singapore	118.5
08-Apr-11	River Valley Station and tunnels	GS Engineering & Construction	Korea	255.1
20-Apr-11	Tampines East Station and tunnels	GS Engineering & Construction	Korea	208.5
29-Apr-11	Tunnels between Tampines East Station and Upper Changi Station	Shanghai Tunnel	China	91.1
20-May-11	Upper Changi Station and tunnels	Samsung C&T	Korea	257.0
27-May-11	Jalan Besar Station and tunnels	Penta-Ocean Construction	Japan	215.2
			Total	3,511.9

Source: LTA, Kim Eng

Figure 4: BCA revised forecast for construction demand

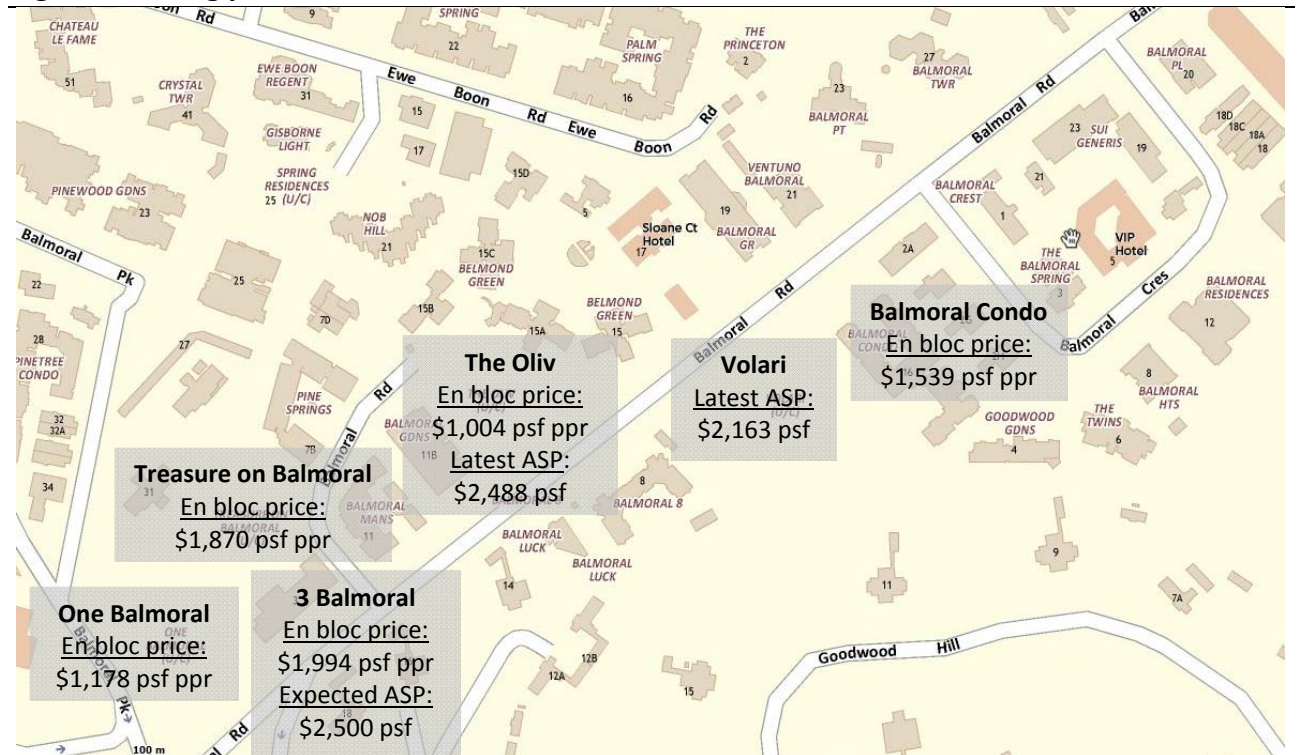
Sector	Segment	Jan 11	Aug 11
Public	Residential	2.8 – 3.3	4.4 – 5.8
	Commercial	0.1	0.1
	Industrial	0.2 – 0.7	0.1 – 0.3
	Institutional & others	2.5 – 3.1	2.0 – 3.0
	Civil engineering	6.4 – 7.8	6.4 – 7.8
<i>Subtotal</i>		<i>12.0 – 15.0</i>	<i>13.0 – 17.0</i>
Private	Residential	5.1 – 6.1	5.0 – 5.5
	Commercial	2.1 – 3.0	2.1 – 3.0
	Industrial	1.8 – 2.6	3.0 – 3.5
	Institutional & others	0.5 – 0.6	0.4 – 0.5
	Civil engineering	0.5 – 0.7	0.4 – 0.5
<i>Subtotal</i>		<i>10.0 – 13.0</i>	<i>11.0 – 13.0</i>
<i>Total</i>		<i>22.0 – 28.0</i>	<i>24.0 – 30.0</i>

Source: LTA, Kim Eng

Figure 5: Supply of residential units in Balmoral

	Volari ^A	One Balmoral	3 Balmoral	The Oliv	Treasure on Balmoral	Balmoral Condo	Total
Developer	CDL	Hong Leong	Tong Eng / Clarus	TG	Hiap Hoe	Tong Eng / Clarus / Tiong Seng	
Gross floor area (sq ft)	163,492	106,043	24,574	54,437	73,767	91,622	
En bloc price (\$m)	-	125	49	54.7	138	141	
En bloc price (\$psf)	-	1,178	1,994	1,004	1,870	1,539	
En bloc date	-	Mar 2007	Jun 2007	Aug 2007	Oct 2007	Jun 2011	
Units built	85	91	40	23	48	100	387
Units sold	84	0	0	4	0	0	88
Units unsold	1	91	40	19	48	100	299

Source: URA, Kim Eng

Figure 6: Selling prices in Balmoral

Source: URA, Kim Eng

Figure 7: Development landbank

Project	Location	Type	Stake (%)	GFA (sq m)	Est. GDV (\$m)
<i>China</i>					
Sunny International	Cangzhou, Hebei	Mixed	40	59,960	75.5
Dagang	Tianjin	Landed	58	116,000	346.4
Tianjin Eco-City	Tianjin	Residential	9	32,400	75.6
Zizhulin	Tianjin	Commercial	80	9,600	3.8
Suzhou	Suzhou	Mixed	100	85,510	164.4
		Subtotal		303,470	665.7
<i>Singapore</i>					
Balmoral Condo	Singapore	Residential	30	2,542	68.4
		Subtotal		2,542	68.4
		Total		306,012	734.1

Source: Company data

Figure 8: SOTP valuation

	Valuation basis	Value (\$m)	Per share value
Construction	5x FY11F	116.7	\$0.15
Property development	RNAV		
Book value		62.0	\$0.08
Development profits discounted at 15%		86.5	\$0.11
RNAV for property development		148.5	\$0.19
Premium / (Discount)		(40%)	
Discounted RNAV		89.0	\$0.12
SOTP		205.8	
Number of shares (m)		766.0	
Fair value (\$/share)		\$0.27	

Source: Company data, Kim Eng estimates

Profit and loss

YE Dec (\$m)	2009	2010	2011F	2012F	2013F
Sales	375.6	252.3	409.6	524.8	722.3
Cost of goods sold	-315.0	-216.0	-352.2	-444.6	-609.8
Gross Profit	60.6	36.3	57.4	80.2	112.5
Operating expenses	-22.0	-30.0	-29.6	-33.8	-40.9
Operating Profit	47.4	12.6	34.8	53.4	78.7
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	57.7	78.9
Income taxes	-13.9	-3.7	-8.8	-14.4	-23.7
Minority Interest	10.2	2.0	6.6	12.8	21.3
Net profit	41.4	21.4	28.8	30.5	33.9
EBITDA	66.2	21.0	36.3	56.1	81.2
EPS basic (\$ cts)	7.3	2.8	3.8	4.0	4.4
EPS fully diluted (\$ cts)	7.3	2.8	3.8	4.0	4.4

Source: Company data, Kim Eng estimates

Balance sheet

YE Dec (\$m)	2009	2010	2011F	2012F	2013F
Total assets	367.3	549.7	505.6	532.6	586.5
Current assets	281.3	465.7	397.6	426.1	481.4
Cash and bank balances	32.8	86.5	63.7	62.7	105.7
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	300.7	355.9
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	225.8	281.0

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	5.0	60.9
Net Profit	47.4	12.6	34.8	53.4	78.7
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
Assoc & JV	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	7.0	50.9
Financing cash flow	-27.2	61.7	-5.8	-7.7	-7.7
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	-2.0	0.0	0.0	0.0
Dividends paid	0.0	-6.0	-7.7	-7.7	-7.7
Net cash flow	37.2	55.0	-20.6	-0.7	43.2

Source: Company data, Kim Eng estimates

Key ratios

YE Dec	2009	2010	2011F	2012F	2013F
Growth (% YoY)					
Sales	38	-33	62	28	38
OP	1625	-73	176	53	47
EBITDA	278	-68	73	54	45
NP	347	-48	34	6	11
EPS	347	-62	34	6	11
Profitability (%)					
Operating margin	13	5	8	10	11
EBITDA margin	18	8	9	11	11
Net profit margin	11	9	7	6	5
ROA	11	4	6	6	6
ROE	29	10	11	10	10
Stability					
Gross debt/equity (%)	29	26	23	20	17
Net debt/equity (%)	6	-13	-2	-1	-13
Int. coverage (X)	7.6	5.8	7.8	8.3	9.2
Cash flow int. coverage (X)	6.8	14.9	-5.6	-0.2	11.7
Current ratio (X)	1.5	1.7	2.0	2.3	2.6
Quick ratio (X)	1.1	0.9	1.1	1.1	1.4
Net debt (\$m)	8.7	-29.5	-4.7	-3.7	-46.7
Per share data (\$ cts)					
EPS basic	7.3	2.8	3.8	4.0	4.4
CFPS	11.4	-3.6	-1.0	0.6	7.9
BVPS	25.5	29.0	33.6	39.3	46.5
SPS	66.5	32.9	53.5	68.5	94.3
EBITDA/share	11.7	2.7	4.7	7.3	10.6
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

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES
AND
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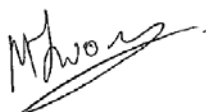
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