

Bukit Sembawang (BS SP)

Reloading on Condo Stock

Maintain BUY with high TP of SGD8.55

BS has acquired its first condominium site in a decade with Katong Park Towers. We expect management to launch the newly-acquired project just before the completion of a railway station nearby and expect it to contribute to earnings from FY21E onwards. Nonetheless, we lift FY19-20E EPS by 5% for higher ASPs at 8 Saint Thomas to reflect escalating land prices in the vicinity and strong prices seen at new launches in the prime area. We raise our RNAV-based TP to SGD8.55, based on an unchanged 20% discount to a revised RNAV of SGD10.68. Maintain BUY.

Acquires Katong Park Towers

Bukit Sembawang has successfully tendered for Katong Park Towers. The redevelopment site is located in the East Coast and is within 200m of the future Katong Park MRT Station due to be completed in 2023. According to Cushman & Wakefield, the sale price of SGD345m translates into a land rate of SGD1,280 psf after taking into account SGD60m to be paid to upgrade its land lease to 99 years. This compares with SGD1,515 psf for Amber Park and SGD1,427 psf for Nanak Mansions. The slight discount reflects its leasehold status compared to freehold status for the other two sites. Assuming an eventual ASP of SGD2,200 psf, we estimate a development surplus of 22 SGD cts for this project.

Raising ASPs for 8 Saint Thomas

Escalating land prices and strong prices seen at new launches in the prime area led us to raise ASP for 8 Saint Thomas to SGD2,800 psf (from SGD2,650 psf). The prime freehold project located just off River Valley Road should command a premium over Martin Modern given its freehold status. Furthermore, the recently announced deal for Pacific Mansion also paints a bullish picture for future prices in the area. Our assumption is not aggressive considering a strengthening market and SGD3,200 psf achieved at the recently launched New Futura.

Putting its over-capitalised balance sheet to work

The latest deal will put BS's overcapitalised balance sheet to work. With a net cash position of SGD227m as of Dec 2017, the company can comfortably fund this deal with its current resources. Even after building in the entire land cost to be incurred, its net gearing will only inch up to a moderate 0.04x in FY19E.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	282	143	110	464	461
EBITDA	104	80	37	190	193
Core net profit	92	72	33	159	162
Core EPS (cts)	35.5	28.0	12.9	61.5	62.4
Core EPS growth (%)	(0.8)	(21.2)	(54.1)	378.8	1.4
Net DPS (cts)	33.0	33.0	33.0	33.0	33.0
Core P/E (x)	17.0	21.5	46.9	9.8	9.7
P/BV (x)	1.2	1.2	1.3	1.2	1.1
Net dividend yield (%)	5.5	5.5	5.5	5.5	5.5
ROAE (%)	7.1	5.6	3.0	12.6	12.1
ROAA (%)	6.5	5.0	2.4	10.8	9.9
EV/EBITDA (x)	6.1	15.1	37.5	8.5	7.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	3.9	net cash
Consensus net profit	-	-	37	150	154
MKE vs. Consensus (%)	-	-	(0.1)	6.3	5.2

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BUY

Share Price	SGD 6.03
12m Price Target	SGD 8.55 (+42%)
Previous Price Target	SGD 8.25

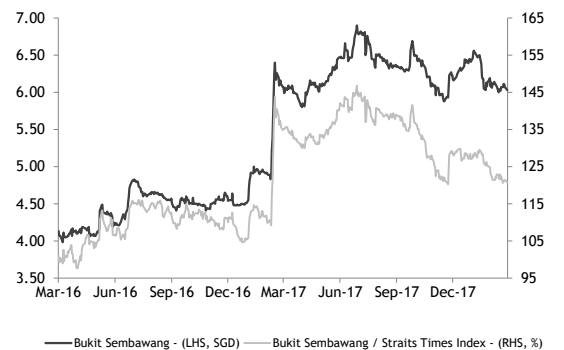
Statistics

52w high/low (SGD)	6.90/5.80
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



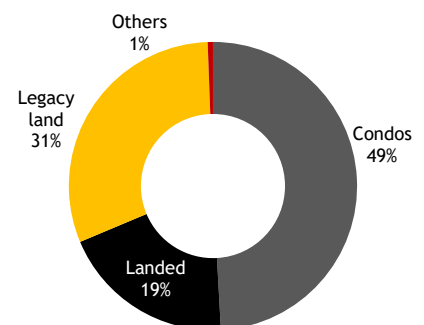
	-1M	-3M	-12M
Absolute (%)	(3)	(3)	(1)
Relative to index (%)	(3)	(6)	(11)

Source: FactSet

Link to sector note:

[Singapore Property - Building in Latest Enbloc Deals](#)

Exposure summary by asset value



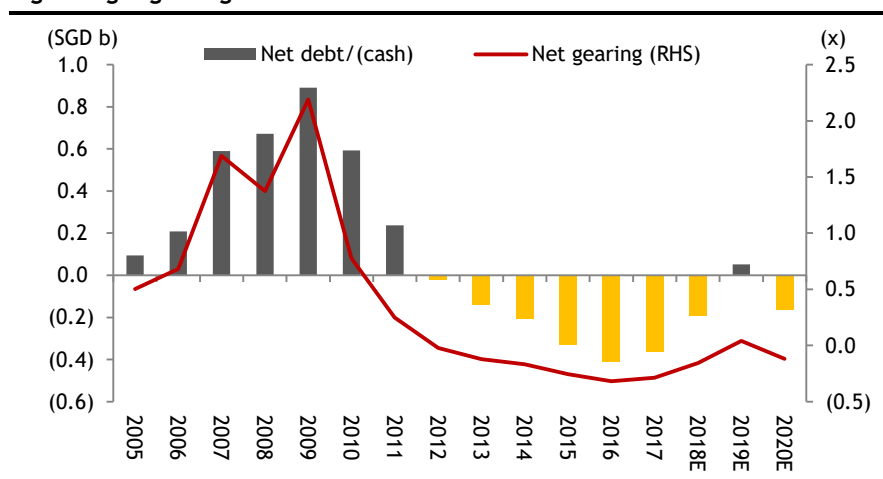
Source: Maybank Kim Eng

Fig 1: RNAV of Bukit Sembawang

We raise RNAV to SGD10.68 from SGD10.35 after ascribing higher ASPs for 8 Saint Thomas (+11cts) and incorporating its newly-acquired Katong Park Towers (+22cts). Condos form 49%, landed homes 19% and legacy land 31%.

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	3,026	99.4	11.69	
Paterson Collection	359	11.8	1.39	Paterson Collection is retained as serviced apartments.
Katong Park Towers	467	15.3	1.80	
Orchard / Telok Blangah area	669	22.0	2.58	8 St. Thomas and almost fully-sold Skyline Residences.
Sembawang / Seletar Hills area	595	19.5	2.30	Luxus Hills, Nim Collection & Watercove.
Undeveloped land at market value	936	30.7	3.61	Approximately 1.1m sf of saleable land area.
Investment properties	18	0.6	0.07	
Gross asset value	3,044	100.0	11.76	
Less/Add: adjusted net liabilities/assets	(279)			SGD227m net cash (Dec-17)
RNAV	2,765			
Outstanding no. of shares (m)	259			
RNAV per share	10.68			vs BVPS of SGD4.73.
Target price	8.55			
RNAV discount (%)	(20)			

Source: Company, Maybank Kim Eng

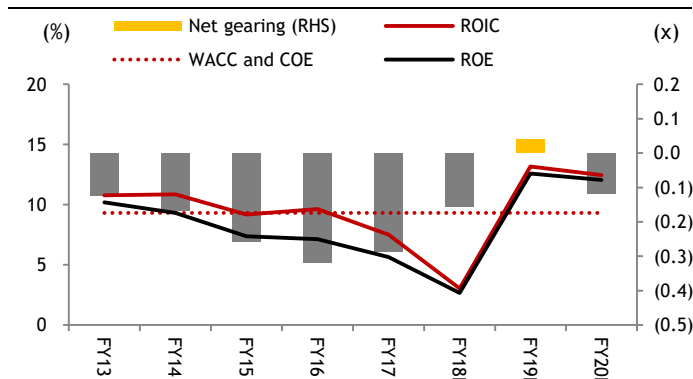
Fig 2: Slight gearing on its balance sheet in FY19E after this deal


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 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



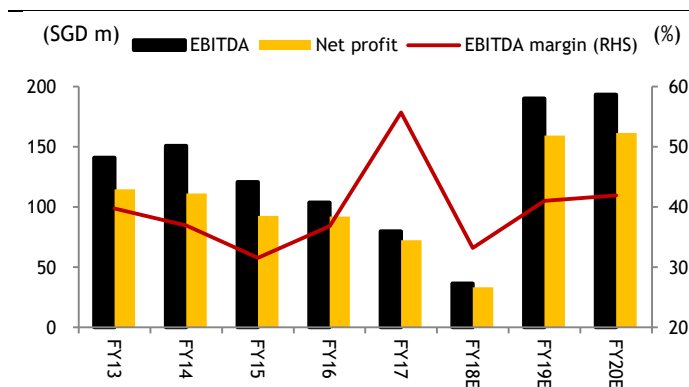
Source: Factset, Company, Maybank Kim Eng

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

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	42.2	9.8	9.7
Core P/E (x)	17.0	21.5	46.9	9.8	9.7
P/BV (x)	1.2	1.2	1.3	1.2	1.1
P/NTA (x)	1.2	1.2	1.3	1.2	1.1
Net dividend yield (%)	5.5	5.5	5.5	5.5	5.5
FCF yield (%)	10.5	2.3	nm	nm	19.3
EV/EBITDA (x)	6.1	15.1	37.5	8.5	7.2
EV/EBIT (x)	6.2	15.2	37.6	8.5	7.2

INCOME STATEMENT (SGD m)

Revenue	282.0	143.4	110.0	463.7	461.2
Gross profit	103.9	79.9	36.5	190.1	193.3
EBITDA	103.9	79.9	36.5	190.1	193.3
Depreciation	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)
EBIT	103.7	79.6	36.4	190.0	193.2
Net interest income / (exp)	3.7	5.2	3.7	1.9	1.5
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	192.0	194.7
Income tax	(14.9)	(7.3)	(6.8)	(32.6)	(33.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	92.0	72.5	37.0	159.3	161.6
Core net profit	92.0	72.5	33.3	159.3	161.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	411.9	365.4	192.2	149.7	363.8
Accounts receivable	92.4	24.5	20.0	40.0	50.0
Inventory	941.9	997.0	861.1	1,123.5	955.6
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	1,609.0	1,665.9
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	201.0	201.0
Other liabilities	27.0	26.0	25.0	26.0	27.0
Total Liabilities	167.9	137.9	115.0	306.8	287.5
Shareholders Equity	1,289.8	1,276.8	1,228.4	1,302.3	1,378.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,289.8	1,276.8	1,228.4	1,302.3	1,378.4
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	1,609.0	1,665.9

CASH FLOW (SGD m)

Pretax profit	106.9	79.7	43.8	192.0	194.7
Depreciation & amortisation	0.2	0.3	0.1	0.1	0.1
Adj net interest (income)/exp	(3.7)	(5.2)	(3.7)	(1.9)	(1.5)
Change in working capital	87.3	(19.7)	(121.0)	(288.4)	142.0
Cash taxes paid	(27.1)	(24.5)	(6.8)	(32.6)	(33.1)
Other operating cash flow	0.5	5.0	(3.7)	0.0	0.0
Cash flow from operations	164.1	35.7	(91.3)	(130.9)	302.2
Capex	(0.1)	(0.2)	(0.1)	(25.0)	(0.1)
Free cash flow	164.0	35.6	(91.4)	(155.9)	302.1
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	201.0	0.0
Other invest/financing cash flow	4.0	3.3	3.7	(2.1)	(2.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	82.5	(46.5)	(173.2)	(42.4)	214.1

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	(26.3)	(49.2)	(23.3)	321.5	(0.5)
EBITDA growth	(14.0)	(23.1)	(54.3)	420.4	1.7
EBIT growth	(14.0)	(23.2)	(54.2)	421.6	1.7
Pretax growth	(2.0)	(25.4)	(45.1)	338.4	1.4
Reported net profit growth	(0.8)	(21.2)	(49.0)	330.9	1.4
Core net profit growth	(0.8)	(21.2)	(54.1)	378.8	1.4
Profitability ratios (%)					
EBITDA margin	36.8	55.7	33.2	41.0	41.9
EBIT margin	36.8	55.5	33.1	41.0	41.9
Pretax profit margin	37.9	55.6	39.8	41.4	42.2
Payout ratio	92.9	117.9	231.1	53.6	52.9
DuPont analysis					
Net profit margin (%)	32.6	50.5	33.6	34.4	35.0
Revenue/Assets (x)	0.2	0.1	0.1	0.3	0.3
Assets/Equity (x)	1.1	1.1	1.1	1.2	1.2
ROAE (%)	7.1	5.6	3.0	12.6	12.1
ROAA (%)	6.5	5.0	2.4	10.8	9.9
Leverage & Expense Analysis					
Asset/Liability (x)	8.7	nm	nm	5.2	5.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	3.9	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	3.9	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	1.1	1.0
Capex/revenue (%)	0.0	0.1	0.1	5.4	0.0
Net debt/ (net cash)	(411.9)	(365.4)	(192.2)	51.3	(162.8)

Source: Company; Maybank

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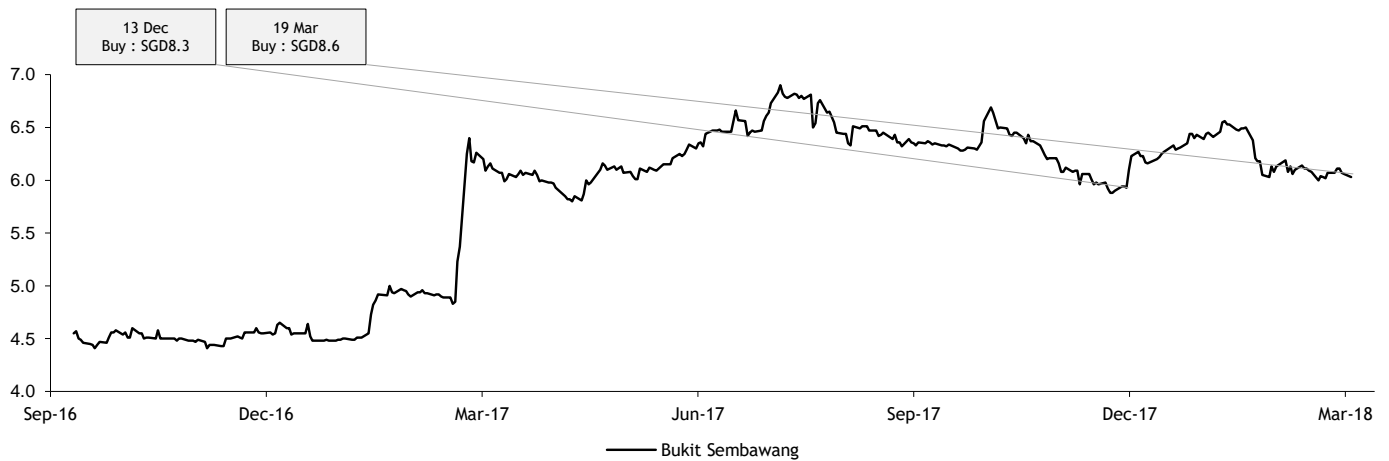
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Historical recommendations and target price: Bukit Sembawang (BS SP)



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