

Singapore Equity Explorer

Bukit Sembawang Estates

Bloomberg: BS SP | Reuters: BSES.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Mar 2017

NOT RATED S\$4.85 STI : 3,122.77

Closing price as of 1 Mar 2017

Return *: 2

Risk: Moderate

Potential Target 12-mth* : S\$ 7.55 (56% upside)

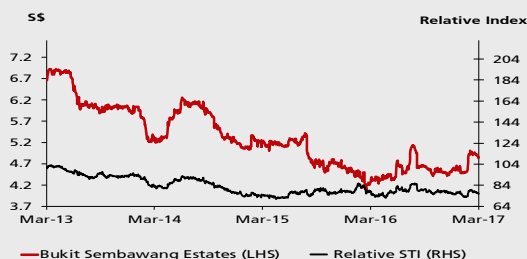
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Price Relative**Forecasts and Valuation**

FY Mar (S\$m)	2015A	2016A	2017F	2018F
Revenue	383	282	139	97.6
EBITDA	121	103	79.6	39.2
Pre-tax Profit	109	107	82.3	41.9
Net Profit	92.7	92.0	68.3	34.8
Net Pft (Pre Ex.)	106	92.0	68.3	34.8
EPS (S cts)	35.8	35.5	26.4	13.4
EPS Pre Ex. (S cts)	41.0	35.5	26.4	13.4
EPS Gth (%)	(17)	(1)	(26)	(49)
EPS Gth Pre Ex (%)	(18)	(13)	(26)	(49)
Diluted EPS (S cts)	35.8	35.5	26.4	13.4
Net DPS (S cts)	33.0	33.0	33.0	33.0
BV Per Share (S cts)	496	498	492	472
PE (X)	13.5	13.7	18.4	36.1
PE Pre Ex. (X)	11.8	13.7	18.4	36.1
P/Cash Flow (X)	7.6	7.5	nm	22.0
EV/EBITDA (X)	7.7	8.2	13.2	27.6
Net Div Yield (%)	6.8	6.8	6.8	6.8
P/Book Value (X)	1.0	1.0	1.0	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.4	7.1	5.3	2.8

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: The Group is one of the pioneer property developers in Singapore and has established a reputation as a property developer of fine quality homes.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Landlord King of Singapore

- **One of the few with substantial freehold/999-year lease landbank in Singapore**
- **Flushed with cash; high dividend yield**
- **Potential takeover target for investors looking to gain access to land in Singapore**

The Business

Largest owner of land in Singapore. Bukit Sembawang is a property developer that owns more than 2.8m square feet of substantially freehold / 999-year leasehold land in Singapore, of which c.75% is undeveloped raw land. In addition, the group's completed / close to completion high-end residential projects (85-unit Paterson Collection and 250-unit project at St Thomas Walk) in the core central region should do well if launched for sale given the positive sentiment in the luxury residential market currently.

Flushed with cash; high dividend yield. As at Dec16, the group has a net cash position S\$383m (S\$1.48/share), implying that close to one-third of its market cap is backed by cash. In the past two years, it has declared an annual dividend of 33 Scents (29 Scents special dividend), if sustained, implies a dividend yield of 7%.

Potential takeover target. Its major shareholder, Lee family of Lee Rubber / OCBC, owns a 44% stake which could be for sale given the family has been in a 'divestment' mode in the past few years (OCBC's non-core assets such as F&N & potentially United Engineers and Outram Rd shop houses). Given ample liquidity and recent M&A deals in Singapore, we believe that Bukit Sembawang is an attractive prospect for any investor/developer who wants access to land-bank in Singapore.

The Stock

Trades at significant discount to market price. Despite trading at 1.0x P/NAV, we estimate that the group's landbank comes free at Bukit Sembawang's current share price. Assuming the price of undeveloped land is marked to market prices, we estimate Bukit Sembawang is worth S\$7.55/share. If we factor in its full development potential from its undeveloped landbank (excluding any potential uplift in plot ratio), RNAV could rise to S\$10.35/share.

Low liquidity, execution risks in the absence of potential takeover. The absence of a potential takeover and long gestation period to realise its full value of its land-bank.

At A Glance

Issued Capital (m shrs)	259
Mkt. Cap (S\$m/US\$m)	1,256 / 891
Major Shareholders (%)	
Singapore Investments	13.4
Selat Pte Ltd	11.4
Aberdeen	10.0
Free Float (%)	51.5
3m Avg. Daily Val (US\$m)	0.28

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

Bukit Sembawang Estates

REVENUE DRIVERS

Largest listed freehold / 999-year lease landowner in Singapore. Bukit Sembawang is a property developer that owns more than 2.8m square feet (sqft) of landbank in Singapore, of which 75% is still undeveloped landbank zoned for landed properties. Its landbank is largely located in Ang Mo Kio, Seletar, and Sembawang. In addition, building restrictions on 44% of its landbank could potentially be lifted if the land is re-issued as 99-year leasehold land.

10% of landbank comprises freehold high-rise developments in Orchard. Bukit Sembawang has 10% of its landbank as freehold high-rise developments in the vicinity of Orchard (Orchard, Telok Blangah and River Valley areas). There are currently more than 335 units that yet to be launched despite having obtained TOP (Temporary Occupation Permit) .

Flushed with cash; high dividend yield. As at Dec16, Bukit Sembawang's cash position stood at S\$383m with no debt. In the past two years, it has declared an annual dividend of 33 Scents (29 Scents special dividend) representing a dividend yield of 7%.

Attractive takeover target in the midst of limited land supply. Apart from the key attributes above (which already makes it an attractive takeover target in the midst of limited land supply in Singapore), its major shareholder, Lee family of Lee Rubber / OCBC, own a 44% stake, which could be for sale given the family's 'divestment' mode in the past few years (divestment of OCBC's non-core assets including Fraser and Neave (F&N), Asia Pacific Breweries (APB) and potentially United Engineers (UE), and in 2016, four freehold shophouses along Outram Rd).

KEY OPERATING ASSETS

More than 2.8m sqft of freehold / 999-year leasehold land in Singapore. The company's prized jewel lies in its freehold / 999-year leasehold landbank in Singapore. Bukit Sembawang owns more than 2.8mn sqft of freehold / 999-year leasehold land, of which 75% is still undeveloped landbank, mostly zoned for landed properties, located in Ang Mo Kio, Seletar, and Sembawang.

10% of landbank comprises three freehold high-rise developments in the vicinity of Orchard. Bukit Sembawang currently has three high-rise freehold residential developments in the vicinity of Orchard (Skyline, Paterson Collection and St Thomas Walk located in Telok Blangah, Orchard and River Valley respectively). While Skyline Residences is close to 90% sold, Paterson Collection obtained TOP Oct 15 and St Thomas Walk is 51% completed as at FY16 have yet to be launched. While QC charges could be levied on the projects if they are still unsold in 3Q17 and 3Q19 respectively, we believe a bulk sale of the projects could mitigate that risk.

Chart 1 : Revenue Breakdown by segment (FY16)

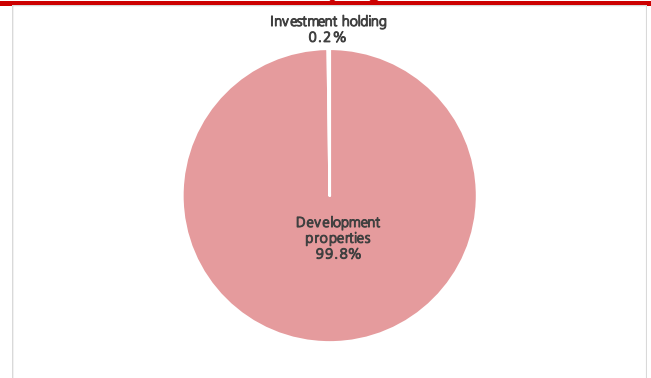


Chart 2: Cash balance (S\$m) vs Dividend yield (%)

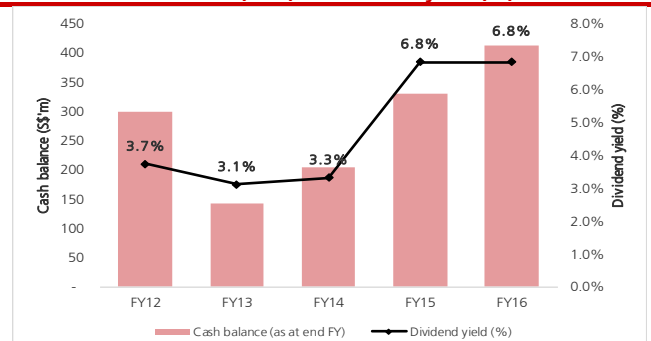


Table 1: RNAV breakdown

	S\$m	per share (S\$)
Landbank at current price	647	2.50
Value of ongoing projects	1,295	5.00
Investment properties	4	0.02
Development cost	(373)	(1.44)
Add: net cash	383	1.48
RNAV	1,955	
no. of shares (m)	259	
RNAV / share (S\$)	7.55	

Table 2: Estimated RNAV based on full development potential

	S\$m	per share (S\$)
Develop landbank at current price	2,179	8.41
Value of ongoing projects	1,254	4.84
Investment properties	4	0.02
Development cost	(1,141)	(4.41)
Add: net cash	383	1.48
RNAV	2,679	
no. of shares (m)	259	
RNAV / share (S\$)	10.35	

Source: Company, DBS Bank

GROWTH PROSPECTS

More than 2.8m sqft of undeveloped landbank. Bukit Sembawang owns more than 2.8m sqft of undeveloped 999-year leasehold land (75% of total landbank) that could be progressively realised for future development. The landbank is largely located in Ang Mo Kio, Seletar, and Sembawang zoned for landed residential properties. Given the limited land for landed properties in Singapore and the bottoming of the luxury residential market, we believe Bukit Sembawang holds valuable landbank in the midst of limited land supply.

Potential uplift of building restrictions and increase in GFA. Among the undeveloped landbank, 0.6m sqft (21% of undeveloped landbank) is still held under an agricultural land title. The company has applied to lift the building restrictions and Singapore Land Authority (SLA) requires the company to surrender the entire land sites (totalling 1.3m sqft land site) to be re-issued as fresh 99-year leasehold plots without building restrictions, thus increasing its saleable gross floor area (GFA). Differential premium will be payable to intensify the land use prior to the issuance of a Written Permission.

More than 335 unsold high-rise units (453k sqft GFA) on freehold land in the vicinity of Orchard. While Skyline Residences is close to 90% sold, Paterson Collection (85 units; obtained TOP in 2015) and St Thomas Walk (250 units; 51% completed in FY16) but have yet to be launched. The two properties comprise 12% of total GFA. If fully sold, the sales value of these properties is estimated to be close to S\$1bn.

MANAGEMENT & STRATEGY

Lee family of Lee Rubber owns 44% stake. The Lee family from Lee Rubber has a 44% stake in Bukit Sembawang via various subsidiary companies. The other major shareholders are Aberdeen (11%) and Asia Foundation (Guoco Group) (5.3%).

Lee family in 'divestment' mode? Given the family's 'divestment' mode in the past few years (divestment of OCBC's non-core assets including Fraser and Neave (F&N), Asia Pacific Breweries (APB) and potentially United Engineers (UE), and in 2016 four freehold shophouses along Outram Rd), this could potentially be one of the assets the family may be open to selling.

Chart 3: 75% undeveloped landbank (as at Dec16)

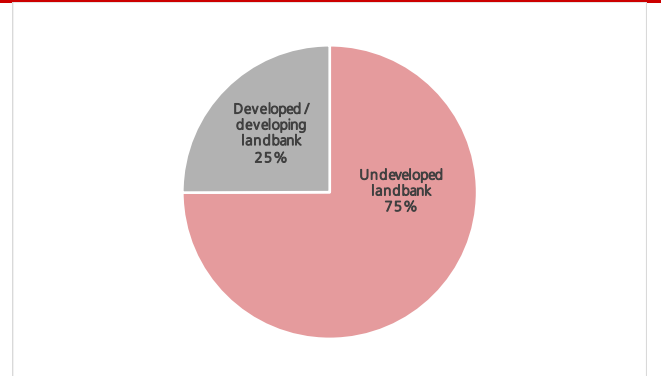


Chart 4: GFA by location (as at Dec16)

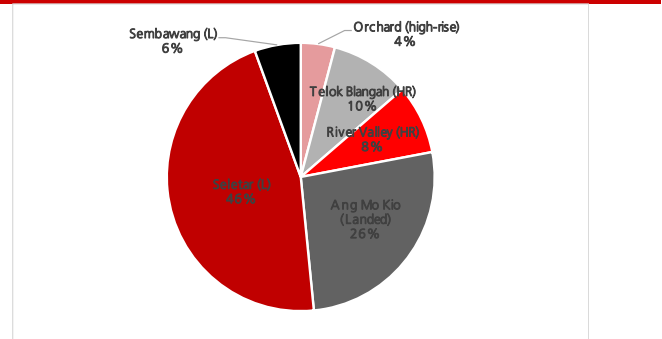
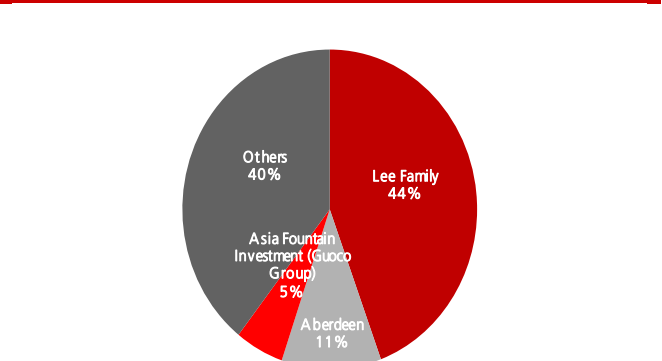


Chart 5: Current shareholding structure



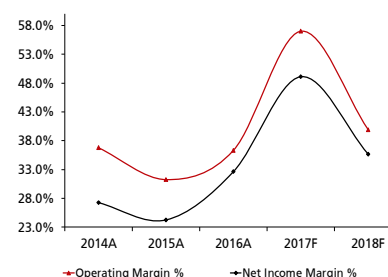
Source: Company, DBS Bank

Income Statement (\$5m)

FY Mar	2013A	2014A	2015A	2016A	2017F	2018F
Revenue	355	408	383	282	139	97.6
Cost of Goods Sold	(207)	(249)	(254)	(170)	(53.6)	(52.4)
Gross Profit	147	160	129	112	85.5	45.1
Other Opng (Exp)/Inc	(4.8)	(5.7)	(5.4)	(6.2)	(6.2)	(6.2)
Operating Profit	139	150	120	102	79.3	38.9
Other Non Opg (Exp)/Inc	1.33	0.48	1.01	0.83	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	2.20	0.24	1.82	3.73	3.00	3.00
Exceptional Gain/(Loss)	0.0	(17.5)	(13.3)	0.0	0.0	0.0
Pre-tax Profit	143	133	109	107	82.3	41.9
Tax	(28.3)	(22.1)	(16.3)	(14.9)	(14.0)	(7.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	115	111	92.7	92.0	68.3	34.8
Net Profit before Except.	115	129	106	92.0	68.3	34.8
EBITDA	141	151	121	103	79.6	39.2
Growth						
Revenue Gth (%)	(9.2)	15.1	(6.3)	(26.3)	(50.7)	(29.9)
EBITDA Gth (%)	(9.4)	6.9	(19.9)	(14.4)	(23.1)	(50.8)
Opg Profit Gth (%)	(9.4)	7.7	(20.3)	(14.4)	(22.5)	(50.9)
Net Profit Gth (Pre-ex) (%)	(10.8)	12.3	(17.6)	(13.3)	(25.7)	(49.1)
Margins & Ratio						
Gross Margins (%)	41.5	39.1	33.6	39.7	61.5	46.3
Opg Profit Margin (%)	39.3	36.8	31.2	36.3	57.0	39.9
Net Profit Margin (%)	32.3	27.2	24.2	32.6	49.1	35.7
ROAE (%)	10.2	9.3	7.4	7.1	5.3	2.8
ROA (%)	8.5	8.6	6.8	6.5	4.9	2.6
ROCE (%)	8.8	10.4	8.0	6.8	5.1	2.6
Div Payout Ratio (%)	33.9	37.2	92.1	92.9	125.0	245.5
Net Interest Cover (x)	NM	NM	NM	NM	NM	NM

Progressive payments for residential projects

Margins Trend



Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$Sm)

FY Mar	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	109	42.6	12.2	44.9	72.9	10.4
Cost of Goods Sold	(75.3)	(11.0)	(2.7)	(19.9)	(26.4)	(2.8)
Gross Profit	33.5	31.6	9.58	25.1	46.5	7.56
Other Oper. (Exp)/Inc	(1.3)	(1.1)	(2.1)	(1.5)	(1.4)	(1.9)
Operating Profit	31.4	29.6	6.58	22.7	44.0	4.73
Other Non Opg (Exp)/Inc	0.0	0.59	0.05	0.03	0.04	0.05
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.67	1.15	1.18	1.41	1.24	1.28
Exceptional Gain/(Loss)	0.0	0.0	(0.5)	0.0	0.0	0.0
Pre-tax Profit	32.0	31.4	7.31	24.1	45.3	6.05
Tax	(1.7)	(7.0)	(0.4)	3.40	(8.0)	(0.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	30.4	24.3	6.90	27.5	37.3	5.35
Net profit bef Except.	30.4	24.3	7.41	27.5	37.3	5.35
EBITDA	0.06	0.06	0.05	0.06	0.08	0.08

Growth

Revenue Gth (%)	(8.1)	(60.8)	(71.3)	267.1	62.2	(85.8)
EBITDA Gth (%)	(3.2)	5.0	(20.6)	16.0	29.3	10.7
Opg Profit Gth (%)	(11.0)	(5.6)	(77.8)	244.4	94.3	(89.3)
Net Profit Gth (%)	0.0	(19.9)	(71.6)	298.3	35.8	(85.7)

Margins

Gross Margins (%)	30.8	74.3	78.2	55.8	63.8	72.9
Opg Profit Margins (%)	28.8	69.6	53.8	50.4	60.4	45.6
Net Profit Margins (%)	27.9	57.1	56.4	61.2	51.2	51.6

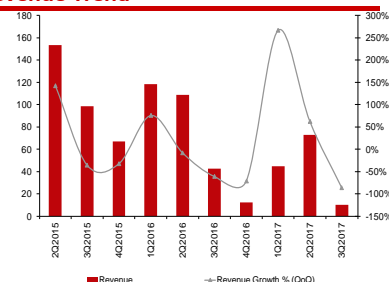
Source: Company, DBS Bank

Balance Sheet (\$Sm)

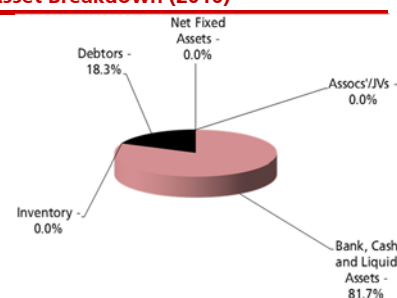
FY Mar	2013A	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	0.27	0.20	0.13	0.08	99.8	99.7
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4.77	4.61	7.59	11.5	11.5	11.5
Cash & ST Invt	142	205	329	412	202	174
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	17.0	5.61	15.3	92.4	102	71.2
Other Current Assets	1,083	1,118	1,041	942	942	942
Total Assets	1,247	1,334	1,393	1,458	1,357	1,298
ST Debt	0.0	0.0	0.0	0.0	0.0	0.0
Creditor	57.0	65.8	74.8	141	64.2	62.8
Other Current Liab	17.8	25.6	29.4	20.9	14.0	7.13
LT Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	13.0	10.4	5.75	5.91	5.91	5.91
Shareholder's Equity	1,160	1,232	1,283	1,290	1,273	1,222
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	1,247	1,334	1,393	1,458	1,357	1,298
Non-Cash Wkg. Capital	1,025	1,033	952	872	965	943
Net Cash/(Debt)	142	205	329	412	202	174
Debtors Turn (avg days)	16.9	10.1	10.0	69.7	254.4	323.2
Creditors Turn (avg days)	100.4	96.6	107.6	303.3	439.3	439.3
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.3	0.3	0.3	0.2	0.1	0.1
Current Ratio (x)	16.6	14.5	13.3	8.9	15.9	17.0
Quick Ratio (x)	2.1	2.3	3.3	3.1	3.9	3.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

Revenue Trend



Asset Breakdown (2016)

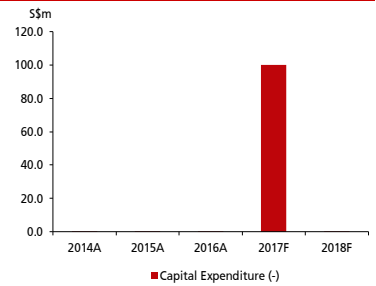


Cash Flow Statement (S\$m)

FY Mar	2013A	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	143	133	109	107	82.3	41.9
Dep. & Amort.	0.26	0.24	0.26	0.24	0.24	0.24
Tax Paid	(23.4)	(16.9)	(20.4)	(27.1)	(20.9)	(14.0)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	55.6	(32.5)	64.2	87.3	(86.0)	28.9
Other Operating CF	(1.9)	17.5	12.9	0.73	0.0	0.0
Net Operating CF	173	102	166	168	(24.4)	57.1
Capital Exp.(net)	(0.3)	0.0	0.0	(0.1)	(100.0)	(0.1)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(0.3)	0.0	0.0	(0.1)	(100.0)	(0.1)
Div Paid	(46.6)	(38.8)	(41.4)	(85.4)	(85.4)	(85.4)
Chg in Gross Debt	(277)	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(6.0)	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(330)	(38.8)	(41.4)	(85.4)	(85.4)	(85.4)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(156)	62.8	125	82.5	(210)	(28.5)
Opg CFPS (S cts)	45.5	51.8	39.3	31.2	23.8	10.9
Free CFPS (S cts)	66.9	39.3	64.1	64.9	(48.0)	22.0

Source: Company, DBS Bank

Capital Expenditure



VALUATIONS

Trades at 36% discount to RNAV and 1x P/NAV. Our RNAV estimates the valuation of its existing projects and marking to market its land-bank to current prices. This implies a potential RNAV of S\$7.55/share. If we factor in its full development potential from its undeveloped land-bank (ex-any potential uplift in plot ratio), we estimate that RNAV could increase to S\$10.35/share.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Low liquidity in the absence of potential takeover. The absence of a potential takeover may result in a lack of activity due to low liquidity for the stock.

Execution risks. Timeline to fully realise the value of the group's landbank will take time.

Chart 6: Historical 12 month forward PBV (x)

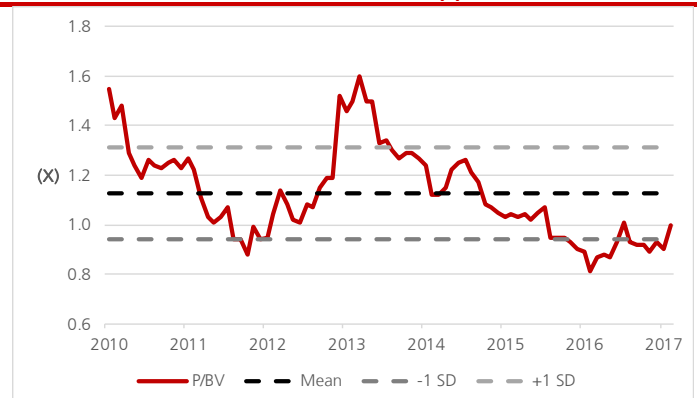


Table 3: Peers' Comparisons

Company	Mkt Cap (S\$m)	Price			Latest Qtr P/NBV
		1-Mar-17 (S\$)	RNAV (S\$)	P/RNAV (x)	
Capitaland	15,255	3.60	4.80	0.75	0.94
UOL	5,270	6.55	10.23	0.64	0.77

Source: DBS Bank, Bloomberg Finance L.P

DBS Bank Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

Note that these assessments are based on a preliminary review of factors deemed salient at the time of publication. DBSV does not commit to ongoing coverage and updated assessments of stocks covered under the Equity Explorer product suite. Such updates will only be made upon official initiation of regular coverage of the stock.

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