

Overweight**Current Price** S\$0.805Fair Value S\$1.04
Up / (downside) +29%**Stock Statistics**

| | |
|----------------------|-----------|
| Market cap | S\$512.8m |
| 52-low | S\$0.635 |
| 52-high | S\$0.850 |
| Avg daily vol | 1,041,020 |
| No of share | 637.0m |
| Free float | 65% |

Key Indicators

| | |
|--------------------|-------|
| ROE 14F | 29.1% |
| ROA 14F | 11.9% |
| P/BK | 1.0x |
| Net gearing | 79% |

Major Shareholders

| | |
|------------------------|-------|
| Lim Tiam Seng | 12.1% |
| Lim Tiang Chuan | 6.9% |
| Tan Yong Keng | 8.1% |

Historical Chart

Source: Bloomberg

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- **Earnings below expectations.** Chip Eng Seng's 2Q14 profit of S\$18.6m was below our S\$26.5m forecasts, mainly from lower-than-expected contribution from its JV development Belysa due to timing of recognition by its JV partner. We expect the remaining profits from Belysa to contribute next quarter. Currently forming 22% of our full year forecasts, we estimate the bulk of revenues and net profit to be recognised in 2H14 from the completion of Belvia and Alexandra Central.
- **Maintain forecasts and recommendation.** We maintain our full year forecasts given that the lower-than-expected 2Q14 profits was mainly due to timing recognition issues with Belysa. As a result, our SOTP fair value remains at S\$1.04. With a 29% potential upside and an attractive 5% dividend yield, maintain **overweight**.
- **The bulk of profits are in 2H14.** So far, it has mainly recognised the revenues from on-going developments Junction Nine and Nine residences, which are based on the percentage of completion method. It directly recognised profits from its JV Belysa in 2Q14 directly into its bottom line, leaving Belvia and Alexandra Central to be recognised in subsequent quarters. The group expects TOP for Belvia in 3Q14 and Alexandra Central in 4Q14.
- **Updates on Australian developments.** CES is working on two projects in Australia this year. The first, Tower Melbourne is currently facing delays due to issues with the adjoining building and TOP has been pushed back to FY18. We will probably get a clearer picture on this project in subsequent quarters. As for its second property in Doncaster, it plans to launch at the end of this year. The Doncaster development will comprise around 105 townhouses and 72 low rise apartments. We have not factored in the Doncaster development in our forecasts until launch details are available.
- **Increasing recurring income from investment properties.** The group will see two additional properties start revenue contribution on a recurring basis from FY15 onwards. The first is its office building formerly known as San Centre and renamed to CES Centre and second is its Alexandra Hotel scheduled to open in mid FY15.
- **2Q14 revenue increased 13.4% yoy to S\$123.6m**, driven mainly by its construction business segment that still has a healthy S\$548m order book as at end 2Q14. Construction revenue increased 27.1% to S\$85.1m in 2Q14 from on-going public housing projects. Meanwhile, its property development revenues decreased 11.3% to S\$36.8m from lower recognition from on-going developments.
- **Healthy balance sheet.** Chip Eng Seng generated S\$147.1m positive free cash flow in 2Q14 from collections for projects that obtained TOP in 1Q14. As a result, its net gearing decreased from 106% as at end 1Q14 to 79% as at end 2Q14.

| Key Financial Data (S\$ m, FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
|---|-------------|-------------|--------------|--------------|--------------|
| Sales | 617.1 | 502.5 | 1,261.0 | 780.3 | 417.2 |
| Gross Profit | 129.7 | 89.2 | 252.2 | 156.1 | 83.4 |
| Net Profit | 81.3 | 73.4 | 178.0 | 96.5 | 42.3 |
| EPS (cents) | 12.3 | 11.3 | 27.5 | 14.9 | 6.5 |
| EPS growth (%) | (34.2) | (7.9) | 142.6 | (45.8) | (56.2) |
| PER (x) | 6.6 | 7.1 | 2.9 | 5.4 | 12.3 |
| NTA/share (cents) | 69.6 | 76.9 | 92.6 | 100.4 | 101.4 |
| DPS (cents) | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 |
| Div Yield (%) | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 |

Source: Company, NRA Capital forecasts

Chip Eng Seng

Results comparison

| FYE Dec (\$\$ m) | 2Q14 | 2Q13 | yoq % chg | 1Q14 | qoq % chg | Prev. 2Q14F | Comments |
|----------------------|-------------|------------|-----------------|-------------|-----------------|----------------|--|
| Revenue | 123.6 | 109.1 | 13 | 197.8 | (37) | 124.9 | In line, on-going contribution from Junction Nine and Nine Residences |
| Operating costs | (111.5) | (100.8) | 11 | (170.5) | (35) | (108.0) | |
| EBITDA | 12.1 | 8.3 | 47 | 27.3 | (56) | 16.9 | |
| EBITDA margin (%) | 9.8 | 7.6 | | 13.8 | | 13.5 | 3.8% lower due to higher-than-expected admin expenses |
| Depn & amort. | (0.9) | (0.9) | 5 | (0.9) | (1) | (0.9) | |
| EBIT | 11.2 | 7.4 | 52 | 26.4 | (58) | 16.0 | |
| Interest expense | (0.9) | (0.6) | 56 | (0.7) | 27 | (1.0) | |
| Interest & invt inc | 0.9 | 0.8 | 12 | 1.1 | (20) | 3.9 | |
| Associates' contrib | 8.5 | 1.4 | 495 | 0.3 | 2,613 | 14.4 | 41% lower-than-expected profit contribution from JV project Belysa |
| Exceptionals | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 | |
| Pretax profit | 19.8 | 9.1 | 118 | 27.1 | (27) | 33.3 | Below, mainly due to lower contribution from Belysa |
| Tax | (1.1) | (2.2) | (50) | (5.5) | (80) | (6.8) | Lower-than-expected taxes |
| Tax rate (%) | 5.7 | 24.7 | | 20.4 | | 20.4 | |
| Minority interests | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 | |
| Net profit | 18.6 | 6.8 | 173 | 21.6 | (14) | 26.5 | 30% below expectations, higher-than-expected admin expenses and lower contribution from Belysa offset by lower-than-expected taxes |
| EPS (cts) | 2.9 | 1.1 | 173 | 3.3 | (14) | 4.1 | |

Source: NRA Capital estimates

Table 1 Current Property Developments

| | Location | Description | Total No of units | Tenure | Land Area (sqft) | Plot Ratio | Expected TOP |
|----------------------|---|--|-------------------------|----------|------------------------|---------------|-----------------|
| Singapore | | | | | | | |
| Belysa | Pasir Ris Drive 1/Elias Road, Singapore | Executive Condo | 315 | 99 | 162,989 | 2.1 | 2014 - 2Q |
| 100 Pasir Panjang | No 98 and 100 Pasir Panjang Road, Singapore | Light Industrial Building | 66 | Freehold | 54,201 | 2.5 | 2014 - Q1 |
| My Manhattan | 25, 27, 29, 31, 33, 45 Simei Street 3, Singapore | Condominium | 301 | 99 | 162,989 | 2 | 2014 - 1Q |
| Belvia | Bedok Reservoir Crescent, Singapore | Design, Build & Sell Scheme | 488 | 99 | 179,414 | 3 | 2014 - 3Q |
| Fulcrum | No 29 to 59 (odd numbers only) Fort Road, Singapore | Condominium | 128 | Freehold | 47,878 | 2.1 | 2015 |
| Alexandra Central | 321 Alexandra Road | Shopping Mall - Retail | 116 | 99 | 93,080 | 1 | 2014 - 4Q |
| Nine Residences | 12, 14, 16, 18 Yishun Avenue 9, Singapore | Condominium | 186 | 99 | 176,200 | 1.0 | 2015 - 4Q |
| Junction Nine | 12, 14, 16, 18 Yishun Avenue 9, Singapore | Shopping Mall - Retail | 146 | 99 | 106,788 | 1.0 | 2016 - 1Q |
| Australia | | | | | | | |
| Tower Melbourne | 150 Queen Street, Melbourne, Australia | Residential Apartment with Amenities | 581 | Freehold | 9,860 | | 2018* |

Source: Company

*Tower Melbourne scheduled completion delayed to 2018 from 2017.

Singapore new project update. The group just gave an update last week that it had emerged as top bidder of two land parcels at Fernvale Road. Purchase price for Parcel A and Parcel B was S\$235m (S\$438 psf per plot ratio) and S\$252m (S\$448) respectively, both with lease terms of 99 years. The two developments are expected to comprise 1400 residential units and a total gross floor area of 1.1m sqft. The project is a JV with Unique Residences Pte Ltd holding 40% interest and the remaining held by CES. We have not factored this into our valuation.

Chip Eng Seng

| RNAV Valuation (S\$ m) | Valuation (S\$ m) |
|--|--------------------------|
| Development surplus (Singapore) | 189.2 |
| Development surplus (Australia) | 16.3 |
| Investment properties surplus | 21.2 |
| Queensway Hotel Surplus | 68.0 |
| NAV as at 31 Dec 2013 | 498.8 |
| RNAV | 793.4 |
| SOTP Valuation | Valuation (S\$ m) |
| RNAV (all business segments) | 793.4 |
| Less NAV of Construction Business | 58.0 |
| RNAV (properties and investments) | 735.4 |
| Discount (%) | 30% |
| RNAV after discount | 514.8 |
| Construction business multiple (x) | 6.0 |
| Construction business value (FY14F) | 156.4 |
| Total value (RNAV 30% discount + Construction) | 671.1 |
| Total value per share (S\$) | 1.035 |
| Upside/(downside) (%) | 28.6% |

Source: NRA Capital forecasts

Development surplus is calculated with its current development properties total sales proceeds less the costs (borrowings, construction and development costs) resulting in gross margins of between 10% and 40%, and then less operating expenses and taxes to come up with net profit. Investment properties surplus is calculated by applying an appropriate cap rate on net operating income from the properties. Hotel Surplus is calculated by taking an average of S\$850,000/room less all development costs and borrowings.

We apply a 50% discount to its Australian development due to delays in its Tower Melbourne project.

Chip Eng Seng

| Profit & Loss (\$\$ m, FYE Dec) | 2012 | 2013 | 2014F | 2015F | 2016F |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue | 617.1 | 502.5 | 1,261.0 | 780.3 | 417.2 |
| Operating expenses | (542.9) | (458.7) | (1,059.3) | (670.9) | (373.5) |
| EBITDA | 74.3 | 43.7 | 201.7 | 109.4 | 43.7 |
| Depreciation & amortisation | (3.1) | (3.5) | (3.7) | (4.1) | (4.1) |
| EBIT | 71.2 | 40.3 | 198.0 | 105.3 | 39.6 |
| Net interest & invt income | 35.2 | 15.2 | 7.4 | 8.4 | 10.5 |
| Associates' contribution | 2.2 | 29.9 | 17.1 | 6.8 | 2.7 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 108.6 | 85.3 | 222.5 | 120.6 | 52.8 |
| Tax | (27.3) | (12.0) | (44.5) | (24.1) | (10.6) |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 81.3 | 73.4 | 178.0 | 96.5 | 42.3 |
| Wt. shares (m) | 661.5 | 648.3 | 648.3 | 648.3 | 648.3 |
| Shares at year-end (m) | 661.5 | 648.3 | 648.3 | 648.3 | 648.3 |
| Balance Sheet (\$\$ m, as at Dec) | | | | | |
| Fixed assets | 145.3 | 161.9 | 192.1 | 246.8 | 248.4 |
| Intangible assets | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other long-term assets | 61.4 | 217.3 | 228.2 | 244.1 | 263.7 |
| Total non-current assets | 207.0 | 379.5 | 420.6 | 491.2 | 512.4 |
| Cash and equivalents | 242.1 | 284.2 | 259.9 | 231.2 | 227.0 |
| Stocks | 545.8 | 651.8 | 504.4 | 499.4 | 400.6 |
| Trade debtors | 151.6 | 129.4 | 252.2 | 171.7 | 91.8 |
| Other current assets | 9.1 | 20.0 | 20.0 | 20.0 | 20.0 |
| Total current assets | 948.6 | 1,085.4 | 1,036.5 | 922.3 | 739.3 |
| Trade creditors | 108.8 | 107.6 | 181.6 | 124.8 | 100.1 |
| Short-term borrowings | 123.0 | 281.0 | 189.2 | 117.0 | 62.6 |
| Other current liabilities | 120.9 | 75.5 | 92.6 | 116.7 | 127.3 |
| Total current liabilities | 352.6 | 464.1 | 463.4 | 358.6 | 290.0 |
| Long-term borrowings | 338.8 | 487.5 | 378.3 | 390.1 | 292.1 |
| Other long-term liabilities | 3.7 | 14.5 | 14.5 | 14.5 | 14.5 |
| Total long-term liabilities | 342.5 | 502.0 | 392.8 | 404.7 | 306.6 |
| Shareholders' funds | 460.5 | 498.8 | 600.9 | 651.4 | 657.7 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NTA/share (\$\$) | 0.70 | 0.77 | 0.93 | 1.00 | 1.01 |
| Total Assets | 1,155.6 | 1,465.0 | 1,457.1 | 1,413.5 | 1,251.7 |
| Total Liabilities + S'holders' funds | 1,155.6 | 1,465.0 | 1,457.1 | 1,414.7 | 1,254.4 |
| Cash Flow (\$\$ m, FYE Dec) | | | | | |
| Pretax profit | 108.6 | 85.3 | 222.5 | 120.6 | 52.8 |
| Depreciation & non-cash adjustments | (14.9) | (71.7) | (55.5) | 13.0 | 42.2 |
| Working capital changes | 48.7 | (92.0) | 97.0 | 27.3 | 153.5 |
| Cash tax paid | (5.8) | (35.2) | (27.4) | (44.5) | (68.6) |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 136.7 | (113.6) | 236.6 | 116.3 | 179.9 |
| Capex | (136.9) | (18.5) | (33.9) | (58.8) | (5.7) |
| Net investments & sale of FA | 4.1 | 6.6 | 0.0 | 0.0 | 0.0 |
| Others | 64.3 | 5.8 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing | (68.4) | (6.0) | (33.9) | (58.8) | (5.7) |
| Debt raised/(repaid) | 52.2 | 306.8 | (201.1) | (60.3) | (152.5) |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | (26.5) | (25.9) | (25.9) | (25.9) | (25.9) |
| Cash interest & others | (7.7) | (119.1) | 0.0 | 0.0 | 0.0 |
| Cash flow from financing | 18.1 | 161.7 | (227.0) | (86.2) | (178.5) |
| Change in cash | 86.3 | 42.2 | (24.3) | (28.7) | (4.2) |
| Change in net cash/(debt) | 34.0 | (264.6) | 176.7 | 31.6 | 148.3 |
| Ending net cash/(debt) | (219.7) | (484.3) | (307.6) | (276.0) | (127.7) |
| KEY RATIOS (FYE Dec) | | | | | |
| Revenue growth (%) | 71.4 | (18.6) | 151.0 | (38.1) | (46.5) |
| EBITDA growth (%) | (32.3) | (41.1) | 361.1 | (45.8) | (60.0) |
| Pretax margins (%) | 17.6 | 17.0 | 17.6 | 15.5 | 12.7 |
| Net profit margins (%) | 13.2 | 14.6 | 14.1 | 12.4 | 10.1 |
| Interest cover (x) | 107.3 | 43.4 | 57.0 | 35.0 | 22.3 |
| Effective tax rates (%) | 25.2 | 14.0 | 20.0 | 20.0 | 20.0 |
| Net dividend payout (%) | 31.9 | 35.3 | 14.6 | 26.9 | 61.4 |
| Debtors turnover (days) | 89.7 | 94.0 | 73.0 | 80.3 | 80.3 |
| Stock turnover (days) | 408.7 | 575.6 | 182.5 | 292.0 | 438.0 |
| Creditors turnover (days) | 81.5 | 95.0 | 65.7 | 73.0 | 109.5 |

Source: Company, NRA Capital forecasts

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