Chip Eng Seng Corporation Ltd

Initiation Report

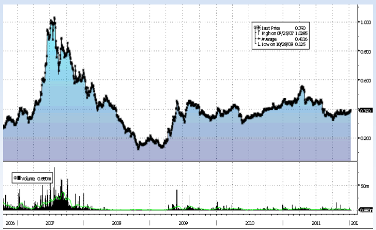
Overweight

Current Price **S$0.38**
11 January 2012

Fair Value S$0.49

Angelia Phua
65-62366-802
angelia.phua@nracapital.com

Historical Chart



Source : Bloomberg

Stock Statistics

Market Cap	S$253.7m
52-HI	S$0.56
52-LOW	S$0.32
Avg Vol	2,019,912
Shares Outstanding	667.5m
Free Float	435.2m

Key Indicators

ROE	NA
ROA	NA
P/BK^	0.65x
Gearing^	0.73x

^ As at 30 Sep 2011

Major Shareholders

Lim Tiam Seng & family	33.92%

Entering next phase with new business strategy and ventures

- ***Change in business focus cushions CES from negative impact of recent property measures.*** Management foresight and experience led to changes in Chip Eng Seng's (CES) land acquisition strategy towards amassing commercial land for development for investment and steering away from acquiring land for residential property development for sale. Besides Singapore, CES is also actively sourcing for overseas opportunities to build up its existing small portfolio of investment properties. Over the past five years, CES has built up a healthy balance sheet and with a relatively low gearing of 0.73x as at 30 September 2011, CES has the financial means to pursue new investment plans. This change in management strategy has also cushioned CES' downside risk ensuing from the recent residential property measures of an additional buyer's stamp duty (ABSD).

- ***Measures have moderate negative impact on CES' valuation.*** The latest round of property measures to cool property investment demand, particularly from foreigners, in the Singapore residential market is expected to have a moderate impact on CES. Based on our sensitivity analysis, every 5% decline in the average selling prices of unsold units of projects or future launches is expected to have a negative impact of about 3% on CES' RNAV per share.

- ***Ride on strong pipeline of public housing construction.*** Housing Development Board's (HDB) building program on public housing augurs well for CES which has a strong track record in HDB construction. Further, CES employs its in-house construction arm for its property development projects to ensure timeliness of delivery and better costs management to ensure higher returns from each project. The construction arm also benefits from an additional source of income from the construction of joint venture projects, including the current development of Prive (40% stake) and Belysa (40% stake) with Choicehomes Investments.

- ***Valuation and Recommendations.*** Forward earnings is expected to be lumpy and volatile in view of changes in accounting policy with the implementation of INT FRS 115. We value CES at RNAV per share of $0.98 of which unrecognized profits on property development units that have been sold alone is estimated to contribute $0.21 to our valuation. Applying a conservative 50% discount to valuation, we arrive at a target price of S$0.49. Downside risk to the share price is further supported by CES' low price-to-book ratio (PBR) of 0.65x, compared to PBR of 0.76x of small-cap property peers. CES also offers an attractive yield of about 8% based on an estimated annual dividend profile of 3 cents per share. Notwithstanding weak sentiment in the residential property sector, CES is undervalued. **Overweight.**

Key Financial Data				
S$m				
YE 30 Dec	**FY10E***	**FY11F**	**FY12F**	**FY13F**
Sales	477.0	386.9	668.2	504.1
Gross Profit	58.6	115.9	70.1	45.6
Net Profit	174.3	96.3	42.3	79.3
EPS (S cents)	26.1	14.4	6.3	11.9
EPS growth (%)	NA	-44.7	-56.1	87.5
PER (x)	1.5	2.6	6.0	3.2
DPS (S cents)	4.0	3.0	3.0	3.0
Div Yield (%)	10.5	7.9	7.9	7.9

* FY10 result has been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Chip Eng Seng

Chip Eng Seng (CES) is one of Singapore's leading construction and property groups. The Group's construction business is undertaken by Chip Eng Seng Contractors (1988) Pte Ltd (CESC) and CES Engineering & Construction Pte Ltd (CESE) while CEL Development Pte Ltd (CEL) is the property investment and development arm.

CESC is a leading main contractor with design and build capabilities. It is registered with the Building and Construction Authority of Singapore (BCA) under the A1 classification for general building construction. This is the highest classification that allows CESC to tender for public sector projects of unlimited value. CESC has undertaken a broad spectrum of construction projects from both public and private sectors including HDB projects, columbarium, residential and commercial properties, shophouses, institutional and industrial buildings and precast projects. The pre-cast activities are handled by CES-Precast Pte Ltd (CESP) which is registered with BCA under the L6 classification for precast concrete work, which allows CESP to tender for public sector projects of unlimited value.

CEL has been actively developing properties in Singapore either on its own or with joint-venture partners. Its projects include residential, commercial and industrial properties and within the residential sector, CEL has developed a wide spectrum of projects ranging from public housing, mass market private condominium to high-end condominiums in the prime districts. Several of CEL's projects have been successfully launched.

Currently, CES has a small portfolio of investment properties comprising shophouses, small commercial building and light industrial building.

CES was listed on the main board of the Singapore Exchange Securities Trading Limited (SGX-ST) in 1999.

Business Operations

CES has five residential projects under development of which three are fully sold. Management has been prudent in land tenders, enabling the Group to yield gross margins of at least 20% in many of its development projects, including My Manhattan, Prive and Belysa, in Singapore. CES has also successfully sold 33M, a residential property development in Melbourne which is located in proximity to University of Melbourne and RMIT and is sold largely to foreigners.

CES also has an existing small portfolio of investment properties valued at about $33.0m (as at 31 Dec 2011) and yields a recurring income of about $1.9m annually.

Latest property measures have a moderate negative impact on CES. We expect the latest property measures to have a moderate impact on CES as most of its launched projects have been largely sold. The exception is My Manhattan at Simei St 3, which is about 44% sold. However, this project has mass market appeal from HDB upgraders living in Simei. Further, CES's relatively low land cost of $523psfppr on this project will enable the Group to still yield attractive returns even if it decides to offer packages to affected buyers, which is expected to be kept at a minimal of 3% of the launch price. Based on an average selling price of about $1200, the project is still estimated to yield a margin of about 26%.

Belvia, the other project still with units available, is a Design, Build and Sell Scheme (DBSS) public housing project located in a choice location in the East. It will have underlying demand largely from first-time owner-occupiers. Notwithstanding that, we believe CES may also need to offer some form of discount packages to buyers in view of the relative pricing of various housing types in the Singapore property market.

Only one residential site in Singapore pending launch. CES only has one residential land site in Singapore in its land bank awaiting launch. The Fort Road site has a choice location, a freehold tenure and relatively low land costs of about $1100psfppr that will provide downside protection to the project. Assuming an average selling price of $1750psf, the project could still yield a margin of about 11%. Initially scheduled for launch in 1HFY12, the launch is likely to be deferred depending on market conditions.

Overseas, CES also owns two freehold sites in Australia. The condominium site in Melbourne is located in the heart of the city centre and will be launched towards end of 2012, at the earliest. The other site in Perth is located near Scarborough Beach, a popular surfing destination, and has approvals for the development of serviced apartments, retail and residential units. There is currently no plan to launch the project.

The remaining two sites in the land bank include an industrial site at Pasir Panjang Road which will be redeveloped into a light industrial space. A recently won hotel-cum-retail site at the junction of Alexandra Road and Jalan Bukit Merah can be developed into a three-and-a-half to four-star hotel for business travellers visiting business hubs at One-North and Science Park. This project also has a retail component. Both projects are earmarked for investment.

Table 1: Projects under development

Project & Location	Stake	Tenure	Segment	Types of Development	Ave SP (S$ psf)	Take-up Rate (%)
Singapore						
My Manhattan, Simei St 3	100%	99-yr LH	Mass	301 condo units	1,215	44%
Prive, Punggol Field Road	40%	99-yr LH	EC	680 EC units	680	100%
Belysa, Pasir Ris Drive 1	40%	99-yr LH	EC	315 EC units	675	100%
Belvia, Bedok Reservoir Cres.	100%	99-yr LH	Public housing	488 DBSS units	about 570	about 64%*
Australia						
33M, MacKenzie St, Melbourne	100%	FH	Upper-mid	388 condo units	A$8600 psm	100%

* based on options

Source : Company, NRA Capital

Table 2 : Projects to be launched

Location	Stake	Tenure	Segment	Site area (Sqft)	Type of Development	Launch	Estd ASP (S$psf)
Singapore							
Fort Road	100%	FH	Upper-mid	48,000	128 condo units	likely 1H2011	1,750
Australia							
150 Queen Street, Melbourne	100%	FH	Upper-mid	9,828	design stage	End 2012 or 2013	na

Source : Company, NRA Capital

Table 3 : Land bank

Location	Stake	Tenure	Type of Development	Site area (Sqft)	GFA (Sqft)
Singapore					
No 98 & 100 Pasir Panjang Road	100%	FH	Industrial	54,201	135,503
Junction of Alexandra Road & Jln Bukit Merah	100%	99-yr LH	Hotel-cum-retail	85,532	239,486
Australia					
West Coast Highway, Scarborough, Perth	75%	FH	Mixed dev	109,415	Na

Source : Company, NRA Capital

Table 4 : Investment property portfolio

Investment Property Location	Description	Existing use	Tenure	Stake	Land area(sf)	NLA (sf)
6, 6A, 6B Perak Road	2-adjoining units of 2-storey pre-war shop-houses with an attic	shops & offices	99-yr from 12-Oct-95 83 years lease left	100%	2,874	5,555
86,86A,86B Tanjong Pagar Rd	2 adjoining units of 3-storey shophouses	shops & offices	99-yr LH wef 27 sep 1988 76 yrs left	100%	1,658	4,575
161 Geylang Road	a part 2/part 4-storey commercial bulding with existing eating house & lock-up shop on 1st storey and offices on upper flrs	shops & offices	99-yr LH wef 4 May 1993 81 yrs left	100%	2,992	7,772
115 Geylang Road	3 adjoining units of 2-1/2 storey shophouses with 4-storey rear extension with restaurant (1st flr) & 27-room boarding house on upper flr	boarding hotel	freehold	100%	3,294	9,690
69 Ubi Crescent	Retained units in 6-storey light industrial bldg basement carpark	light industrial	60-yr LH wef 5 July 1997 46 yrs left	100%	35,607	66,600

Source : Company, NRA Capital

Singapore Residential Property Outlook

The Singapore residential market displayed resilience in 2011. Sales activities remained strong, led by developers' sales despite government cooling measures and a soft equity market in 2011 while the secondary sales activities remained quiet. According to the Urban Redevelopment Authority (URA), new home sales in the primary market rose 2.9% YoY to 15,735 private homes (excluding executive condominiums (ECs)) in the first 11 months of 2011 and close to 16,620 units of private homes sold for the full year of 2010. Demand profile was healthy, underpinned largely by owner occupants and investors.

Active OCR primary market. Activities focused at the Outside Central Region (OCR). This was partly due to successful suburban new project launches. To capitalise on strong mass market demand, developers reduced site preparation time to roll out new launches to about 6 to 11 months, from more than a year in the past. In 3Q11, OCR homes accounted for 67% of total launches and 74% of total new sales. In tandem with higher take-up rates of new launches, condominium prices in OCR registered the highest growth of 7.1% over 9M2011, according to URA.

Cautious sentiment in CCR and CR regions. Sales activities in the Core Central Region (CCR) and Central Region (CR) remained lacklustre. Investors of higher-end homes grew increasingly cautious amid sluggish global economic conditions in the US and uncertainty pertaining to the euro zone sovereign debt crisis while developers held back launches. Condominium prices in CCR and CR grew a modest 3.5% and 4.4% over 9M2011 respectively. In particular, prices of high-end homes in the secondary market remained stable for sixth consecutive quarters to 3Q2011.

Fifth set of measures over the past two years to cool the Singapore private home market. On 7 December 2011, the Ministry of National Development (MND) announced the latest round of property measures of an additional buyer's stamp duty (ABSD) imposed on all investors, with the aim of cooling property investment demand, particularly from foreigners, in the Singapore residential market. The ABSD is on top of the existing buyer's stamp duty of up to 3%.

Table 5: Latest residential property measures

	Latest residential property measures
1)	Foreigners and non-individuals (corporate entities) buying any residential property will pay an Additional Buyer's Stamp Duty (ABSD) of 10%;
2)	Permanent Residents (PRs) owning one and buying the second and subsequent residential property will pay an ABSD of 3%; and
3)	Singapore Citizens (Singaporeans) owning two and buying the third and subsequent residential property will pay an ABSD of 3%.

Source : MND

Investment demand for private homes has grown, particularly from foreigners, with the share of residential properties bought by foreigners rising from 7% in 1H2009 to 19% in 3Q2011 and with the growing demand, prices have risen to levels beyond the reach of Singaporeans. According to the overall URA private residential price index, prices have escalated by about 54% since the trough of 2Q2009 following the global financial crisis. With a tightening migration policy in place, the latest move serves to address the issue of high property prices which was also highlighted during the recent

General Election in May 2011. From a macro perspective, the latest move further addresses concerns of liquidity-driven asset inflation in the Singapore property market amid easing monetary stance in the US and Europe.

Negative surprise to industry players. Notwithstanding the above reasons, the latest move came as a negative surprise to property industry players amid uncertainty in the global economic outlook as well as slowing global growth. Singapore is also expected to see a sharp moderation in economic growth for 2012. According to Ministry of Trade and Industry (MTI), the economic outlook for Singapore in 2012 is expected to be subdued, expanding at between 1% and 3% in 2012, after expanding at an estimated 4.8% in 2011. MTI also cautioned of downside risks to the 2012 growth forecast should a worsening debt situation or a full-blown financial crisis in advanced economies materialise.

1H2012 GLS will yield 14,100 new homes. In addition to demand-side measures, the MND also announced the government land sale (GLS) program for 1H2012 that will yield a potential of 14,100 new private homes. Of these, there was a higher than expected 14 confirmed sites which could potentially yield 7,000 private home units (refer to Appendix- Table 1). Of the confirmed sites, the government also boosted the supply of sites for EC to meet growing demand following measures to raise the household income ceiling for ECs from $10,000 to $12,000.

ABSD on developers for unsold units within five years of land acquisition. In addition to the above measures, the Inland Revenue Authority of Singapore also requires developers to pay ABSD if the developer fails to complete selling all the units in a residential project within five years of land acquisition.

Impact on Singapore property market

Private home prices were expected to weaken even in the absence of ABSD. Amid slowing economic growth and a large supply of about 35,000 completed units coming on-stream in the private home market over 2012 to 2014, property prices were already expected to moderate gradually over the next one year. The latest demand-side measure is expected to hasten the slide in property prices. Sentiment will be significantly dampened. Transaction activity over the next few months is expected to be thin, especially in the secondary market, as most buyers are expected to adopt a wait-and-see attitude to evaluate market reaction to the latest property curbs. Overall demand for private residential properties for investment will decline sharply in the short-term.

Steepest price slide in CCR due to higher foreigner demand. Deterred by the 10% ABSD, the extent of the price slide is expected to be the steepest at the CCR area of the housing market, which includes the prime districts of 9, 10 and 11, Marina Bay and Sentosa Cove, as foreigners and corporate entities investing in Singapore private properties typically purchase homes in CCR. According to SLP International and URA, foreigners and corporations bought 36% of all homes sold over January to November 2011.

More gentle price declines in RCR and OCR. Homes in the RCR and OCR, which are typically mid-tier and mass market homes respectively, have less demand from foreigners and corporations. However, a 3% ABSD imposed on Singaporean and PRs will dampen overall demand for these market segments for investment. Hence, prices in the RCR and OCR are expected to decline as well but demand from

Singaporeans and PRs for owner occupation will mitigate the pricing pressure ensuing from the ABSD. In particular, mass market homes, which are typically underpinned by HDB upgraders for owner occupation, are likely to see the gentlest slide in prices.

Table 6 : Purchases in CCR, RCR and OCR (Jan to Nov 2011)

Purchases in CCR, RCR and OCR (Jan to Nov 2011)					
	Singaporeans	**Singapore PRs**	**Foreigners**	**Corporations**	**Total**
CCR	51%	13%	27%	9%	100%
RCR	61%	14%	18%	7%	100%
OCR	71%	13%	13%	3%	100%

Source : SLP International/ URA

Marginal slide in ECs and DBSS not ruled out. In view of relative pricing of public housing to the private property market, prices of ECs and DBSS public housing are likely to be marginally dampened as well amid the weakened property market sentiment. However, the price decline is likely to be modest as the fundamental demand for these market segments remains strong, supported by new household formation.

Liquidity flow from Singapore residential market to other asset classes and overseas properties. Following fresh government measures to cool the residential market, investment interest is likely to move to other asset classes in Singapore, including strata-titled industrial, office and retail units which do not impose an ABSD. The recent move could also trigger an outflow of local funds into overseas property markets with transparent policy and rules, including Australia, the UK and the US as foreigners with a global investment perspective will also find other countries a more attractive investment destination.

Rental outlook likely to remain firm in the next one year. The ABSD may also tip over plans for certain PRs with the view of acquiring a permanent home in Singapore towards rental. In the short-term, the home rental market is likely to remain firm. But the supply overhang of completed units over 2012 and 2014 is likely to impose downward pressure on rentals in the medium term.

Singapore Commercial Property Outlook

Hotel

A surge in tourist arrivals in Singapore led to a tourism boom in 2011. The two integrated resorts, the annual Formula One night motor race and a slew of new attractions such as Garden by the Bay are all initiatives by Singapore to refresh its tourism appeal amid rising competition from the regional countries to attract the growing tourism dollar. According to Singapore Tourism Board (STB), for the first ten months of 2011, visitors arrivals rose 14.4% YoY to 10.9m. For hoteliers, the average room rate rose 13.2% YoY to $243.40, occupancy rates averaged 86%, while revenue per available room rose 14.8% YoY to $209.90 over the same period.

Hotel occupancy and room rates are likely to come under pressure in 2012. Looking ahead, the overhang of slow economic growth, reduced corporate travelling budgets and a possible recession is likely to negatively impact tourism arrivals into Singapore. With a pipeline of about 11,000 new hotel rooms coming on-stream, of which about 6,335 rooms are expected to be completed over 2012 and 2013 according to URA, hotelier's revenue per available room is expected to fall as room rates, and particularly occupancy rates, are expected to come under pressure in 2012.

Upside potential for room rates remains good. However, the Singapore government provides a control mechanism to the hotel industry by controlling the supply of hotel sites. Also, over the longer term, room demand is expected to outstrip room supply in view of STB's forecasts of tourist arrivals growth at a compounded annual growth rate (CAGR) of 7.9% compared to an estimated 5.5% CAGR for hotel room supply according to hospitality consultancy group Horwarth HTL. From a longer-term perspective, there remains upside potential for hotel room rates in Singapore.

Retail property

Recent rebound in prime rental rates. The URA rental index for core central area rose 2.01% over 9M2011, lower than a 3.46% growth over the same period for fringe areas. However, the pace of rental increase for retail space in the fringe areas has slowed down and remained fairly flat since 3Q2011 whilst Orchard Road prime rental rates rebounded in 3Q2011. The improvement in prime rentals arose from better vibrancy in the Somerset area where new, popular brands such as Abercrombie & Fitch at Knightsbridge are expected to attract strong foot traffic and consequently higher rental transactions. In the suburban region, with a significant amount of new supply coming on-stream in the next few years, retailers in some of the existing suburban retail malls are adopting a wait-and-see attitude. Consequently suburban rental rates stayed flat.

Prime and suburban retail rents to weaken but downside pressure on suburban malls will be cushioned. With an uncertain economic climate, lower consumer confidence, more new supply coming on-stream and increasing competition amongst retailers, the retail property market will face many challenges ahead. Rental rates are likely to stay flat in both Orchard Road and suburban areas as retailers consolidate their current positions. Downside risks to rental rates remain high should the economic conditions deteriorate sharply but the downside pressure on rental rates of suburban malls which provide necessity goods and services is likely to be cushioned.

Industrial property

Cloudy outlook for factory and warehouse space. Despite the financial crisis in developed economies which has rattled confidence and dampened demand for goods and services, interest in factory and warehouses from occupiers as well as domestic REITs and developers kept industrial investment and land sales active and capital values firm in 2011. The leasing market was also firm, underpinned by relocations and company expansions. Going forward, business sentiment has been affected by the financial upheavals in the west. The euro zone debt crisis and slower economic growth in the US and the PRC have resulted in declining global demand for exports, which will affect the Singapore manufacturing sector. Amid uncertainty in the global economic outlook, and to maintain Singapore's competitive edge, capital values and leasing rates are likely to remain flat in the short term but will ease off, should the economic outlook deteriorate.

Rental rates of high-spec industrial space are likely to be muted. Growth in rental rates for high-specs space has been under pressure due to a strong pipeline of new high-specs space and suburban office space. According to Colliers International, rental growth of 4.8% over April to September 2011 has halved compared to 11.0% seen over October 2010 to March 2011. Further, office rental rates are likely to have peaked and forward rental rates are likely to fall given the economic uncertainty in Europe, resulting in less costs incentives for office users to relocate to high-specs spaces. In light of a cloudy economic outlook, leasing activities are likely to be dominated by renewals and consolidations. As high-specs industrial properties are vulnerable to weakening confidence in the global economy, forward growth in rental rates for high-spec space is likely to be muted.

Singapore Construction Outlook

According to the Building and Construction Authority (BCA), construction demand increased by 14% YoY in 2010, fuelled by robust private sector construction demand, which rebounded strongly by 109%, bringing total construction demand to $25.7b in 2010, from $22.5b in 2009. In 2011, construction demand is projected to reach between $24b and $30b, reflecting a continued and sustained workload.

Public sector demand to strengthen. Public sector demand for construction in 2011 is likely to strengthen to between $13b and $17b, contributing about 55% to the overall construction demand, from $8.3b in 2010. The rebound stemmed from growth in public sector institutional construction demand, such as Institute of Technical Education (ITE)'s third regional campus at Ang Mo Kio. There was also stronger public sector civil engineering construction demand led by the Land Transport Authority (LTA)'s Downtown MRT Line Stage 3 contracts as the government continues to invest in public infrastructure in the year ahead to support Singapore economic activities.

Strong construction demand from HDB. Further, in 2011, the HDB launched a total of 25,200 new flats under the Build-to-Order (BTO) program and plans to offer another 25,000 BTO units in 2012 to meet increasing demand for public housing.

In the medium term, the average construction demand is projected to range between $19b and $26b per annum in 2012 and 2013. Of the total estimated contract value, public sector construction demand is expected to reach between $9b to $12b per annum in 2012 to 2013, with about 65% of total demand from building projects while the remaining 35% from civil engineering projects.

Table 7 : Review and Outlook for Construction Demand (Year 2010 - 2013)

	Construction Demand		
Year	**Public**	**Private**	**Total**
2010	$8.3b	$17.4b	$25.7b
2011	$13b to $17b	$11b to $13b	$24b to $30b
2012	$9b to $12b p.a.	-	$19b to $26b p.a.
2013	$9b to $12b p.a.	-	$19b to $26b p.a.

Source : Building & Construction Authority

Australia property outlook

Following strong economic growth in 2010 led by the commodity boom, the Australian economy lost momentum heading into 2H2011 due to slowing global economic growth. Business confidence has fallen as firms struggled with insipid demand and a strong Australian dollar. As a result, employment intentions fell, the labour market softened and unemployment nudged higher. On the back of a weakening economy, the Australian residential market has suffered price falls of about 3% since early 2011, with steeper declines of 4.3% and 5.0% witnessed in Melbourne and Perth since early 2011 and 4Q2010 respectively, according to Australian Bureau Statistics. Consequently, housing affordability has started to show modest improvements in certain areas including Perth where the price fall was relatively steeper.

Expect further weakness in home prices. In view of moderation in net migration amid a dim economic outlook and softening jobs prospects, the Australian residential property market is expected to show further weakness in housing prices and sales transaction in 2012. The downside risk is expected to be higher particularly in Melbourne where supply overhang prevails.

Competitive Strength

Strong HDB building program augurs well for CES which has a track record in HDB construction. CES has a strong track record in building public housing in Singapore. CES was the main contractor for HDB's first 50-storey integrated housing development, The Pinnacle @Duxton, a prestigious and iconic project that has special features such as sky bridges and sky gardens.

In view of 25,200 BTO flats launched by HDB in 2011 and a strong pipeline of another 25,000 BTO flats to be launched in 2012, the strong public housing program augurs well for the order book of CES' construction arm. The order book stood at $395m as at 30 September 2011, of which $182m are HDB construction contracts which is expected to complete by 2013.

To further tap into the strong public housing program, CES has expanded its precast operations from Singapore to Johor. The in-house precast operation will further lift the relatively low margins of the construction business as well as yield attractive double-digit gross margins returns from external contracts. Recently, CES was awarded with several new contracts amounting to $33.7m for the supply and delivery of precast components for public and private projects.

Better cost management with an in-house construction arm. CES employs its in-house construction arm in property development to ensure timeliness of projects and better costs management to yield higher profit margins.

Experienced management team. CES has an experienced management team with extensive knowledge in the building and construction industry. The Executive Chairman and founder, Mr Lim Tiam Seng has more than 40 years of experience in the building and construction business while Mr Raymond Chia, Group Chief Executive Officer, has more than 17 years of experience in the real estate industry of which a significant part of his time was spent in property development and investment. Mr Chia is also currently responsible for the overall Group's strategic operation and investment decision.

Forward Strategy

Change in management focus to expand recurring income stream. In view of increasing policy risk in Singapore, CES management has been more active in amassing commercial land sites in Singapore for development to retain as investment properties instead of residential property development for sale, as evident in CES' recent land acquisitions. Going forward, management plans to expand its existing small portfolio of investment properties to build up a stream of stable recurring income. Management foresight and experience leading to this change in business strategy has limited CES' downside risk ensuing from the recent residential property measures of ABSD.

Looking overseas. Management is also on an active look-out for opportunities overseas, in the Asia Pacific region, for the expansion of its portfolio of investment properties.

Risks

Policy risks. CES remains vulnerable to policy risks inherent in the market it operates. The latest property measures on ABSD in Singapore will negatively impact the profit margins and profitability of existing launches and future launches. However, management experience and prudence in land banking has ensured that CES' exposure is contained and Group projects will remain profitable despite downside risks to property prices.

Risk of venturing into new markets. CES will face political uncertainties, changes in government regulation or changes in market dynamics that can impact the value of investments overseas. Since 2007, CES began investing in the Vietnamese market through a strategic stake in a leading Vietnamese listed construction company. In 2008, CES ventured into two residential development projects in districts 2 and 8 of Ho Chi Minh City with Vietnamese partners. Since then, there has been no development plans on the sites as market conditions had not been conducive for project launch. Currently, one of the possible plans is to build and operate serviced apartments on the District 2 site, a high-end residential area for locals and expatriates. Partial provision has been made on the initial investment on this site. There remained no development plans on the district 8 site but full provision on the investment has been made.

Litigation risk. Risk of disputes with various parties including sub-contractors, suppliers, construction companies, buyer, other partners and government bodies may arise from time to time in the property and construction projects undertaken by CES which may lead to legal proceedings. Besides reputation risk, any unfavourable court verdict may lead to financial losses. Currently, CES is facing High Court action from a buyer (corporate entity) on an upmarket condominium Grange Infinite. A verdict on the case is likely to arrive only one to two years later and to-date a provision has been made.

Financial Prospects

To comply with changes in accounting regulations, CES adopted the new and revised Financial Reporting Standard (FRS) on its FY11 financial statements. Going forward, CES will adopt the completion of construction method to recognise revenue and expenses of Singapore property developments including private condominium projects sold under the deferred payment scheme (DPS), DBSS and EC projects, as well as overseas projects. The percentage of completion method will only be used for Singapore property developments sold under the standard scheme. The FY10 financial statement has been restated to account for the adoption of FRS.

Volatile and lumpy forward earnings. In view of the changes in accounting method, we expect CES' forward earnings to be volatile and lumpy. FY11 earnings is expected to decline to $96.3m due to the completion of two larger-scale and profitable projects, Parc Condominium and CityVista in 2010 while the profits from completed property developments in 2011 are lower. Although Grange Infinite received temporary occupation permit (TOP) status in FY11 and also yielded attractive margins for CES, it is a joint-venture project in which CES only has a 25% stake. Oasis @Elias, a smaller development also received TOP status in FY11.

FY12 earnings is expected to fall further by 56% as only one property development project overseas, 33M is expected to receive TOP status in FY12. We expect earnings growth of 87% in FY13 with the completion of Prive and Belysa expected in 2013. (The completion of construction method is used to recognise revenue and expenses for all the projects except for My Manhattan which is a private residential development sold under the standard scheme and hence the percentage of completion method is used to recognise the revenue and expenses.)

Table 8 : Completion schedule of projects under development

Project & Location	Expected TOP
33M, MacKenzie St, Melbourne	end 2012
Prive, Punggol Field Road	2013
Belysa, Pasir Ris Drive 1	2013
My Manhattan*, Simei St 3	2014
Belvia, Bedok Reservoir Cres.	2014

* Percentage of completion method is used to recognise revenue and expenses of My Manhattan

Source : Company, NRA Capital

The construction arm has an order book of $395m as at 30 September 2011. Future order book is expected to remain strong, underpinned by HDB's public housing building program and in-house development projects.

Healthy balance sheet. CES has a healthy balance sheet with gearing of 0.7x as at 30 September 2011. The financial strength will enable the Group to dedicate resources to build up a portfolio of investment properties for a stream of recurring income.

Expect lower annual dividend of 3 cts per share to preserve financial strength. Management paid a final dividend of 4 cents per share in FY10. However, in view of capital commitment for the recently acquired hotel site and to maintain its financial strength, we expect CES to declare a lower dividend of 3 cts per share going forward.

Valuations

Assuming the land sites at Pasir Panjang will be developed into a high-tech business space for lease and the Queensway mixed development site will be developed into a 460-room three-and-a-half to four star hotel with retail space valued at $630,000 per room and $2800 psf respectively, we value CES at RNAV per share of $0.98. Unrecognised profits on property development units that have been sold alone are estimated to contribute $0.21 to our RNAV valuation. Applying a conservative 50% discount to valuation, we arrive at a target price of $0.49. Downside risk to the share price is further supported by CES' low price-to-book ratio (PBR) of 0.65x, compared to PBR of 0.76x of small-cap property peers.

Based on an expected annual dividend profile of 3 cts per share, CES also offers an attractive yield of about 8%.

We did a sensitivity analysis to account for the impact of the recent property measures on unsold units in launched projects, namely My Manhattan and Belvia, a DBSS project as well as a potential launch on the Fort Road site and conclude that the impact on CES' valuation is moderate. Every 5% decline in the average selling prices of unsold units of projects or future launches is expected to reduce CES' RNAV per share by about 3%.

Sentiment towards the property sector has been weak in light of the recent property measures and slowing global economic outlook. Notwithstanding that, valuation on CES is attractive. At $0.38, CES' share is undervalued. **Overweight.**

Table 9 : RNAV Table

	Stake	Tenure	Use	NLA (sf)	Cap value ($psf)	Valuation (S$'000)
Investment Properties						
69 Ubi Crescent	100%	47-yr LH	light industrial	66,600	285	18,981
Other properties						15,998
						34,979
Estimated book value @31 Dec 2011						36,805
						(1,826)
Valuation on Pasir Panjang industrial.	100%	FH	high-tech	108,402	553	59,892
Estimated development costs			industrial			(86,432)
Surplus						(26,540)
Discounted valuation on Queensway hotel-cum-retail						404,415
Estimated development costs						(382,306)
Surplus						22,109
Surplus from residential dev. properties						243,063
Construction business (based on PER : 2x)						19,483
Estimated shareholders fund @ 31 Dec 2011						396,556
RNAV						652,846
Number of share (m)						667.5
RNAV per share ($)						**$ 0.98**
Discount (%)						50.0
Target price ($)						**$ 0.49**

Source : NRA Capital

Table 10 : Sensitivity Analysis Table

Sensitivity Table	
Revision on ASP of unsold projects or new launches	**Impact on RNAV per share (S$)**
Base case	0.98
-5%	0.95
-10%	0.93
-15%	0.90
-20%	0.87
-25%	0.85
-30%	0.82

Source : NRA Capital

Table 11 : Comparison with small-cap industry peers

Name	Share Price (S$)	Mkt Cap (S$ m)	PER FY10 (x)	PER FY11(F) (x)	PER FY12(F) (x)	Price/ Book (x)	ROE (%)	Div Yield (%)
HEETON HOLDINGS	0.37	82.8	5.1	-	-	0.40	10.8	3.0
HIAP HOE LTD	0.43	203.4	4.0	4.3	-	0.85	18.2	1.2
SING HOLDINGS LTD	0.28	110.3	11.2	-	-	0.75	6.9	2.7
SIM LIAN GROUP LTD	0.48	439.7	1.4	-	-	0.70	51.3	10.1
OXLEY HOLDINGS LTD	0.34	498.8	35.6	-	-	3.79	19.1	0.3
ROXY-PACIFIC HLDGS	0.40	251.4	5.0	5.6	4.5	1.27	28.2	3.8
TUAN SING HOLDINGS	0.27	305.9	5.8	12.6	8.3	0.54	12.9	1.5
UE E&C LTD	0.38	102.6	1.9	2.9	2.4	0.86	76.9	0.0
Average			8.8	6.4	5.0	1.14	28.0	2.8
Average (excludes Oxley)			4.9	6.4	5.0	0.76	29.3	3.2

Source : Bloomberg

Financial Ratios

Year end : 31 Dec	**2010E***	**2011F**	**2012F**	**2013F**
Per Share Data				
Revenue per share (cts)	71.5	58.0	100.1	75.5
EPS (cts)	26.1	14.4	6.3	11.9
EPS growth (%)	NA	-44.7%	-56.1%	87.5%
NAV per share (cts)	48.0	59.4	62.7	68.6
Dividend per share (cts)	4.0	3.0	3.0	3.0
Valuation				
P/revenue (x)	0.5	0.7	0.4	0.5
PER (x)	1.5	2.6	6.0	3.2
P/NAV (x)	0.8	0.6	0.6	0.6
Net gearing (x)	0.5	0.7	0.7	0.4
Return on Equity (%)	NA	26.9%	10.4%	18.1%
Dividend Yield (%)	10.5%	7.9%	7.9%	7.9%
Growth Rates (%)				
Revenue	26.7%	-18.9%	72.7%	-24.6%
Operating Profit	-464.2%	186.3%	-42.6%	-49.8%
Net Profit	131.5%	-44.7%	-56.1%	87.5%
Margins (%)				
Gross profit margin	12.3%	30.0%	10.5%	9.0%
Net margin	36.5%	24.9%	6.3%	15.7%

* FY10 result has been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Profit & Loss (S$'000)				
Year end : 31 Dec	**2010E***	**2011F**	**2012F**	**2013F**
Revenue	477,030	386,880	668,203	504,131
Cost of Sales	(418,411)	(271,006)	(598,113)	(458,520)
Gross Profit	58,619	115,874	70,089	45,611
Operating income	3,274	2,619	2,095	1,676
Operating Expenses	(31,523)	(31,539)	(22,249)	(22,228)
Admin Expenses	(17,546)	(21,406)	(18,195)	(18,377)
Selling Expenses	(13,977)	(10,133)	(4,053)	(3,851)
Operating Profit	30,370	86,954	49,936	25,059
Net interest	3,093	1,596	1,656	2,042
Share of results of associates	143,616	26,331	-	69,629
Pre-tax Profit	177,079	114,881	51,592	96,730
Income tax	(2,822)	(18,551)	(9,287)	(17,411)
Minority interest	(1)	(1)	-	-
Net Profit	174,256	96,328	42,306	79,319
EPS - fully diluted (Scts)	26.1	14.4	6.3	11.9
EPS Growth (%)	NA	-44.7%	-56.1%	87.5%

* FY10 result has been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Balance Sheet (S$'000)				
Year end : 31 Dec	**2010E***	**2011F**	**2012F**	**2013F**
Non-current assets				
Fixed Assets, Net	7,031	13,097	20,283	27,826
Investment properties	96,513	288,605	286,779	356,540
Investment in Associates	110,046	19,686	20,086	20,486
Other non-current assets	46,136	52,299	52,404	52,513
Total non-current assets	**259,726**	**373,688**	**379,552**	**457,366**
Current assets				
Cash & Fixed Deposit	133,570	151,508	168,084	293,268
Trade & Other Receivables	121,058	218,784	251,602	301,922
Development properties	318,753	460,713	597,892	241,263
Other current assets	9,823	4,286	4,392	4,503
Total current assets	**583,204**	**835,291**	**1,021,969**	**840,956**
Total assets	**842,930**	**1,208,979**	**1,401,521**	**1,298,322**
Current Liabilities				
Trade Creditors	99,343	264,544	393,280	263,806
Bank borrowings, secured	115,600	88,204	79,384	71,445
Gross amount due to customers for contract WIP	105,980	51,572	54,151	56,859
Other current liabilities	26,635	58,427	65,545	46,699
Total current liabilities	**347,558**	**462,748**	**592,359**	**438,809**
Non-current liability				
Bank borrowings, unsecured	169,265	348,760	389,410	400,469
Other non-current liability	5,846	1,013	1,013	1,013
Total non-current liability	**175,111**	**349,773**	**390,423**	**401,482**
Minority Interest	8	(98)	(98)	(98)
Shareholders funds	320,253	396,556	418,836	458,130
Total shareholders funds	**320,261**	**396,458**	**418,738**	**458,032**

* FY10 result has been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Cash flow Statement (S$'000)				
Year end : 31 Dec	**2010E***	**2011F**	**2012F**	**2013F**
Cash flow from Operating Act.				
Pretax profit	177,079	114,881	51,592	96,730
Adjustments	(160,721)	(26,644)	984	(140,476)
Operating profit bef. WC changes	16,358	88,237	52,577	(43,745)
Changes in working capital	(188,514)	(314,739)	733	190,676
Tax Paid & Exchange Difference	2,972	(2,284)	(9,287)	(17,411)
Net Cash gen. fr. Operations	**(169,184)**	**(228,786)**	**44,023**	**129,519**
Cash flow from Investing Act.				
Capex	(5,693)	(7,443)	(8,000)	(8,500)
(Repayment from)/advance to associates, net	10,936	11,515	20,000	30,000
Dividend income fr assocs & invtm securities	122,760	121,579	22,250	12,450
Others	13,602	1,588	1,371	1,745
Net Cash gen. fr. investing	**141,605**	**127,239**	**35,621**	**35,695**
Cash flow from Financing Act.				
Loans, Net	171,317	152,099	31,830	3,120
Additions to investment properties	(64,808)	(12,500)	(75,000)	(22,800)
Dividend Paid	(20,007)	(20,172)	(20,025)	(20,247)
Others	(1,457)	59	128	(103)
Net Cash gen. fr. financing act.	**85,045**	**119,486**	**(63,068)**	**(40,030)**
Net change in cash/cash equivalent	57,466	17,938	16,576	125,184
Cash balance at the beginning of the year	76,104	133,570	151,508	168,084
Cash balance at the end of the year (net of OD)	**133,570**	**151,508**	**168,084**	**293,268**

* FY10 result has been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Appendix

Table 1 – Government land sales programme for 1H2012 – Confirmed list

	Location	Site area (ha)	Proposed gross plot ratio	Est no. of residential units	Est launch date
1	Upper Serangoon View/Upper Serangoon Road (EC)	1.24	3.50	435	January
2	Hillview Avenue	1.26	2.80	370	January
3	Fernvale Lane (EC)	2.20	3.50	770	February
4	Elias Road/Pasir Ris Drive 3	2.33	1.40	345	February
5	Punggol Central/ Edgefield Plains (EC)*	1.32	3.00	395	February
6	Woodlands Ave 5/Woodlands Dr 16 (EC)*	2.58	2.80	720	March
7	Tampines Ave 9/Tampines Ave 7 (EC)*	2.08	2.80	580	March
8	Tampines Ave 10/Tampines Ave 1 (Parcel A)*	2.04	2.80	600	March
9	Buangkok Drive/Sengkang Central	1.83	3.00	580	April
10	Sengkang Square/ Compassvale Drive	2.25	3.00	710	April
11	Pasir Ris Dr 3/ Pasir Ris Dr 10*	2.25	2.10	495	April
12	Upper Serangoon Road/ Pheng Geck Ave (Parcel B)	0.49	3.50	200	May
13	Tanah Merah Kechil Rd/ Tanah Merah Kechil Link	1.40	2.80	415	June
14	Bright Hill Dr*	1.30	2.80	405	June
	Total for confirmed list			7020	

* New sites introduced in 2012

Source : MND

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.