

# Bukit Sembawang (BS SP)

## Solid Development Pipeline

### Earnings at an upward inflection point; Maintain BUY

FY18 net profit of SGD55m was 66% ahead of our estimate due to a higher-than-expected profit margin. While the DPS cut was slightly negative, we believe BS can quickly pay down financing for its newly-acquired sites with the cash savings. We fine-tuned our model to incorporate recently acquired Makeway View, lowered estimates for Nim Collection on efficiency adjustments and revised the sales trajectory. We rolled forward our valuation basis and introduced FY21E. Our TP is unchanged at SGD8.55, based on a 20% discount to a revised RNAV of SGD10.71 (from SGD10.68). With a solid SGD2.6b development pipeline, we see BS's earnings at an inflection point. Maintain BUY.

### FY18 ahead on strong margin; DPS cut mild negative

FY18 revenue of SGD98m was inline with our estimate. However, higher-than-expected EBITDA margin of 60% (MBKE estimate: 33%) led to the earnings exceeding our forecast. Management opted to conserve cash and declared a smaller DPS of 18 cts (FY17: 33 cts).

### Acquired Makeway View at a reasonable price

In late Mar-18, BS acquired Makeway View, a prime freehold property near Newton Circus, which could add 154 units to its high-rise inventory. It met the vendor's asking price of SGD168m or SGD1,626 psf ppr (including estimated development charge of SGD21m). Compared to recent deals in the vicinity, the price paid was in line with that for Casa Contendere (SGD1,638 psf), but lower than for City Towers (SGD1,847 psf) and Dunearn Gardens (SGD1,914 psf). We have conservatively applied an ASP assumption of SGD2,600 psf, in line with transactions at 26 Newton, which was completed two years ago.

### Plenty of stock to ride the recovering market

BS has a good mix of projects to ride the recovering housing market. For condominium projects, 8 Saint Thomas, Katong Park Towers and Makeway View have approximately 792 units in total, worth a combined GDV of SGD1.7b. For the landed housing segment, it has 295 units worth SGD0.9b from Watercove, Nim Collection (Ph 1 and 2) and Luxus Hills (Ph 8-10). Revenue recognition from these projects will drive a clear rebound in earnings over the next few years. Reiterate BUY.

FYE Mar (SGD m)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	143	98	532	544	574
EBITDA	80	59	192	207	217
Core net profit	72	55	161	173	182
Core EPS (cts)	28.0	21.3	62.1	66.9	70.3
Core EPS growth (%)	(21.2)	(23.7)	190.7	7.8	5.0
Net DPS (cts)	33.0	18.0	18.0	33.0	33.0
Core P/E (x)	22.0	28.9	9.9	9.2	8.8
P/BV (x)	1.3	1.3	1.2	1.1	1.0
Net dividend yield (%)	5.3	2.9	2.9	5.3	5.3
ROAE (%)	5.6	4.4	12.3	12.2	11.8
ROAA (%)	5.0	4.0	10.5	10.5	11.4
EV/EBITDA (x)	15.1	24.3	8.9	6.8	4.7
Net gearing (%) (incl perps)	net cash	net cash	7.9	net cash	net cash
Consensus net profit	-	-	159	162	na
MKE vs. Consensus (%)	-	-	0.9	7.2	na

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# BUY

Share Price SGD 6.17  
 12m Price Target SGD 8.55 (+39%)  
 Previous Price Target SGD 8.55

### Company Description

Bukit Sembawang is a Singapore-based property developer well-known for its high quality landed homes and luxury condominiums.

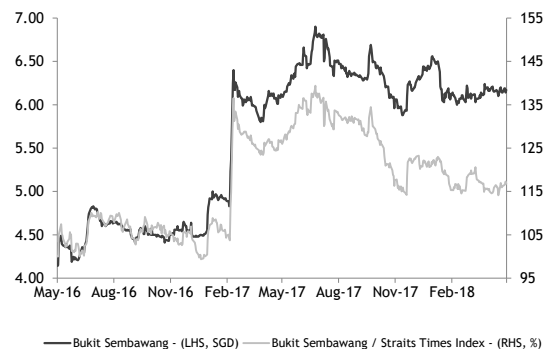
### Statistics

52w high/low (SGD)	6.90/5.88
3m avg turnover (USDm)	0.7
Free float (%)	58.7
Issued shares (m)	259
Market capitalisation	SGD1.6B
	USD1.2B

### Major shareholders:

Lee Family	41.3%
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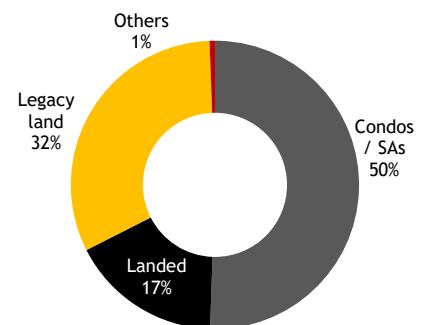
### Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	1	1
Relative to index (%)	2	2	(7)

Source: FactSet

### Exposure summary by asset value



Source: Maybank Kim Eng

Fig 1: Quarterly profit and loss

FYE 31 Mar	4Q17 (SGD m)	3Q18 (SGD m)	4Q18 (SGD m)	Change		FY18A (SGD m)	% of FY18E	FY18E (SGD m)
				(QoQ %)	(YoY %)			
Revenue	15.2	17.5	32.8	87.3	>100	98.1	89.2	110.0
EBITDA	3.1	10.0	24.7	>100	>100	59.2	162.0	36.5
D&A	(0.1)	(0.1)	(0.1)	(1.6)	(24.1)	(0.3)	262.0	(0.1)
EBIT	3.0	10.0	24.6	>100	>100	58.9	161.7	36.4
Net interest income/(expense)	1.2	0.5	0.5	(14.4)	(62.7)	2.9	78.7	3.7
Other items (recurring)	0.0	3.7	0.0	n.m.	n.m.	3.7	100.0	3.7
Other items (exceptionals)	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
Associates & JVs	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
PBT	4.3	14.2	25.1	76.2	>100	65.5	149.6	43.8
Taxation	(2.0)	(3.5)	(3.6)	1.7	78.3	(10.2)	149.4	(6.8)
MI	0.0	0.0	0.0	n.m.	n.m.	0.0	n.m.	0.0
Net income	2.3	10.7	21.5	>100	>100	55.3	149.6	37.0
Less: Exceptionals	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	(3.7)
Net income, adj.	2.3	10.7	21.5	>100	>100	55.3	166.2	33.3

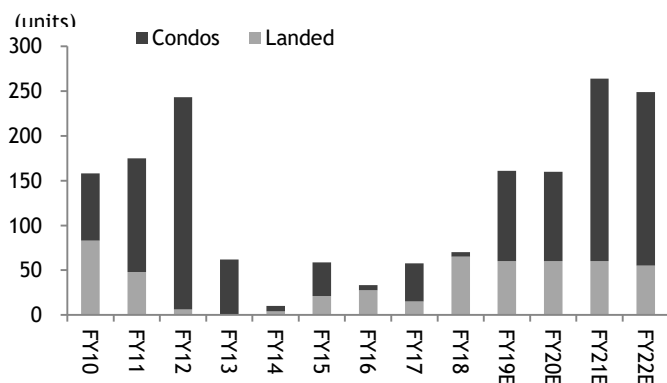
Source: Company, Maybank Kim Eng

Fig 2: Earnings revisions

Key financials	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	532	544	574	464	461	n.m.	15	18	n.m.
EBITDA	192	207	217	190	193	n.m.	1	7	n.m.
Net profit, adj.	161	173	182	159	162	n.m.	1	7	n.m.

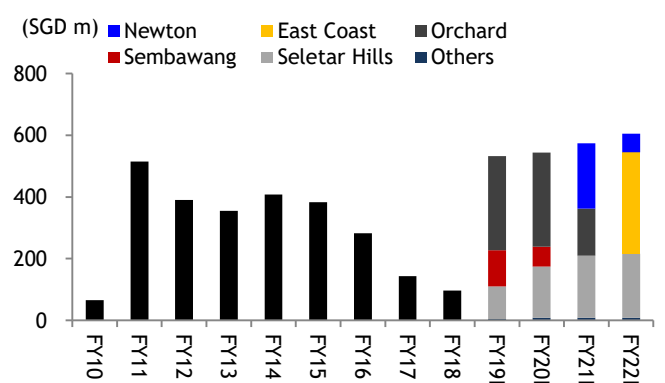
Source: Maybank Kim Eng

Fig 3: Bukit Sembawang's housing sales



Source: URA, Company, Maybank Kim Eng

Fig 4: Revenue recognition



Source: Company, Maybank Kim Eng estimates

Fig 5: RNAV of Bukit Sembawang

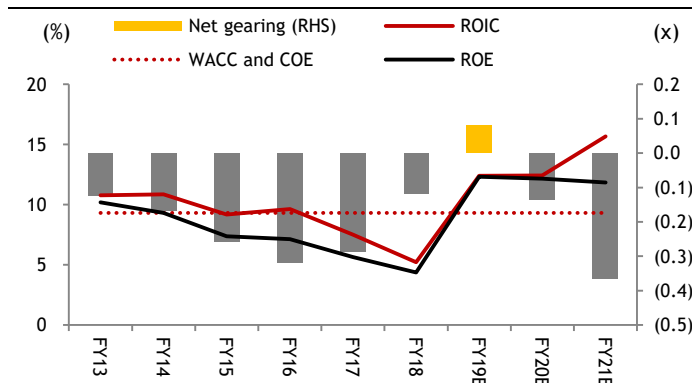
Valuation	2019E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	2,919	99.4	11.27	
Paterson Collection	359	12.2	1.39	Paterson Collection (SGD3,000 psf) is retained as serviced apartments.
Katong Park Towers	487	16.6	1.88	Katong Park Towers (SGD2,200 psf)
Makeway View	231	7.9	0.89	Makeway View (SGD2,600 psf)
Orchard / Telok Blangah area	407	13.9	1.57	8 St. Thomas (SGD2,800 psf). Almost fully-sold Skyline Residences.
Sembawang / Seletar Hills area	499	17.0	1.93	Luxus Hills, Nim Collection & Watercove.
Undeveloped land at market value	936	31.9	3.61	Approximately 1.1m sf of saleable land area.
Investment properties	18	0.6	0.07	
Gross asset value	2,937	100.0	11.34	
Less/Add: adjusted net liabilities/assets	(164)			SGD146m net cash (Mar-18)
RNAV	2,773			
Outstanding no. of shares (m)	259			
RNAV per share	10.71			vs BVPS of SGD4.82.
Target price	8.55			
RNAV discount (%)	(20)			

Source: Company, Maybank Kim Eng

## Value Proposition

- Singapore-based residential developer. Started building landed homes in the 1950s and made a big push into high-end condominiums in the late 2000s.
- Concentrated proxy for Singapore’s residential market with almost all its assets in this market.
- Owns vast plots of land in Seletar Hills and Sembawang. Remaining parcels in Seletar Hills can possibly yield 1.1m sf of saleable area.
- We expect strong returns on capital as earnings rebound on stronger home sales in the next few years. FY19E ROE of 12% vs COE of 9%.

### Returns vs cost of capital

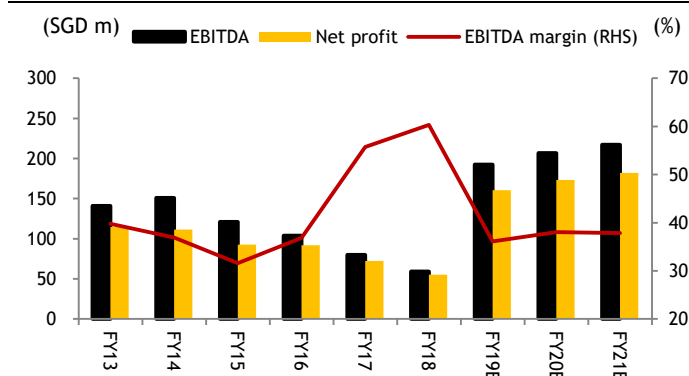


Source: Company, Maybank Kim Eng

## Financial Metrics

- With improving sentiment in Singapore’s residential market, we expect a rebound in sales volume.
- High EBITDA margins due to low-cost legacy land bank.
- Impending launches include luxury condominium 8 St Thomas and landed housing projects, Nim Collection and Luxus Hills.
- Recently acquired sites, Katong Park Towers and Makeway View, offer development pipeline in the medium term.
- We expect earnings to stage a cyclical rebound.

### Earnings to rebound



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Eighth round of cooling measures in Singapore in Jun 2013. Home sales weakened for three years before a 2017 rebound.
2. Resolved a long-standing dispute over Lot 12949A MK18. BS is now allowed to build homes on that land parcel by paying a differential premium.
3. Improving macro outlook in Singapore.
4. Government relaxed cooling measures in Mar 2017 for the first time since GFC.
5. Restocked high-rise inventory with enbloc purchase of Katong Park Towers and Makeway View in March 2018.

## Swing Factors

### Upside

- Rebound in home sales.
- Faster-than-expected monetisation of legacy land.
- Return of surplus capital to shareholders.

### Downside

- Overpaying for land.
- Poor execution of development projects.
- Interest-rate spike could dampen demand for properties and drive down asset prices.
- Policy tightening.

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Metrics</b>					
P/E (reported) (x)	16.5	29.4	9.9	9.2	8.8
Core P/E (x)	22.0	28.9	9.9	9.2	8.8
P/BV (x)	1.3	1.3	1.2	1.1	1.0
P/NTA (x)	1.3	1.3	1.2	1.1	1.0
Net dividend yield (%)	5.3	2.9	2.9	5.3	5.3
FCF yield (%)	2.2	nm	nm	22.3	28.8
EV/EBITDA (x)	15.1	24.3	8.9	6.8	4.7
EV/EBIT (x)	15.2	24.4	8.9	6.8	4.7

**INCOME STATEMENT (SGD m)**

Revenue	143.4	98.1	532.2	543.8	574.4
Gross profit	79.9	59.2	192.2	206.9	217.3
EBITDA	79.9	59.2	192.2	206.9	217.3
Depreciation	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)
EBIT	79.6	58.9	192.1	206.8	217.2
Net interest income / (exp)	5.2	2.8	1.5	1.9	2.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(5.0)	3.7	0.0	0.0	0.0
Pretax profit	79.7	65.5	193.6	208.7	219.2
Income tax	(7.3)	(10.2)	(32.9)	(35.5)	(37.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	72.5	55.3	160.7	173.2	181.9
Core net profit	72.5	55.3	160.7	173.2	181.9
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	365.4	145.6	188.3	200.2	576.4
Accounts receivable	24.5	61.3	10.0	30.0	40.0
Inventory	997.0	857.7	1,254.5	1,032.8	742.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.1	241.3	266.2	266.2	266.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	27.7	20.6	21.1	21.6	22.2
<b>Total assets</b>	<b>1,414.7</b>	<b>1,326.6</b>	<b>1,740.1</b>	<b>1,550.9</b>	<b>1,647.4</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	111.8	76.6	80.0	60.0	60.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	296.0	0.0	0.0
Other liabilities	26.0	3.0	3.0	3.0	4.0
<b>Total Liabilities</b>	<b>137.9</b>	<b>79.9</b>	<b>379.3</b>	<b>63.4</b>	<b>63.5</b>
Shareholders Equity	1,276.8	1,246.7	1,360.8	1,487.4	1,583.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,276.8</b>	<b>1,246.7</b>	<b>1,360.8</b>	<b>1,487.4</b>	<b>1,583.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,414.7</b>	<b>1,326.6</b>	<b>1,740.1</b>	<b>1,550.9</b>	<b>1,647.4</b>

**CASH FLOW (SGD m)**

Pretax profit	79.7	65.5	193.6	208.7	219.2
Depreciation & amortisation	0.3	0.3	0.1	0.1	0.1
Adj net interest (income)/exp	(5.2)	(2.8)	(1.5)	(1.9)	(2.0)
Change in working capital	(19.7)	(139.1)	(336.6)	184.2	279.7
Cash taxes paid	(24.5)	(26.1)	(32.9)	(35.5)	(37.3)
Other operating cash flow	5.0	(35.6)	0.0	0.0	0.0
Cash flow from operations	35.7	(137.9)	(177.3)	355.6	459.7
Capex	(0.2)	(1.1)	(25.0)	(0.1)	(0.1)
Free cash flow	35.6	(138.9)	(202.3)	355.5	459.6
Dividends paid	(85.4)	(85.4)	(46.6)	(46.6)	(85.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	296.0	(296.0)	0.0
Other invest/financing cash flow	3.3	4.6	(4.5)	(1.1)	2.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(46.5)	(219.7)	42.7	11.9	376.2

FYE 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(49.2)	(31.6)	442.3	2.2	5.6
EBITDA growth	(23.1)	(25.9)	224.8	7.7	5.0
EBIT growth	(23.2)	(26.0)	226.1	7.7	5.0
Pretax growth	(25.4)	(17.9)	195.6	7.8	5.0
Reported net profit growth	(21.2)	(23.7)	190.5	7.8	5.0
Core net profit growth	(21.2)	(23.7)	190.7	7.8	5.0
<b>Profitability ratios (%)</b>					
EBITDA margin	55.7	60.3	36.1	38.1	37.8
EBIT margin	55.5	60.0	36.1	38.0	37.8
Pretax profit margin	55.6	66.7	36.4	38.4	38.2
Payout ratio	117.9	84.3	29.0	49.3	47.0
<b>DuPont analysis</b>					
Net profit margin (%)	50.5	56.4	30.2	31.9	31.7
Revenue/Assets (x)	0.1	0.1	0.3	0.4	0.3
Assets/Equity (x)	1.1	1.1	1.3	1.0	1.0
ROAE (%)	5.6	4.4	12.3	12.2	11.8
ROAA (%)	5.0	4.0	10.5	10.5	11.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	nm	nm	4.6	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	7.9	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	7.9	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	1.5	0.0	0.0
Capex/revenue (%)	0.1	1.1	4.7	0.0	0.0
Net debt/ (net cash)	(365.4)	(145.6)	107.7	(200.2)	(576.4)

Source: Company; Maybank

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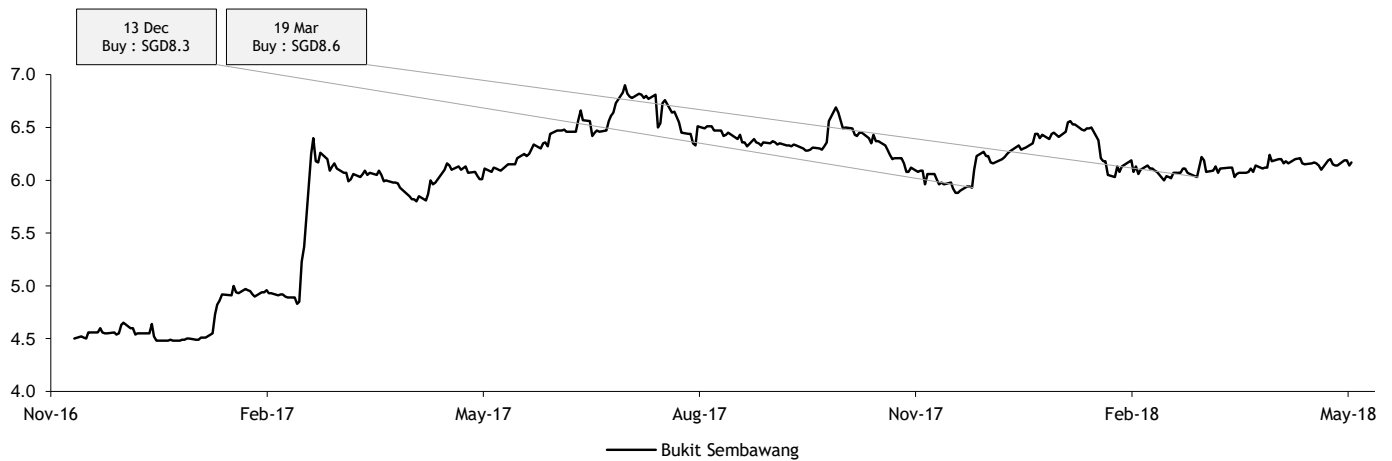
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## Historical recommendations and target price: Bukit Sembawang (BS SP)



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