Analyse This…

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Tiong Seng Holdings Ltd

Expecting a better 9 months to follow…

TSNG SP
BUY; TP : S$0.35

Price @13/05/11: S$0.245
52-week range (SGD): 0.215 – 0.30
Market cap: S$187.7m

Maintain BUY; TP S$0.35

- Maintain BUY, TP adjusted slightly to S$0.35 (previously S$036), still based on Sum-Of-The-Parts valuation. We reduced our FY11-13 net profit estimates by 11-15% to factor in expectations of weaker JV contributions and higher operating expenses. Trading below its peer average of 7.8x CY12 P/E, TSNG's valuation (5.6x CY12 P/E) remains undemanding against its superior 3-yr EPS CAGR of 23% (Peer's average: 15%), in our view.
- 1Q11 below. Net profit of S$2.1m (-30% yoy) fell short of our forecast, forming less than 8% of our FY11 estimate. Positives from this set of result were a healthy top line growth and gross profit margin expansion. However, these were more than offset by higher operating expenses and lower contributions from joint ventures.
- Expecting a better 9 months to follow, backed by a hefty construction order book of S$1.1bn to be recognised over the next 12-30 months. We are also expecting higher contributions from its property development business in FY11, with the handing over of the Phase 1 of its Sunny International project expected to begin in 3Q11.

Results summary

FYE Dec (S$m)	1Q11	1Q10	yoy % chg	4Q10	qoq % chg
Revenue	61.5	54.2	*13.5*	37.9	*62.5*
Operating costs	(61.1)	(52.4)	*16.8*	(42.1)	*45.1*
EBITDA	0.4	1.8	*(78.0)*	(4.3)	*109.5*
EBITDA margin (%)	*0.7*	*3.4*		*(11.3)*	
Depn & amort.	(1.4)	(2.5)	*(43.8)*	(1.9)	*(23.3)*
EBIT	(1.0)	(0.7)	*47.0*	(6.1)	*(83.4)*
Interest expense	(0.5)	(1.2)	*(59.2)*	(0.8)	*(42.1)*
Interest & invt inc	2.7	2.8	*(3.9)*	2.6	*2.9*
Associates' contrib	0.6	2.9	*(79.3)*	7.3	*(91.6)*
Exceptionals	-	-	-	-	-
Pretax profit	1.8	3.8	*(53.8)*	2.9	*(39.0)*
Tax	(0.5)	(1.5)	*(67.3)*	0.3	*(247.7)*
Tax rate (%)	27.2	38.5		(11.2)	
Minority interests	(0.8)	(0.7)	*19.4*	(1.0)	*(14.9)*
Net profit	2.1	3.1	*(30.4)*	4.2	*(49.4)*
Core net profit	2.1	3.1	*(30.4)*	4.2	*(49.4)*
EPS (S cts)	0.3	0.5	*(48.6)*	0.6	*(49.4)*
Core EPS (S cts)	0.3	0.5	*(48.6)*	0.6	*(49.4)*

Source: Company, CIMB Research

1Q11 results beneath expectation

- 1Q11 net profit of S$2.1m (-30% yoy) fell short of our forecast, forming less than 8% of our FY11 estimate. Positives from this set of result were a healthy top line growth and gross profit margin expansion. However, these were more than offset by higher operating expenses and lower contributions from joint ventures that came in below expectations.
- 1Q11 revenue rose +14% yoy to S$61.5m on the back of higher construction revenue which offset slightly lower development properties sales. Revenue from construction contracts increased 14% yoy to S$56m due to higher recognition for work done on new and on-going projects like The Wharf Residences, Volari Hotel and NUS Staff Housing. As at 31 Mar 2011, work done for newly commenced construction projects (Hundred Trees and Tree House) amounting to S$21.8m have yet to be recognized in accordance with the Group's recognition policy. Property development sales of S$3.6m in 1Q11 were contributed by sale of units in Tianmen Jinwan Building in Tianjin. As at 31 Mar 2011, 14 units totaling 2,553 sqm are fully sold but not yet recognized as revenue.
- Gross profit margin (GPM) for its construction business improved 3.7% pts yoy to 13.3%, while GPM of its property development segment rose 9.4% pts to 54.9%, bringing the Group's GPM for the quarter nearly 4% pts higher from a year ago. However, the better GPM was more than offset by higher operating expenses, which was up 59% yoy to S$9.1m as a result of increased headcount (also due to staff cost relating to Cobiax Group acquired in 3Q10) to support new projects and higher selling expenses. Contribution from JVs (S$0.6m; -79% yoy) came in lower-than-expected as projects wind down from peak levels in 1Q10.
- Cash from operations showed net outflow of S$15m due to heavier working capital requirements (construction WIP and for development properties). Despite the net operating cash out flow, TSNG remains in a net cash position, with net cash per share at 0.3 scts.

Financial highlights

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (S$ m)	375.6	252.3	284.6	396.0	453.2
EBITDA (S$ m)	43.5	11.0	12.6	20.2	21.3
EBITDA margins (%)	11.6	4.4	4.4	5.1	4.7
Pretax profit (S$ m)	51.6	23.5	25.0	36.8	43.1
Net profit (S$ m)	41.4	21.4	22.9	33.7	39.4
EPS (cts)	7.3	3.0	3.0	4.4	5.1
EPS growth (%)	347%	-59%	0%	47%	17%
P/E (x)	3.3	8.2	8.2	5.6	4.8
Gross DPS (cts)	1.1	1.0	1.0	1.0	1.5
Dividend yield (%)	4%	4%	4%	4%	6%
P/NTA (x)	1.4	1.1	1.0	0.9	0.8
ROE (%)	42.4%	12.4%	12.1%	15.7%	16.0%
Net gearing (%)	8.9%	net cash	net cash	net cash	net cash
Net cash per share (cts)	nil	3.8	4.2	8.3	11.9
P/CF (x)	2.2	n.a	24.9	7.0	6.7
EV/EBITDA (x)	5.0	19.8	17.3	10.8	10.2

Source: Company, CIMB Research

Looking ahead…

- We expect a better 9months to follow, backed by a hefty construction order book of S$1.1bn to be recognised over the next 12-30months. Given the nature (recognition policy) of construction business, we would not be surprised to see lumpy revenue recognition over the quarters to follow. On its property development business, TSNG expects price trends for residential and commercial units in second-tier and third-tier cities to remain stable in 2011. We expect higher contributions from this segment in FY11, with the handing over of the Phase 1 of its Sunny International project expected to begin in 3Q11.