

Small Cap Weekly**billion&below**

Source: google.com

New home transactions have plunged in recent months but some developers are sitting pretty with good earnings visibility. See my 2cts.

my2cts

- ◆ New home transactions have plunged in recent months but some developers are sitting pretty with good earnings visibility. (Pg 2)

Model Portfolio

- ◆ Portfolio performance: +1.7% WoW, +12.0% YTD
Best performer: Nam Cheong(+4.5%), Ezion (+4.5%), Centurion(+4.3%)
Worst performer: Hankore (-1.7%), OSIM (-1.1%) (pg4)

Reports Recap

- ◆ Past week's key reports: Ezion, Centurion, Super Group (Pg 6)

Analysts' Diaries

- ◆ A peek at what's keeping our analysts busy over the next few weeks. (Pg 6)



Small Cap Research
#1 (2010, 2012, 2013), #2 (2011)

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my2cts

In recent months, new home sales have been sluggish, crumbling under the weight of the implementation of the total debt servicing ratio (TDSR) on top of a slew of other property cooling measures. Developers sold a total of 482 new homes last month, a 68% decline m-o-m. However, some developers are sitting pretty from healthy pre-sales chalked up in the last few years. In this week's issue, we feature Chip Eng Seng, an integrated contractor-cum-developer, which is poised to deliver record earnings over the next 24 months.

Sluggish home sales

In recent months, new home sales have been sluggish, crumbling under the weight of the implementation of the total debt servicing ratio (TDSR) on top of a slew of other property cooling measures. Last month, just 482 new homes were sold, a 68% plunge from the 1488 units sold in May. Take-up rates for recent launches such as Kallang Riverside, Waterfront at Faber and Commonwealth Towers have been dismal, slowing down to a trickle in June. URA data shows that new home sales plunged 55% yoy to 4,476 in the first half of 2014. To move sales, developers are offering rebates and discounts on new home purchases as well as dangling higher commissions for agents.

Amidst the doom and gloom, some developers have it better than others. Taking advantage of the up-cycle in the last few years, the more nimble developers had pre-sold a substantial portion of their land banks, and will be recognizing profits from those projects over the next 2-3 years as construction progresses.

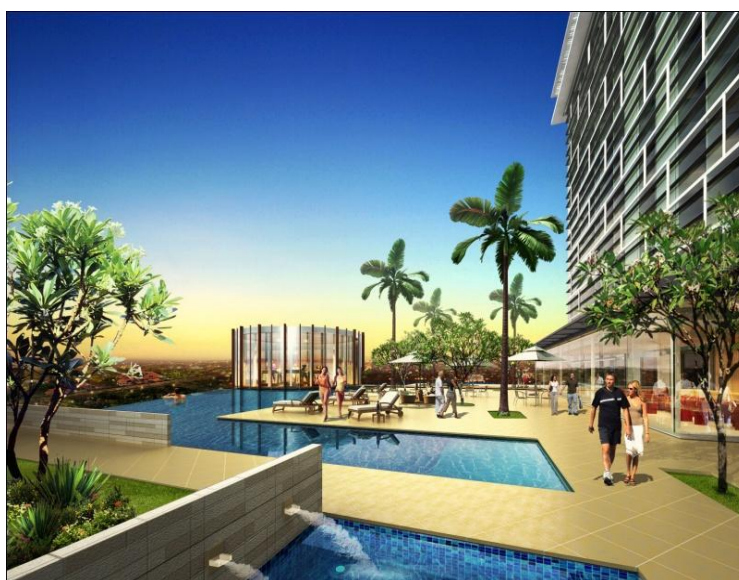
Enter Chip Eng Seng

This week, we feature Chip Eng Seng (CES), which evolved from its contractor background into an integrated developer in the last decade. CES rode the last property cycle and raked in a combined net profit of some SGD300m during 2010-11, boosting shareholders' equity by 2.5 times over that two years.

Looking ahead, we think CES is poised for another record run over the next two years as several of its residential and mixed development projects in town reached completion or T.O.P. The group obtained T.O.P for its industrial project 100 Pasir Panjang and condominium project My Manhattan in the first quarter of this year, and is on track to complete Belysa (EC project), Belvia (DBSS project) and Alexandra Central retail in the course of 2014. In 2015-16, the group will complete its mixed development project at Yishun (Junction Nine/Nine Residences), its Alexandra Road hotel and Fulcrum, a mid-market residential project. With the exception of Fulcrum, CES' other projects are substantially sold with healthy margins. For its hotel at Alexandra Central, the group has appointed Park Hotel Group as the hotel manager. Against a development cost of SGD208m, cost per room works out to SGD460,000 for the 450-room hotel. Given the recent transactions of 3-4 star hotels in the city fringe, we believe CES's hotel is easily worth at least SGD360m based on SGD800,000 per key. This implies a potential revaluation surplus of SGD152m.

Figure 1: Artist impression of Park Hotel Alexandra





On the development front, we expect CES to generate net profit of SGD260m, or SGD0.40/share from its pre-sold projects. The bulk of the profit contribution comes from two mixed development projects. The first one is the strata-titled retail units at Alexandra Central, which sold between \$4000-8000 psf at the height of the craze for commercial properties in early 2013. Net profit from the development alone will contribute SGD114m, by our estimates. The second project, Junction Nine and Nine Residences in Yishun, should gross over SGD86m when completed in 2015/16.

Figure 2: CES's presold projects in Singapore and commercial property portfolio

Project	Project type	Total No of units	% sold	Stake	Expected TOP	Saleable area (sf)	ASP (\$psf)	Attrib. surplus (\$m)
Development								
Belysa	EC	315	100%	40%	2Q14	342,277	670	12
100 Pasir Panjang	Industrial	66	65%	100%	1Q14	135,503	1050	6
My Manhattan	Condominium	301	100%	100%	1Q14	374,875	1150	-
Belvia	DBSS	488	100%	100%	2H14	502,359	540	40
Fulcrum	Condominium	128	13%	100%	2015	100,544		
Alexandra Central - retail	strata retail	116	97%	100%	2H14	50,000	5000	115
Nine Residences	Condominium	186	69%	100%	4Q15	162,104	1050	24
Junction Nine	strata retail	146	96%	100%	2016	76,000	3700	62
Development profits								260
Commercial Assets								
							Per key	
Park Hotel Alexandra	hotel	450 room		100%	2015		800,000	360
San Centre	office							120
St Kilda Road, Melbourne	office							52
Other shophouses and Ubi i	retail/industrial							50
Commercial assets total								582

Recognizing the challenging conditions in the Singapore residential market with high land costs and softening property prices, CES expanded on its overseas business last year, acquiring two development sites in Melbourne and a mixed development site in downtown Malacca. Meanwhile, its existing project in Australia, Tower Melbourne, has achieved a 99% sales rate as at end 2013. We have not factored in any potential contribution from its overseas projects until more launch data are available.

Figure 3: RNAV of Chip Eng Seng (excluding overseas projects)

	S\$m	Per share (\$)
Book value (March 2014)	523	0.81
Development surplus:		
Belysa	12	
100 Pasir Panjang	6	
My Manhattan	0	
Belvia	40	
Fulcrum	0	
Alexandra Central - retail component	115	
Nine Residences	24	
Junction Nine	62	
	259	0.40
Surplus from Park Hotel Alexandra	152	0.24
Construction business @8x P/E	160	
Carrying value	50	
Surplus	110	0.17
RNAV	1044	1.63
Discount	-365	-0.57
Target Price	679	1.06

Combined with development profits and revaluation surplus from its Singapore portfolio, and attributing a 8x P/E multiple for its profitable construction business, we derive a RNAV of SGD1.63 for the stock. At SGD0.81, CES trades at more than 50% discount to its RNAV and offers an attractive yield of 5%. Applying a 35% discount to its RNAV, we believe the stock is worth SGD1.07. Stock buybacks and delivery of record earnings over the next several quarters should act as catalysts for the stock price.

Terence Wong's Model Portfolio

- ◆ My Model Portfolio rose by 1.7% w-o-w on the back of my holdings in the construction-related (Centurion, Lian Beng) as well as offshore and marine (Ezion, Nam Cheong) plays.
- ◆ Centurion (BUY, TP SGD0.91) got a boost due to its maiden foray into the UK with the acquisition of three student accommodation assets in Manchester and one in Liverpool, with a total of 1,906 beds, for SGD164.5m. This could be its largest acquisition to date. We like this proposed acquisition, which could boost FY15 revenue and earnings by 18% and 9% y-o-y respectively. Following the acquisition, we raised our DCF-derived TP from SGD0.88 to SGD0.91. Lian Beng (BUY, TP SGD1.17), which owns 5% of Centurion, also saw its share price appreciate consequently.
- ◆ Another notable move last week came from Ezion (BUY, TP SGD3.00). Last week, the liftboat specialist secured two contracts worth a total of USD268.6m from a Southeast Asian national oil company (NOC) and an East European NOC. Ezion will spend only USD32m of its USD155m of new equity capital, leaving plenty of room for more contracts. At 6.4x FY15F P/E and <6x FY15F EV/EBITDA, valuations are compelling. Our O&M analyst Lee Yue Jer maintains his SGD3.00 TP, and has upgraded Ezion to #1 in our list of Top Picks for the offshore & marine sector.

Return Summary	% Change		
	Since Purchase	Ytd	WoW
Portfolio	170.6%	12.0%	1.7%
STI	8.8%	5.1%	0.5%
FSTS	0.0%	4.8%	0.3%

Stock Name	Price per Share (S\$)			Quantity	Market Value (S\$)			% Change	
	Cost	Previous	Last		Cost	Previous	Last	Unrealised Profit/ (Loss)	WoW
Ezion	\$ 0.570	\$ 2.010	\$ 2.100	210,000	\$ 119,795.45	\$ 422,100.00	\$ 441,000.00	268.1%	4.5%
Osim	\$ 1.205	\$ 2.790	\$ 2.760	160,000	\$ 192,800.00	\$ 446,400.00	\$ 441,600.00	129.0%	-1.1%
Nam Cheong	\$ 0.265	\$ 0.445	\$ 0.465	750,000	\$ 198,750.00	\$ 333,750.00	\$ 348,750.00	75.5%	4.5%
Lian Beng	\$ 0.520	\$ 0.705	\$ 0.730	500,000	\$ 260,000.00	\$ 352,500.00	\$ 365,000.00	40.4%	3.5%
CWT	\$ 1.450	\$ 1.730	\$ 1.720	250,000	\$ 362,500.00	\$ 432,500.00	\$ 430,000.00	18.6%	-0.6%
Hankore	\$ 1.160	\$ 0.880	\$ 0.865	180,000	\$ 208,800.00	\$ 158,400.00	\$ 155,700.00	-25.4%	-1.7%
Centurion	\$ 0.645	\$ 0.695	\$ 0.725	300,000	\$ 193,500.00	\$ 208,500.00	\$ 217,500.00	12.4%	4.3%
Cash (Realised)	-	-	-	-	-	-	\$ 306,022.92	-	-
Total (With realised and unrealised gains since July 2010)							\$ 2,705,572.92	170.6%	1.7%

Reports Recap

Ezion (Buy, TP: SGD3.00)

15 July

Lee Yue Jer, CFA (yuejer.lee@sg.oskgroup.com)

Ezion is involved in the provision of offshore and marine logistics and it owns one of the largest liftboat fleets in the world.

Reason for report: Update

Key points: Ezion has secured two contracts worth a total of USD268.6m from a Southeast Asian national oil company (NOC) and an East European NOC. Ezion will spend only USD32m of its USD155m of new equity capital, leaving plenty of room for more contracts. At 6.4x FY15F P/E and <6x FY15F EV/EBITDA, valuations are compelling.

Valuation/Recommendation: Maintain BUY with SGD3.00 TP, upgrading Ezion to #1 in our list of Top Picks for the offshore & marine sector.

Centurion Corp (Buy, TP: SGD0.91)

17 July

Jarick Seet (jarick.seet@sg.oskgroup.com)

Centurion Corporation is the only listed dormitory operator in Singapore. Upon completion of upgrading and development works, the group's accommodation portfolio will grow to a total of about 54,000 beds. It has also recently ventured into the student accommodation business via the acquisition of RMIT Village.

Reason for report: Update

Key points: Yesterday, Centurion announced its maiden foray into the UK with the proposed acquisition of three student accommodation assets in Manchester and one in Liverpool, with a total of 1,906 beds, for SGD164.5m. This could be its largest acquisition to date. We like this proposed acquisition, which could boost FY15 revenue and earnings by 18% and 9% y-o-y respectively.

Valuation/Recommendation: Maintain BUY, with a higher DCF-derived TP of SGD0.91 (from SGD0.88).

Super Group (Neutral, TP: SGD1.465)

17 July

Singapore Research (research@sg.oskgroup.com)

Super Group is an integrated F&B company specialising in 3-in-1 coffee, which it first pioneered in the 1980s under its flagship Super brand. It is now a leading player in Asean, with top-three market share in 3-in-1 format coffee in Singapore, Malaysia, Thailand and Myanmar. The company also supplies to third parties under its food Ingredients business.

Reason for report: Update

Key points: We believe competition is intensifying across the region. This may lead to muted sales growth for Super, especially since it does not have substantial penetration in new markets such as Indonesia and the Philippines. Super is taking positive steps to build its brand and product capability, but near-term headwinds suggest that current valuations are too demanding.

Valuation/Recommendation: Downgrade to NEUTRAL (from Buy) with a new TP of SGD1.46 (from SGD2.00)

Analysts' Diaries

Event	Company	Date
Analysts Marketing	Semi-Conductor Assembly & Testing outlook - Singapore - <i>Edison Chen, Analyst</i>	21 - 25 Jul
NDR	Ezion Post-Results NDR - Singapore	31 Jul
	OSIM NDR - Hong Kong	7 Aug
	OSIM NDR - Tokyo	8 Aug
Site Visits	Gallant Venture Site Visit - <i>Bintan</i>	15 Aug
Events	SGX/DMG Singapore Corporate Day - Tokyo	11 - 12 Aug

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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