

Bukit Sembawang (BS SP)

Model Update

Maintain BUY and SGD8.25 TP

We update our model to incorporate the latest data points. We believe the recent increase in Buyer's Stamp Duty will not derail the housing recovery and continue to see BS as a concentrated proxy for this. Maintain BUY and SGD8.25 TP, based on 20% discount to RNAV of SGD10.35. This under-the-radar mid-cap developer is attractively priced against the large caps, which are a consensus trade.

Converting Paterson Collection to serviced apts

BS has been granted written approval to convert 85-unit Paterson Collection into 112 units of serviced apartments, while retaining three existing residential units. As such, it has reclassified the asset from development properties into property, plant and equipment. It paid a one-off SGD31.8m Additional Buyer's Stamp Duty in 3Q18 and is no longer subjected to extension premiums under the Qualifying Certificate rules. We assume that BS will need to incur another SGD25m of capex to fit-out the property for leasing. On a stabilised basis, we estimate recurring EBITDA of SGD6.2m and a yield on cost of 2.3-2.6%.

Fine-tuning forecasts

We remove Paterson Collection from our sales forecasts and incorporate leasing income at the property. We also lift FY18E to reflect the sales of three terrace houses at Nim Collection and 43 homes at Watercove. We believe BS can capitalize on improving sentiments in the luxury market with the launch of 8 St Thomas in the coming year.

Investment thesis remains intact

We believe the recently announced increase in [Buyer's Stamp Duty](#) will not derail the housing recovery in Singapore. For a SGD2.7m terrace house, the price hike of SGD17k is just 0.6% of the property value. Our investment thesis for BS remains intact: 1) concentrated proxy for a cyclical upturn in Singapore's residential market; 2) earnings to rebound in FY19/20E, reversing six years of earnings decline; 3) vast plots of increasingly valuable legacy land in an environment of elevated land prices; 4) pristine balance sheet with SGD227m net cash; 5) attractive valuation at 41% discount to RNAV. As the most liquid mid-cap Singapore-based property developer, we believe BS is not an un-investible stock.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	282	143	110	451	449
EBITDA	104	80	37	178	182
Core net profit	92	72	33	150	154
Core EPS (cts)	35.5	28.0	12.9	57.9	59.3
Core EPS growth (%)	(0.8)	(21.2)	(54.1)	350.5	2.5
Net DPS (cts)	33.0	33.0	33.0	33.0	33.0
Core P/E (x)	17.1	21.7	47.3	10.5	10.2
P/BV (x)	1.2	1.2	1.3	1.2	1.2
Net dividend yield (%)	5.4	5.4	5.4	5.4	5.4
ROAE (%)	7.1	5.6	3.0	11.9	11.6
ROAA (%)	6.5	5.0	2.4	10.9	10.8
EV/EBITDA (x)	6.1	15.1	36.9	6.8	5.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	30	180	187
MKE vs. Consensus (%)	-	-	24.5	(16.7)	(18.0)

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BUY

Share Price	SGD 6.13
12m Price Target	SGD 8.25 (+35%)
Previous Price Target	SGD 8.25

Company Description

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

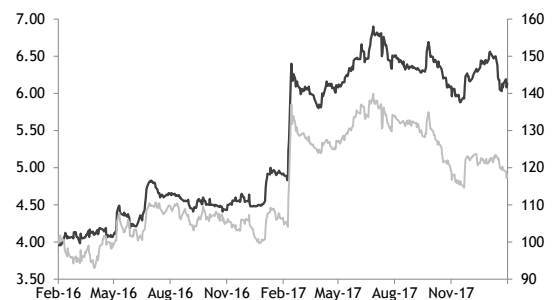
Statistics

52w high/low (SGD)	6.90/4.83
3m avg turnover (USDm)	1.3
Free float (%)	58.7
Issued shares (m)	259
Market capitalisation	SGD1.6B
	USD1.2B

Major shareholders:

LEE FAMILY /OCBC/	41.3%
Aberdeen Asset Management (Asia) Ltd.	8.0%
GuocoEquity Assets Ltd.	5.0%

Price Performance



— Bukit Sembawang - (LHS, SGD) — Bukit Sembawang / Straits Times Index - (RHS, %)

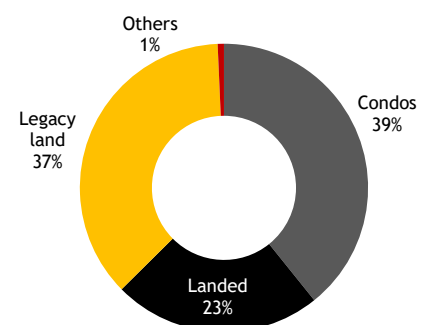
	-1M	-3M	-12M
Absolute (%)	(5)	0	24
Relative to index (%)	(3)	(3)	10

Source: FactSet

Link to related reports:

[Bukit Sembawang - "Home" Run \(Initiate\)](#)

Exposure summary by asset value



Source: Maybank Kim Eng

Fig 1: Earnings revision

Key financials	New			Old			Change (%)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	110	451	449	100	538	550	10	(16)	(18)
EBITDA	37	178	182	32	215	221	13	(17)	(18)
Net profit, adj.	33	150	154	30	180	187	12	(17)	(18)

Source: Maybank Kim Eng

Fig 2: RNAV of Bukit Sembawang

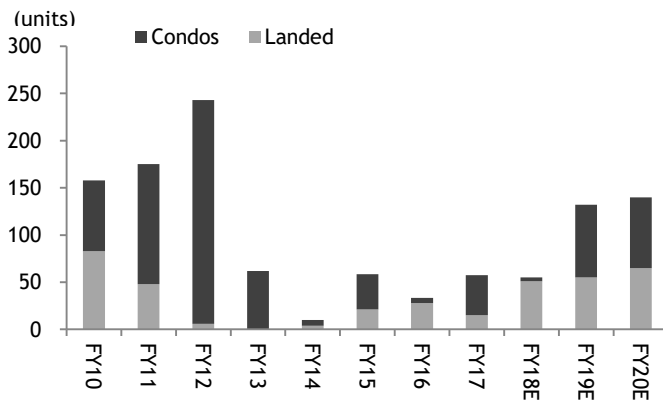
Condos form 39%, landed homes 23% and legacy land 37%

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	2,530	99.3	9.77	
Paterson Collection	359	14.1	1.39	Paterson Collection is retained as serviced apartments.
Orchard / Telok Blangah area	640	25.1	2.47	8 St. Thomas and almost fully-sold Skyline Residences.
Sembawang / Seletar Hills area	595	23.4	2.30	Luxus Hills, Nim Collection & Watercove.
Undeveloped land at market value	936	36.7	3.61	Approximately 1.1m sf of saleable land area.
Investment properties	18	0.7	0.07	
Gross asset value	2,548	100.0	9.84	
Less/Add: adjusted net liabilities/assets	132			SGD227m net cash (Dec-17)
RNAV	2,680			
Outstanding no. of shares (m)	259			
RNAV per share	10.35			vs BVPS of SGD4.73.
Target price	8.25			
RNAV discount (%)	(20)			

Source: Maybank Kim Eng, Company

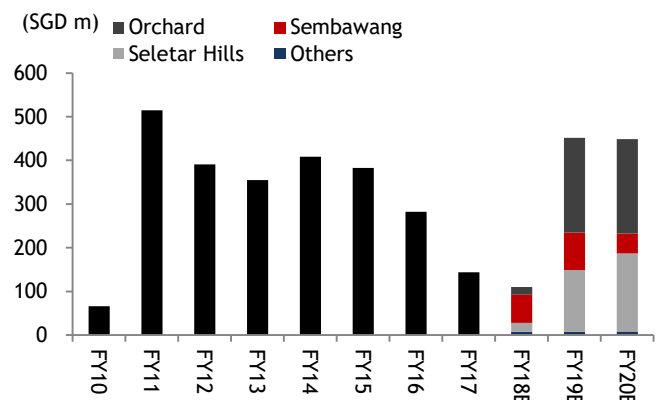
Fig 3: Housing-sales forecasts for BS

Our sales forecasts are not aggressive relative to history



Source: Company, Maybank Kim Eng

Fig 4: Revenue composition



Source: Company, Maybank Kim Eng

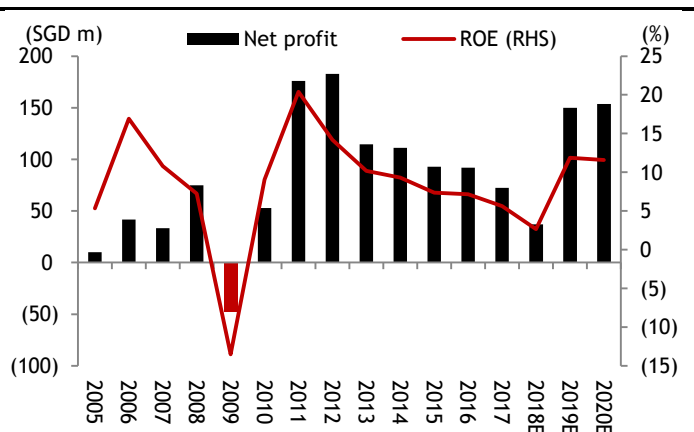
Fig 5: Sales forecasts for projects under development

Remove Paterson Collection from our sales forecasts

Home sale volume (units)	FY18E	FY19E	FY20E	FY21E	FY22E
Condominiums	1	75	75	75	25
8 St Thomas	0	75	75	75	25
Paterson Collection	1	0	0	0	0
Landed	46	55	65	64	65
Luxus Hills Ph 8	0	15	15	16	
Luxus Hills Ph 9	0	10	10	12	
Luxus Hills Ph 10	0	0	0	5	34
Nim Collection Ph 1	3	15	15	14	
Nim Collection Ph 2	0	0	10	10	31
Watercove	43	15	15	7	

Source: URA, Maybank Kim Eng estimates

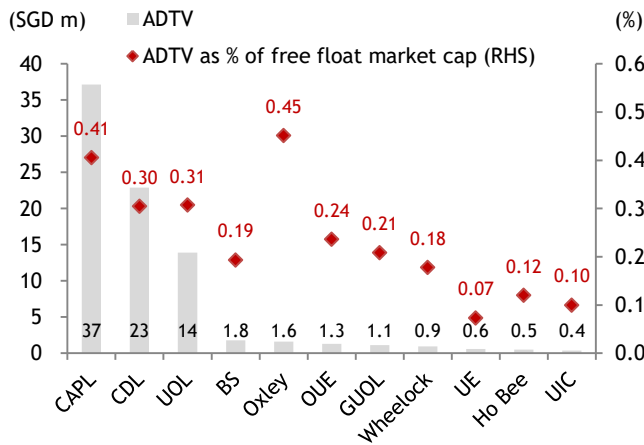
Fig 6: Earnings and returns could rebound in FY19E



Source: Company, Maybank Kim Eng

Fig 7: Stock liquidity

BS is the most liquid mid-cap developer. Liquidity could reach SGD2.9m if renewed interest lifts its ADTV as % of free float market cap to be on par with UOL or CDL.

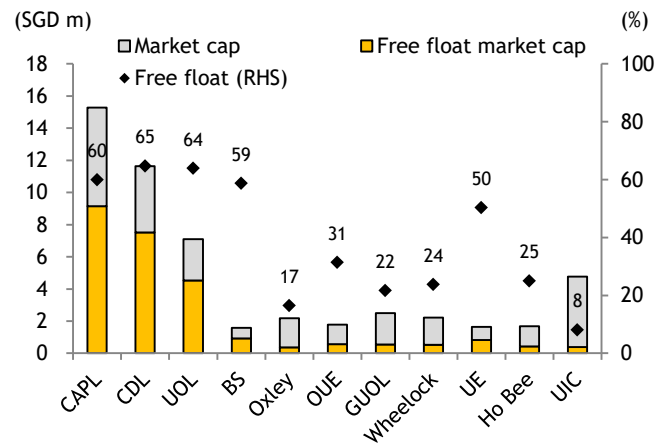


ADTV = Average daily traded value.

Source: Bloomberg, Companies, Maybank Kim Eng

Fig 8: Free float and market cap

Large free float of 59%



Source: Bloomberg, Companies, Maybank Kim Eng

Fig 9: Valuation comparison of property developers

Large-cap Singapore peers - CDL and UOL - trade at average 15% discounts to RNAV.

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	RNAV (SGD)	Curr. prem/ (disc) (%)	Target prem/ (disc) (%)	BVPS (LC)	P/BV (x)	P/E (x)			Yield (%)	Net gearing (ND/E)
		17E	18E	19E	18E			17E	18E	19E				18E			
CapitaLand	Buy	3.60	4.10	14	15.3	37.1	60	5.49	(34)	(25)	4.33	0.83	9.9	10.4	13.1	3.6	49
City Developments	Buy	12.79	13.80	8	11.6	22.9	65	13.82	(7)	0	10.02	1.28	20.8	17.6	16.8	1.3	14
UOL	Buy	8.42	9.85	17	7.1	13.9	64	10.95	(23)	(10)	10.95	0.77	15.4	12.3	16.7	1.8	25
GuocoLand	Buy	2.11	2.95	40	2.5	1.1	22	3.67	(43)	(20)	3.30	0.64	7.0	7.6	10.4	3.3	74
Bukit Sembawang	Buy	6.13	8.25	35	1.6	1.8	59	10.35	(41)	(20)	4.73	1.30	47.7	10.6	10.3	5.4	(19)
Ho Bee	Buy	2.52	3.00	19	1.7	0.5	25	4.23	(40)	(30)	4.55	0.55	13.5	14.3	11.1	3.0	43
HK Land (USD)	NR	7.06			21.9	13.1	50				14.55	0.49	19.0	18.6	17.4	2.9	6
UIC	NR	3.33			4.8	0.4	8				4.51	0.74	n.a.	n.a.	n.a.	n.a.	16
Mand. Orient. (USD)	NR	2.10			3.5	0.8	22				0.97	2.17	n.a.	n.a.	n.a.	n.a.	25
Yanlord	NR	1.69			3.3	5.4	31				2.26	0.75	6.1	5.3	n.a.	3.9	17
Wheelock Properties	NR	1.86			2.2	0.9	24				2.59	0.72	26.2	24.2	22.1	n.a.	(16)
Oxley	NR	0.68			2.2	1.6	17				0.36	1.87	10.0	12.3	9.2	n.a.	208
Hotel Properties	NR	3.74			1.9	0.1	15				3.54	1.06	n.a.	n.a.	n.a.	n.a.	43
OUE	NR	1.97			1.8	1.3	31				4.38	0.45	19.7	16.6	17.1	2.5	54
United Engineers	NR	2.56			1.6	0.6	50				2.93	0.87	n.a.	n.a.	n.a.	n.a.	26
Perennial RE	NR	0.84			1.4	0.2	15				1.66	0.50	17.7	>100	>100	0.5	58
Fragrance	NR	0.16			1.1	0.0	14				0.16	1.00	n.a.	n.a.	n.a.	n.a.	77
Metro Holdings	NR	1.17			1.0	0.3	52				1.77	0.66	n.a.	n.a.	n.a.	n.a.	(19)
Straits Trading	NR	2.27			0.9	0.1	30				3.46	0.66	n.a.	n.a.	n.a.	n.a.	15
Total				22	87	102			(31)	(18)		0.91	17.7	13.6	14.4	2.8	37

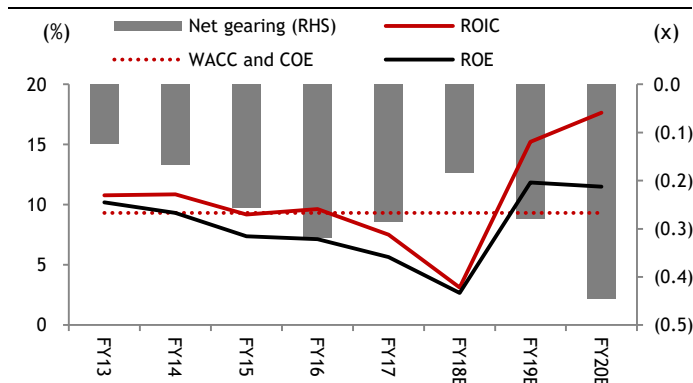
Prices as of 21 February 2018. NR = Not Rated.

Source: Bloomberg, Factset, Companies, 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 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%.

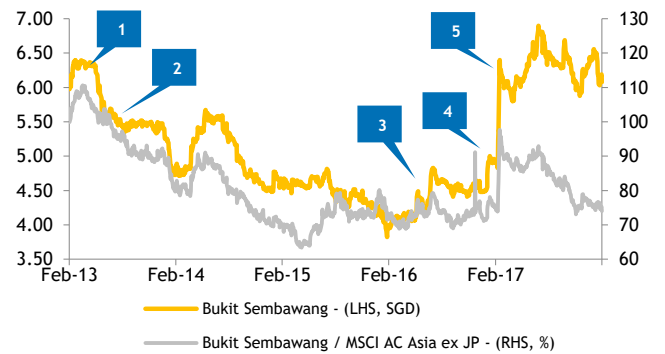
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



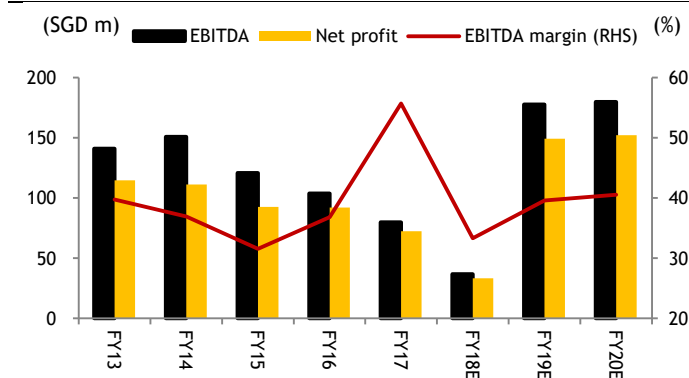
Source: Factset, Company, Maybank Kim Eng

1. Stock peaked when market thought the home-price rally was unsustainable and expected cooling measures.
2. Eighth round of cooling measures in Singapore in Jun 2013. Home sales have been plummeting since.
3. 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.
4. Improving macro outlook in Singapore.
5. Government relaxed cooling measures in Mar 2017 for the first time since GFC.

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.
- 33cts DPS could be sustained by net cash & improving earnings.

Earnings to rebound



Source: Company, Maybank Kim Eng

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.

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FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	12.4	16.5	42.6	10.5	10.2
Core P/E (x)	17.1	21.7	47.3	10.5	10.2
P/BV (x)	1.2	1.2	1.3	1.2	1.2
P/NTA (x)	1.2	1.2	1.3	1.2	1.2
Net dividend yield (%)	5.4	5.4	5.4	5.4	5.4
FCF yield (%)	10.4	2.3	nm	14.0	21.1
EV/EBITDA (x)	6.1	15.1	36.9	6.8	5.3
EV/EBIT (x)	6.2	15.2	37.0	6.8	5.3

INCOME STATEMENT (SGD m)

Revenue	282.0	143.4	110.0	451.4	448.9
Gross profit	103.9	79.9	36.5	178.4	181.6
EBITDA	103.9	79.9	36.5	178.4	181.6
Depreciation	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)
EBIT	103.7	79.6	36.4	178.3	181.5
Net interest income / (exp)	3.7	5.2	3.7	2.3	3.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	3.7	0.0	0.0
Other pretax income	(0.5)	(5.0)	0.0	0.0	0.0
Pretax profit	106.9	79.7	43.8	180.6	185.1
Income tax	(14.9)	(7.3)	(6.8)	(30.7)	(31.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	92.0	72.5	37.0	149.9	153.6
Core net profit	92.0	72.5	33.3	149.9	153.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	411.9	365.4	226.8	364.3	614.0
Accounts receivable	92.4	24.5	20.0	40.0	50.0
Inventory	941.9	997.0	826.4	698.6	487.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.1	0.1	241.1	266.0	266.0
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	11.5	27.7	29.0	29.7	30.5
Total assets	1,457.7	1,414.7	1,343.4	1,398.6	1,447.6
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	141.0	111.8	90.0	80.0	60.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	27.0	26.0	25.0	26.0	27.0
Total Liabilities	167.9	137.9	115.0	105.8	86.5
Shareholders Equity	1,289.8	1,276.8	1,228.4	1,292.8	1,361.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,289.8	1,276.8	1,228.4	1,292.8	1,361.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	1,457.7	1,414.7	1,343.4	1,398.6	1,447.6

CASH FLOW (SGD m)

Pretax profit	106.9	79.7	43.8	180.6	185.1
Depreciation & amortisation	0.2	0.3	0.1	0.1	0.1
Adj net interest (income)/exp	(3.7)	(5.2)	(3.7)	(2.3)	(3.6)
Change in working capital	87.3	(19.7)	(86.3)	97.9	181.6
Cash taxes paid	(27.1)	(24.5)	(6.8)	(30.7)	(31.5)
Other operating cash flow	0.5	5.0	(3.7)	0.0	0.0
Cash flow from operations	164.1	35.7	(56.6)	245.6	331.7
Capex	(0.1)	(0.2)	(0.1)	(25.0)	(0.1)
Free cash flow	164.0	35.6	(56.7)	220.6	331.6
Dividends paid	(85.4)	(85.4)	(85.4)	(85.4)	(85.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	4.0	3.3	3.7	2.3	3.6
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	82.5	(46.5)	(138.5)	137.4	249.8

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(26.3)	(49.2)	(23.3)	310.3	(0.5)
EBITDA growth	(14.0)	(23.1)	(54.3)	388.4	1.8
EBIT growth	(14.0)	(23.2)	(54.2)	389.5	1.8
Pretax growth	(2.0)	(25.4)	(45.1)	312.4	2.5
Reported net profit growth	(0.8)	(21.2)	(49.0)	305.4	2.5
Core net profit growth	(0.8)	(21.2)	(54.1)	350.5	2.5
Profitability ratios (%)					
EBITDA margin	36.8	55.7	33.2	39.5	40.4
EBIT margin	36.8	55.5	33.1	39.5	40.4
Pretax profit margin	37.9	55.6	39.8	40.0	41.2
Payout ratio	92.9	117.9	231.1	57.0	55.6
DuPont analysis					
Net profit margin (%)	32.6	50.5	33.6	33.2	34.2
Revenue/Assets (x)	0.2	0.1	0.1	0.3	0.3
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	7.1	5.6	3.0	11.9	11.6
ROAA (%)	6.5	5.0	2.4	10.9	10.8
Leverage & Expense Analysis					
Asset/Liability (x)	8.7	nm	nm	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.0	0.1	0.1	5.5	0.0
Net debt/ (net cash)	(411.9)	(365.4)	(226.8)	(364.3)	(614.0)

Source: Company; Maybank

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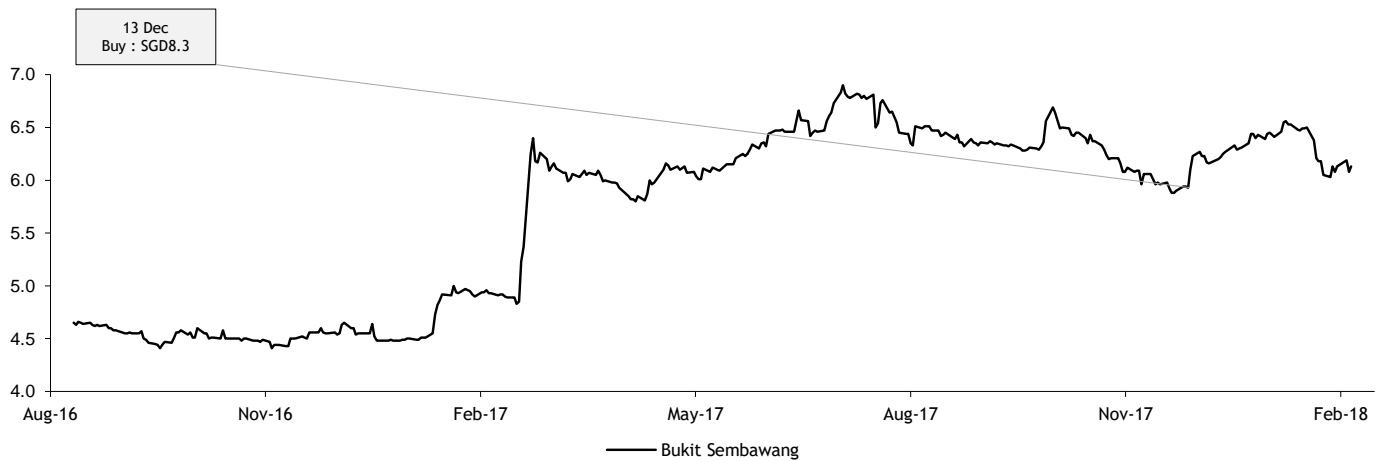
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