

# Singapore Company Focus

# Bukit Sembawang Estates

Bloomberg: BS SP | Reuters: BSES.SI

Refer to important disclosures at the end of this report

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23 Oct 2020

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## BUY

(Initiating Coverage)

Last Traded Price ( 22 Oct 2020): S\$3.51 (STI : 2,528.41)

Price Target 12-mth: S\$5.44 (55% upside)

**Potential Catalyst:** Dividend increase, strong project launch sales, land tender wins, acquisitions

### Analyst

Derek TAN +65 6682 3716 derektan@db.com

Singapore Research Team groupresearch@db.com.

### Price Relative



### Forecasts and Valuation

FY Mar (\$m)	2020A	2021F	2022F	2023F
Revenue	370	294	448	463
EBITDA	162	133	163	131
Pre-tax Profit	102	120	154	128
Net Profit	76.1	99.3	128	106
Net Pft (Pre Ex.)	119	99.3	128	106
EPS (S cts)	29.4	38.3	49.3	41.0
EPS Pre Ex. (S cts)	46.0	38.3	49.3	41.0
EPS Gth (%)	(25)	30	29	(17)
EPS Gth Pre Ex (%)	(1)	(17)	29	(17)
Diluted EPS (S cts)	29.4	38.3	49.3	41.0
Net DPS (S cts)	11.0	15.0	18.0	22.0
BV Per Share (S cts)	511	535	566	585
PE (X)	11.9	9.2	7.1	8.6
PE Pre Ex. (X)	7.6	9.2	7.1	8.6
P/Cash Flow (X)	2.6	4.5	2.0	2.7
EV/EBITDA (X)	5.9	5.8	2.3	0.6
Net Div Yield (%)	3.1	4.3	5.1	6.3
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	5.8	7.3	9.0	7.1

**GIC Industry :** Real Estate

**GIC Sector:** Real Estate Management & Development

**Principal Business:** Bukit Sembawang Estates Limited is a Singapore-focused property developer listed in 1968 known for its landed properties. It opened its first serviced apartment, Fraser Residence Orchard, in 2019.

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

## The Singaporean Dream

- Large land bank slated for landed property homes sufficient to last a decade
- Normalisation of dividends in FY21 to drive yield to c.4%; potential c.70% return on capital as land bank utilised
- Business model to pivot towards recurring income to boost dividends; debt headroom of S\$360m-S\$750m for acquisitions, assuming 0.3x-0.6x net debt to equity
- TP of S\$5.44 is based on 55% discount to RNAV of S\$12.10

**Undervalued land bank that can last another decade.** Bukit Sembawang (BSEL) offers compelling value at 0.7x P/NAV (near -2SD of historical mean). BSEL is equipped with a sizable land bank of over c.235,000 sqm slated for coveted landed homes. The group has enough inventory to sell for the next decade, with the land pegged at extremely low historical cost valuation (we estimate an RNAV of S\$12.10/share). Our TP is S\$5.44, based on a 55% discount to RNAV, representing an upside of 54%

**Dividend normalisation a catalyst.** With strong sales across its landed development projects in the past year and a pipeline of new projects, we believe BSEL may eventually hike dividends back to the 18-33Scts/share range, implying a "REIT-like" yield of 5-9%. As BSEL's land bank is utilised, we estimate that long-term investors could receive c.70% of their capital from holding on to BSEL for the next decade.

**Pivot to recurring income a welcome strategy.** The group intends to pivot towards building a recurring income base, starting from Frasers Residence Orchard, which could generate revenues of c.S\$11m per annum. With an almost net cash balance sheet, BSEL can gear up to fund acquisitions. Assuming a target net debt-equity ratio of 0.3x-0.6x, the group has potential firepower of S\$360m – S\$750m.

### Valuation:

Our TP of S\$5.44 assumes 55% discount to its RNAV of S\$12.10, close to BSEL's P/NAV historical mean.

### Key Risks to Our View:

A severe and prolonged economic downturn may have a negative impact on property sales and in turn result in lower revenues and potentially lower dividends.

### At A Glance

Issued Capital (m shrs)	259
Mkt. Cap (\$m/US\$m)	909 / 671
Major Shareholders (%)	
Singapore Investments Pte Ltd	13.4
Selat Pte Ltd	11.4
Lee Rubber Co Pte Ltd	8.5
Free Float (%)	57.2
3m Avg. Daily Val (US\$m)	0.12



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## Investment Summary

**Initiate with BUY and RNAV-based TP of S\$5.44.** We believe that BSEL is undervalued given its sizable landed property land bank and near -2SD P/NAV valuation. BSEL's upcoming projects and recent strong residential sales also point towards an upcoming normalisation of dividends which will be further supported by the group's pivot to recurring income.

### Specialised landed property developer with sizable land bank.

BSEL is a property developer with a strong track record of developing coveted landed homes. Its two recent launches of Luxus Hills projects in August 2019 and February 2020 have sold extremely well, with both fully sold within a month.

BSEL is also one of the largest landowners in Singapore with 235,000 sqm of land, mostly situated along Ang Mo Kio Ave 5. In our opinion, the rarity of new landed developments, its large land bank and BSEL's specialty in this respect serve as a significant investment moat for the group.

### Bukit Sembawang land parcels owned

Land Bank Location	Land Bank Size (sqm)
Ang Mo Kio Ave 5	217,900
Makeway Ave	3,900
Arthur Road	13,100

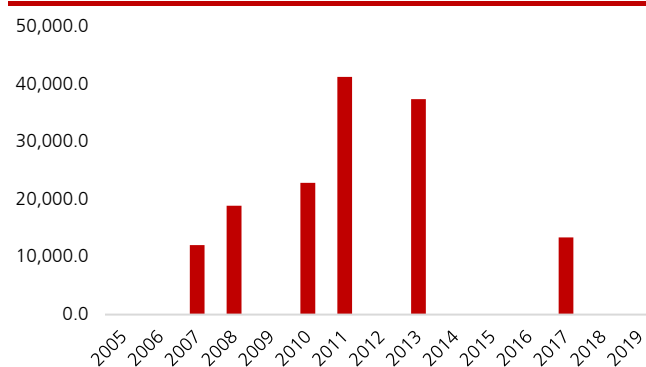
Source: Company, DBS Bank

**Current discount to book valuation unwarranted and may not last.** We think BSEL is undervalued as its land parcel in Ang Mo Kio Ave 5 alone is estimated to be worth S\$2.6bn versus BSEL's current market capitalization of <S\$1bn. BSEL has traditionally traded at a slight premium to book with a 3-year historical mean P/NAV of 1.08x. BSEL's current P/NAV of 0.69x is near -2SD from its historical mean which is not justified in our view given the group's large land bank and the relatively resilient demand for landed assets. The recent pick-up in landed property purchases is not priced in and we see the P/NAV discount narrowing over time.

**Increasingly rare landed homes a boon to BSEL.** We believe the rarity of landed homes has boosted prices and demand. Since 2000, the share of landed properties out of total residential properties has been declining steadily, reaching a rate of just 5.1% in 2019. Indeed, pipeline supply of landed homes has dried up over the years, with only 899 landed properties in the pipeline in 2019 compared to 2,292 in 2015. This may be due to the restricted supply of new residential landed housing sites, as the URA released only 13,400 sqm for this purpose in the past five years (vs BSEL's landed property land bank of 217,900 sqm).

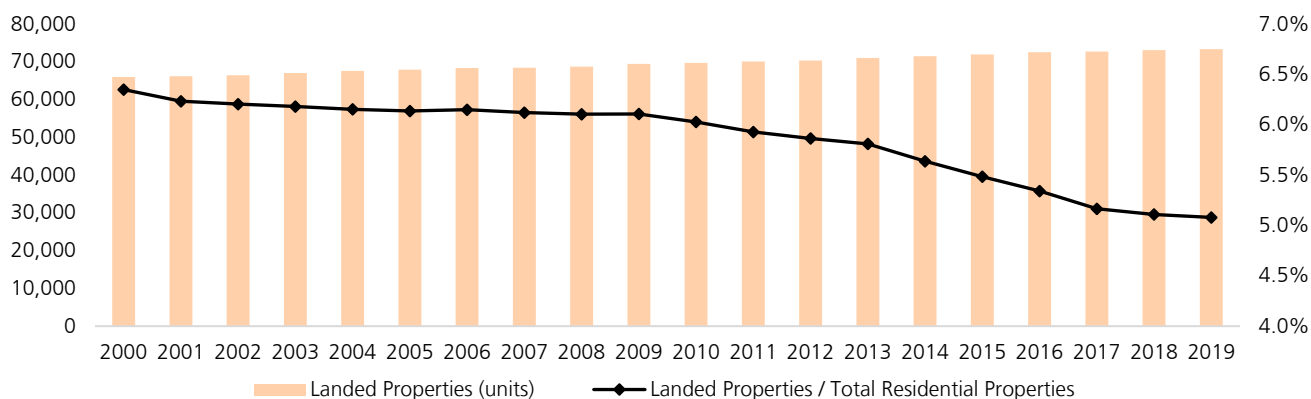
We also observe that the average monthly household income of landed property dwellers stood at S\$27,385 in 2019 compared to the Singapore average of S\$12,386. This reinforces the notion that landed homeowners are likely to be affluent. As such, we think BSEL is well placed to leverage on Singapore's growing affluence given its upcoming landed property projects and land bank which is predominantly (est. 93%) slated for landed developments.

### Past land sold by URA for landed housing (sqm)



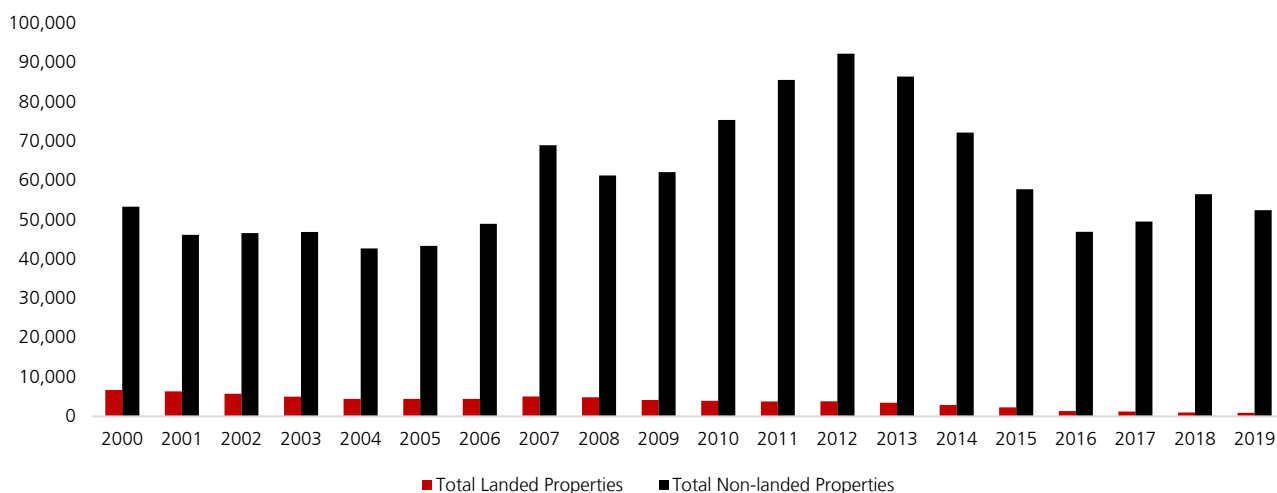
Source: URA, DBS Bank

### Share of landed properties out of total residential properties has declined steadily



Source: Singapore Department of Statistics, DBS Bank

### Pipeline supply of landed homes has dried up over the years (sqm)



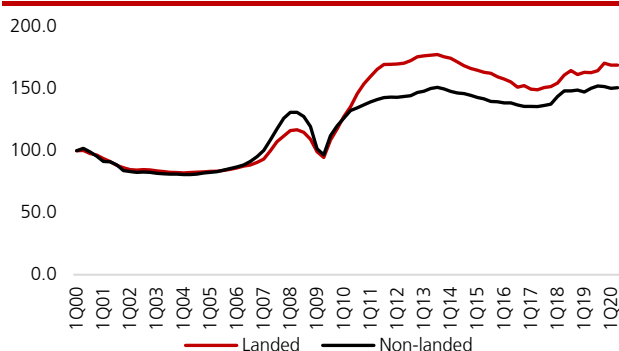
Source: Singapore Department of Statistics, DBS Bank

Prices of landed homes have outperformed that of non-landed properties, highlighting the supply and demand gap for these homes relative to non-landed properties. We also observe that landed home prices hold up better during economic crises. Specifically, the fall in prices of landed homes during the dot-com bubble and Global Financial Crisis (GFC) appeared less steep. To be fair, landed home prices appreciated slower than non-landed homes prior to the GFC. In any case, from 1Q00 to 3Q20, landed home prices have risen a cumulative 75.6%, beating non-landed home price growth of 51.0%.

### Recent landed properties sales point to pick up in market.

While private property sales have remained robust even amidst the pandemic, recent reports show that the landed housing market has outperformed. OrangeTee & Tie reported that 544 landed homes were sold in 3Q20, the highest since 2Q18. The URA landed residential price index also recorded a 3.8% q-o-q rise in 3Q20 versus an unchanged price index for non-landed private residential properties in the same quarter. The rise in prices indicates that growing demand and limited supply, rather than price cuts, are the drivers for the outperformance.

### Relative price index shows landed prices have outperformed

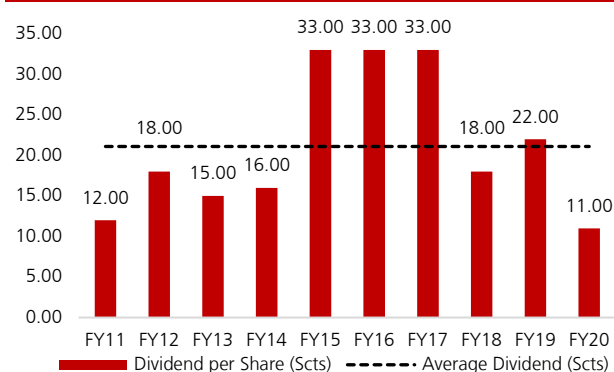


Source: URA, DBS Bank

**Potentially attractive dividend play in lower-for-longer rate environment.** In the past 10 years, BSEL has paid out dividends worth a cumulative S\$2.11 per share. Indeed, average dividend per annum paid out during the period stood at 21.1 Scts, representing a yield of 4.0% based on the average share price in the same period. Assuming an average dividend of 21.1 Scts is achieved over the next 10 years, current valuations would represent a respectable yield of c.5.9%.

While dividends dipped to 11 Scts in FY20, we believe that the group could raise dividends to more normalised levels of c.21 Scts (ranging from 18-33 Scts) a share given the robust sales in recent quarters and upcoming new projects.

#### Dividend per share over the past 10 years



Source: Company, DBS Bank

Looking at BSEL from another angle, the group has utilised c.200,000 sqm of its land bank in the past 10 years that has generated S\$2.11 per share of cumulative dividends. Given the current land bank of c.235,000 sqm, if BSEL were to perform similarly, we may see cumulative dividends of c.S\$2.48 per share over the next 10 years, representing c.70% of its current share price. This is yet to factor in any effects from BSEL's strategy to generate recurring income which is generally positive for dividends.

**Recurring income pivot will stabilise earnings.** BSEL opened its first hospitality property, Fraser Residence Orchard in 2019. The company unveiled a three-pronged business strategy with a key focus on investing in properties for recurring income. Going forward, we believe BSEL may pursue M&A for investment properties or convert residential projects into hospitality assets (as it did with Fraser Residence Orchard). Its proportion of income that is recurring will grow as a result which could boost the stability of dividends over time.

**Capital structure optimisation could generate new opportunities.** BSEL had no borrowings between FY13 and FY18. FY19 marked the first time in over six years that the company took on significant borrowings as the group re-entered the en-bloc market to boost its land bank. While some may view debt as negative, we believe that the current debt level is more than optimal, especially in the current low interest rate environment. As of FY20, BSEL's net debt-to-equity stood at 0.03x versus peers' 0.7x.

Looking ahead, the group may consider gearing up in view of its strategy to build a recurring income stream. Assuming a net debt-to-equity ratio of 0.3x-0.6x, we estimate that BSEL has a potential debt-funded headroom of approximately S\$360m – S\$750m.

## Valuation

**RNAV valuation of S\$5.44 implies potential upside of c.54%.** Our target price represents a P/NAV valuation of 1.08x which is near the 5- and 3-year mean of 1.05x.

### Bukit Sembawang's undiscounted RNAV stands at S\$3.1bn.

By applying a conservative 55% discount, we derive a discounted RNAV valuation of S\$1.4bn. Our RNAV valuation has accounted for the values of Fraser Residence Orchard and BSEL's development projects (8 St Thomas Walk and NIM collection Phase 1 & 2, Liv @ MB, The Atelier and NIM collection Phase 3).

**Peer comp.** The mid-cap property developers are trading at an average of 0.44x P/NAV. While BSEL appears to be trading at a premium to its mid-cap peers, we note that the group is unique given that its balance sheet contains substantial tracts of land (i.e. AMK Ave 5) held at low historical costs.

**Current P/NAV of 0.7x is near -2SD.** BSEL has a history of trading at a lower valuation compared to RNAV. However, we believe that current valuations are unjustifiably low and warrant a relook given the -2SD P/NAV valuation on both a 5-year and 3-year basis.

### RNAV Valuation

Development Properties	Interest (%)	Number of Units	Surplus Value (S\$m)
8 St Thomas Walk	100	252	163.4
NIM Collection Phase 1 & 2	100	98	24.0
NIM Collection Phase 3	100	132	182.0
Liv @MB	100	298	40.8
The Atelier	100	120	20.3

Key Property, Plant and Equipment	Rooms	Est. Market Value (S\$m)	Est. Change in FV (S\$m)
Fraser Residence Orchard	115	192.1	(13.0)

Land*	Area x Plot Ratio (sqft)	Est. Market Value (S\$m)	Est. Change in FV (S\$m)
Ang Mo Kio Ave 5	2,699,392	2,131.6**	1,391.2

### RNAV Valuation Breakdown

	S\$m
NAV	1,323.6
Total Surplus Value	430.5
Total Change in FV	1,378.2
RNAV	3,132.3
Discount to RNAV	55%
Discounted RNAV	1,409.5
Number of shares (millions)	258.9
Share Price (S\$)	5.44

\*excludes land proposed for projects i.e. NIM Collection Phase 3, Liv @MB, The Atelier

\*\*based on estimated land value of S\$790 psfppr

Source: Company, DBS Bank

### Share Price Sensitivity to change in S\$/GFA

\$1,090	\$6.85
\$990	\$6.38
\$890	\$5.91
\$790	\$5.44
\$690	\$4.97
\$590	\$4.51
\$490	\$4.04
\$390	\$3.57

Source: DBS Bank

## Bukit Sembawang's peer comparables (as of 21 Oct 20)

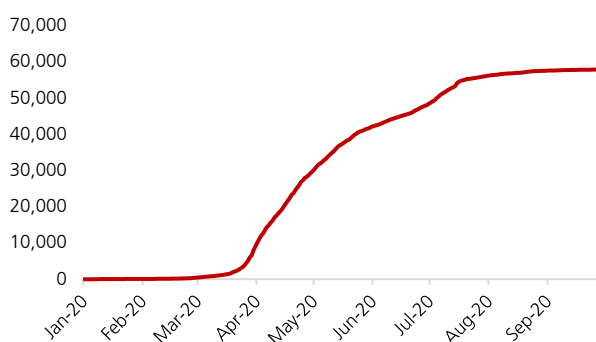
Company	Price	Market Cap (\$m)	P/NAV	Net D/E
GSH CORP LTD	0.178	348.3	0.92	0.84
TUAN SING HLDGS	0.310	368.4	0.33	1.38
CHIP ENG SENG	0.425	332.7	0.34	1.50
HONG FOK CORP	0.685	580.0	0.30	0.27
SINGHAIYI GROUP	0.069	290.6	0.44	1.82
HIAP HOE LTD	0.615	289.4	0.39	0.56
FAR EAST ORCHARD	0.975	444.1	0.35	0.36
<b>Average</b>			<b>0.44</b>	<b>0.96</b>
BUKIT SEMBAWANG	3.54	924.3	0.69	0.03

Source: Bloomberg Finance L.P., DBS Bank

## Key Risks

**Surge in COVID-19.** With the opening of Fraser Residence Orchard, BSEL has ventured into the hospitality industry. Unfortunately, COVID-19-related travel restrictions have impacted the hospitality industry, with gazetted hotels in Singapore recording an average occupancy rate of only 53.3% in June 2020. Fraser Residence Orchard has not been spared. Occupancy for the serviced residence stood at c.45% in June 2020 and may not improve until most business travel resumes. A resurgence in COVID-19 cases in Singapore could dent that prospect if Singapore enters another round of lockdowns.

### Singapore cumulative COVID-19 cases



Source: Bloomberg Finance L.P., DBS Bank

**Property-related regulatory risk.** Given the long development lead time of projects, BSEL is exposed to changes in government regulations which could impact residential property supply and demand. BSEL has had to pay and remains subject to extension charges related to the qualifying certificate (QC) scheme. Specifically, the QC scheme requires units to be fully sold within two years of completion, failing which extension fees will be imposed. As of June 2020, 8 St Thomas was only 64% sold and hence liable to pay QC extension charges.

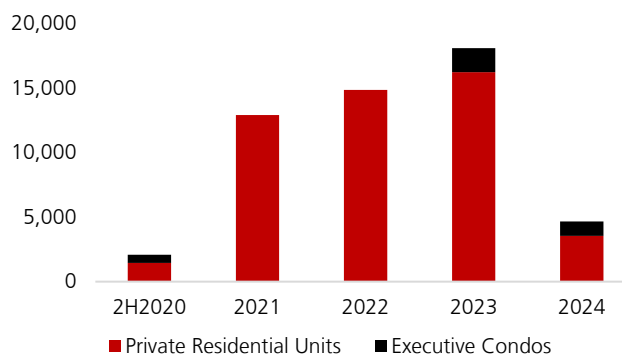
### Qualifying certificate extension charges

Extension Period	Fee
1 <sup>st</sup> Year	8% of land purchase price
2 <sup>nd</sup> Year	16% of land purchase price
3 <sup>rd</sup> Year	24% of land purchase price

Source: SLA, DBS Bank

**Stiff competition faced in Singapore.** BSEL faces tough competition in both the property development and hospitality industries. While sales of BSEL's landed properties have been robust, demand for BSEL's residential apartments has been relatively mixed. With c.12,900 units coming onto the market in 2021 amidst a recovering economy, BSEL may have a tougher time selling the remaining units at 8 St Thomas. That said, we are optimistic on this project as an estimated 14 units were sold in July and August 2020.

### Private residential units pipeline supply as at 2Q20 (units)



Source: URA, DBS Bank

**Exits by significant shareholders.** We note that a few funds hold significant stakes in BSEL. One in particular has been continuously trimming its position in BSEL over the past few years. As such, a rally in BSEL's share price could face resistance if these significant shareholders were to offload their shares. That said, at current valuations, we believe this is an opportunity for strategic investors to look at the stock.



## SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> <li>• Speciality developer of popular and quality landed properties</li> <li>• Equipped with sizeable land bank of c.235,000 sqm predominantly slated for landed developments</li> <li>• Low debt-to-equity ratio and interest payments a plus in uncertain times</li> </ul>	<ul style="list-style-type: none"> <li>• Little experience in hospitality business amid stiff competition</li> <li>• No geography diversification given Singapore-focused business</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Foray into hospitality sector marks first step in shift towards recurring income businesses</li> <li>• Further optimisation of capital structure could unlock new opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Potential weak demand for non-landed launches stemming from economic recession</li> <li>• COVID-19 travel restrictions could prolong Fraser Residence Orchard's pain</li> </ul>

Source: DBS Bank

## Critical Factors

**Sales rates of BSEL's development projects.** Strong sales rates of BSEL's properties, especially on launch, could positively impact BSEL's earnings and in turn share price. For example, news on 8 St Thomas selling at over S\$3,000 psf during its launch in August 2018 propelled BSEL's share price.

### Sales rates of BSEL's projects (as at June 2020)

Project	TOP	% of units sold
8 St Thomas	1Q18	64%
Nim Collection Phase 2	2Q19	94%
Luxus Hills	3Q19	99%
The Atelier*	1Q23	-
Liv @ MB*	4Q23	-
Landed Homes at Seletar*	4Q23	-

\*development has yet to launch/ TOP are estimated

Source: Company, DBS Bank

**Land tender wins or property acquisitions.** Success at land tenders could indicate that a new development project is on the horizon. Additionally, management's long-term strategy to own investment-grade properties to generate recurring income, land tender wins or property acquisitions could result in additions to BSEL's hospitality portfolio.

### BSEL's recent land tender wins and en-bloc acquisitions

Project	Acquired Land	Date	Cost (\$)	Cost psfppr (\$)
The Atelier	Makeway View	Mar-18	168m	1,626
Liv @ MB	Katong Park Towers	Mar-18	345m	1,280

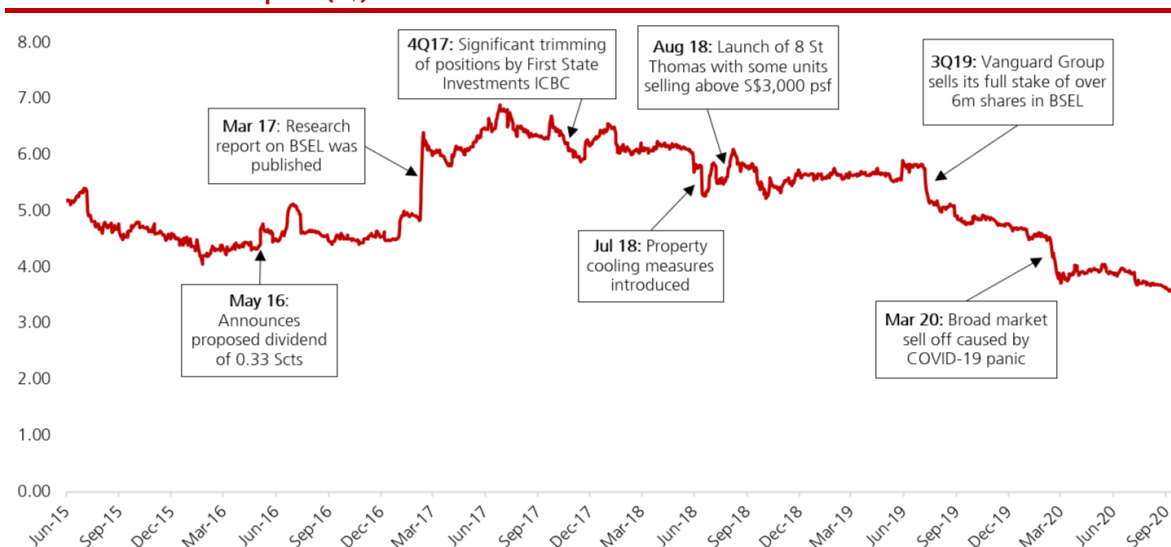
Source: Company, DBS Bank

**Government regulations.** Changes in property-related regulations can have an impact on the demand and supply of residential properties in Singapore. The most notable regulation of late was the Singapore government's cooling measures in 2018 that increased the additional buyer's stamp duty and lowered the loan-to-value ratio for property purchases. Indeed, the surprise cooling measures led to an 8.6% dip in BSEL's share price.

That said, given the current weak economic sentiment as a result of COVID-19, the government is unlikely to introduce further cooling measures in the near term. In fact, the regulations have been relaxed, allowing BSEL to 1) complete housing developments within five years from the land acquisition date, and 2) sell all units within two years from completion.

**Occupancy rates of Fraser Residence Orchard.** BSEL opened Fraser Residence Orchard on 1 April 2019. As this is BSEL's first venture into the hospitality business, the group may begin reporting occupancy rates for this property in the future which is likely to impact its share price. BSEL recently reported that Fraser Residence Orchard was operating with c.45% occupancy in June 2020 due to COVID-19 although this may improve over the next few months once the coronavirus situation improves.

### BSEL's historical share price (\$S)

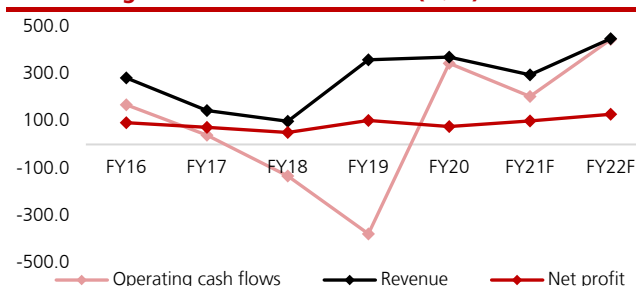


Source: Company, DBS Bank

## Financials

**Fluctuating cash flows and revenue.** BSEL's revenue, net profit and operating cash flow have fluctuated over the years. Generally, revenue has been on an upward trend, reaching a 5-year high of S\$369.7m in FY20. However, net profit declined in the same year largely due to COVID-19-related impairment losses at Fraser Residence Orchard. Operating cash flows were on a declining trend before reversing in FY20. Notably, FY19 saw a large outflow of cash mainly due to the ongoing development of BSEL's properties. Overall, BSEL's financial performance has fluctuated over the years due to its dependence on the progress and collections of its property development projects.

### Fluctuating cash flows and revenue (S\$m)



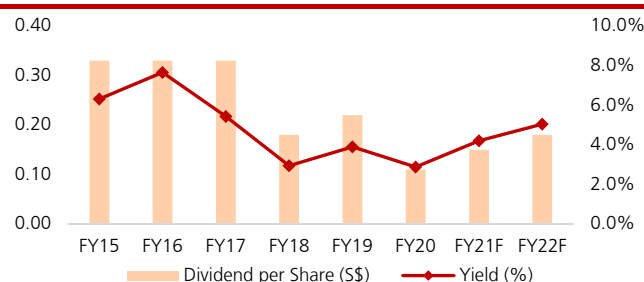
Source: Company, DBS Bank

Moving forward, we forecast revenue and net profit to come in at S\$447.7m and S\$127.7m respectively for FY21F. In addition, given BSEL's venture into the hospitality market and plans to expand in this segment, we can expect its revenue and profit to become increasingly recurring in future, which is positive for its dividend outlook.

### Downtrend in dividend per share (DPS) may reverse soon.

From FY15-FY17, BSEL paid a high dividend of S\$0.33 per share. However, in the past three years, DPS has decreased to a low of S\$0.11 in FY20. Understandably, BSEL's earnings and in turn dividends are subject to fluctuations due to timing differences in launches. Given our revenue and net profit projections, we suspect the trend might reverse in the next two years as new development projects contribute positive cashflows to drive dividend payouts in the medium term.

### BSEL's dividend per share (LHS) and dividend yield (RHS)\*

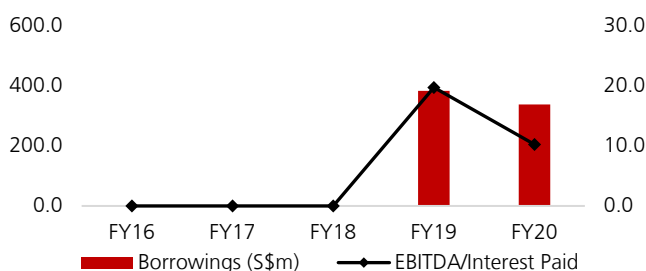


\*dividend yield was based on BSEL's share price as at end-FY for FY15 to FY20 and based on S\$3.56 for FY21F and FY22F

Source: Company, DBS Bank

**Borrowings have risen but remain the lowest among peers.** In the past six years, BSEL has avoided taking on debt, choosing to reinvest its cash flows instead. This changed in FY19 when BSEL decided to borrow to acquire Makeway View and Katong Park Towers. Currently, both sites are being redeveloped into The Atelier and Liv @ MB respectively. Given BSEL's strong balance sheet, we think taking on debt may help the company to optimise its capital structure, especially as its EBITDA/Interest Paid ratio remains healthy at 10.2x in FY20.

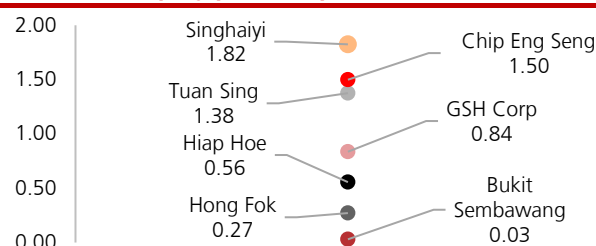
### BSEL's borrowings (LHS) and EBITDA/Interest Paid (RHS)



Source: Company, DBS Bank

BSEL's net debt-to-equity is also the lowest among peers at 0.03x as at end-FY20. Going forward, while BSEL will remain prudent, we think the group may be more open to taking on debt to replenish its land bank or for property acquisitions.

### Net debt-to-equity peer comparison (as at end-FY20)



Source: Bloomberg Finance L.P., DBS Bank

## Segmental Breakdown

FY Mar	2018A	2019A	2020A	2021F	2022F	2023F
<b>Revenues (\$m)</b>						
Development Properties	97.6	357	361	287	438	452
Investment Holdings	0.58	0.56	0.58	0.58	0.58	0.58
Hospitality	0.0	0.0	7.83	6.56	8.94	10.7
<b>Total</b>	<b>98.1</b>	<b>358</b>	<b>370</b>	<b>294</b>	<b>448</b>	<b>463</b>
<b>PBT (\$m)</b>						
Development Properties	88.9	140	148	120	153	125
Investment Holdings	3.13	(0.3)	1.37	1.37	1.37	1.37
Hospitality	(32.1)	(11.6)	(46.9)	(2.3)	(0.7)	1.04
<b>Total</b>	<b>60.0</b>	<b>128</b>	<b>102</b>	<b>120</b>	<b>154</b>	<b>128</b>
<b>PBT Margins (%)</b>						
Development Properties	91.1	39.3	40.9	42.0	35.0	27.8
Investment Holdings	542.5	(53.5)	237.8	237.8	237.8	237.8
Hospitality	N/A	N/A	(599.5)	(34.6)	(8.0)	9.7
<b>Total</b>	<b>61.1</b>	<b>35.9</b>	<b>27.7</b>	<b>40.6</b>	<b>34.4</b>	<b>27.6</b>

Boosted by Liv @ MB,  
The Atelier and NIM  
Collection Phase 3

Expected normalisation  
of Fraser Residence  
Orchard

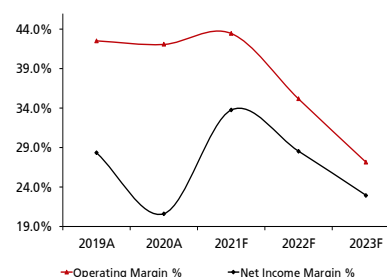
COVID-19-related  
impairment loss of Fraser  
Residence Orchard

Source: Company, DBS Bank

## Income Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F	2023F
Revenue	98.1	358	370	294	448	463
Cost of Goods Sold	(34.4)	(190)	(190)	(144)	(268)	(314)
<b>Gross Profit</b>	<b>63.7</b>	<b>168</b>	<b>179</b>	<b>150</b>	<b>180</b>	<b>149</b>
Other Opng (Exp)/Inc	(38.1)	(9.7)	(14.4)	(14.4)	(14.2)	(15.1)
<b>Operating Profit</b>	<b>21.3</b>	<b>152</b>	<b>156</b>	<b>128</b>	<b>157</b>	<b>126</b>
Other Non Opg (Exp)/Inc	0.19	0.33	0.05	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	2.84	(4.4)	(10.2)	(8.3)	(3.6)	2.27
Exceptional Gain/(Loss)	35.6	(19.6)	(43.1)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>60.0</b>	<b>128</b>	<b>102</b>	<b>120</b>	<b>154</b>	<b>128</b>
Tax	(9.2)	(27.2)	(26.2)	(20.3)	(26.2)	(21.7)
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
<b>Net Profit</b>	<b>50.7</b>	<b>101</b>	<b>76.1</b>	<b>99.3</b>	<b>128</b>	<b>106</b>
Net Profit before Except.	15.1	121	119	99.3	128	106
EBITDA	21.8	153	162	133	163	131
<b>Growth</b>						
Revenue Gth (%)	(31.6)	264.7	3.3	(20.4)	52.2	3.4
EBITDA Gth (%)	(72.7)	601.2	5.8	(17.7)	22.2	(19.6)
Opg Profit Gth (%)	(73.1)	613.2	2.2	(17.8)	23.1	(20.2)
Net Profit Gth (Pre-ex)	(80.5)	699.0	(1.4)	(16.7)	28.6	(16.9)
<b>Margins &amp; Ratio</b>						
Gross Margins (%)	64.9	47.0	48.5	51.0	40.2	32.2
Opg Profit Margin (%)	21.7	42.5	42.1	43.5	35.2	27.1
Net Profit Margin (%)	51.7	28.3	20.6	33.7	28.5	22.9
ROAE (%)	4.0	7.9	5.8	7.3	9.0	7.1
ROA (%)	3.7	6.5	4.2	5.3	6.4	5.2
ROCE (%)	1.4	8.1	6.8	6.2	7.5	6.2
Div Payout Ratio (%)	91.9	56.2	37.4	39.1	36.5	53.7
Net Interest Cover (x)	NM	34.7	15.3	15.4	43.9	NM

## Margins Trend



Source: Company, DBS Bank

## Quarterly / Interim Income Statement (\$m)

FY Mar	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Revenue	122	56.5	77.7	141	78.4	72.6
Cost of Goods Sold	(64.4)	(34.0)	(44.0)	(73.9)	(44.1)	(28.4)
<b>Gross Profit</b>	<b>57.9</b>	<b>22.5</b>	<b>33.7</b>	<b>67.2</b>	<b>34.3</b>	<b>44.3</b>
Other Oper. (Exp)/Inc	(2.6)	(2.2)	(4.0)	(3.5)	(2.2)	(4.7)
<b>Operating Profit</b>	<b>53.7</b>	<b>18.2</b>	<b>27.8</b>	<b>61.5</b>	<b>30.0</b>	<b>36.3</b>
Other Non Opg (Exp)/Inc	0.34	(0.1)	0.0	0.01	0.0	0.04
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(4.7)	(2.6)	(3.9)	(2.1)	(1.7)
Exceptional Gain/(Loss)	0.0	(19.8)	0.0	0.0	0.0	(43.1)
<b>Pre-tax Profit</b>	<b>54.0</b>	<b>(6.3)</b>	<b>25.2</b>	<b>57.6</b>	<b>28.0</b>	<b>(8.5)</b>
Tax	(9.3)	(5.2)	(3.2)	(13.0)	(4.3)	(5.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>44.7</b>	<b>(11.6)</b>	<b>22.0</b>	<b>44.6</b>	<b>23.7</b>	<b>(14.2)</b>
Net profit bef Except.	44.7	8.28	22.0	44.6	23.7	28.9
EBITDA	0.05	0.12	1.75	1.81	1.03	1.51

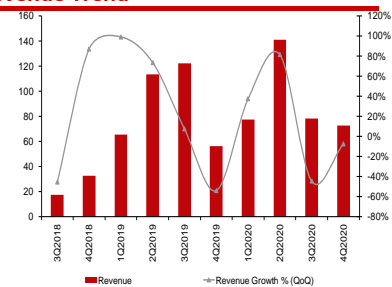
## Growth

Revenue Gth (%)	7.5	(53.8)	37.5	81.6	(44.4)	(7.4)
EBITDA Gth (%)	(35.1)	136.0	1,384.7	3.1	(42.7)	45.6
Opg Profit Gth (%)	3.2	(66.1)	52.4	121.6	(51.2)	20.9
Net Profit Gth (Pre-ex)	(0.9)	(81.5)	166.1	102.5	(46.9)	22.1

## Margins

Gross Margins (%)	47.4	39.8	43.3	47.6	43.8	61.0
Opg Profit Margins (%)	43.9	32.2	35.7	43.6	38.3	50.0
Net Profit Margins (%)	36.5	(20.5)	28.4	31.6	30.2	(19.6)

## Revenue Trend



Source: Company, DBS Bank

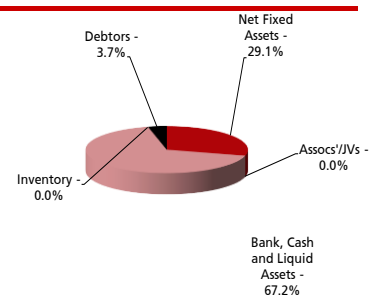
## Balance Sheet (\$\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	241	258	211	206	201	196
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	20.3	6.11	14.8	14.8	14.8	14.8
Cash & ST Invt	146	72.2	300	474	795	935
Inventory	0.0	0.22	0.44	0.0	0.0	0.0
Debtors	53.9	15.9	21.3	26.1	17.2	16.6
Other Current Assets	870	1,429	1,291	1,208	1,054	868
<b>Total Assets</b>	<b>1,331</b>	<b>1,782</b>	<b>1,838</b>	<b>1,929</b>	<b>2,082</b>	<b>2,030</b>

ST Debt	0.0	15.4	0.0	0.0	0.0	0.0
Creditor	76.8	63.4	114	169	319	375
Other Current Liab	1.64	0.13	45.8	21.3	27.1	22.7
LT Debt	0.0	367	338	338	253	101
Other LT Liabilities	2.85	30.9	16.9	16.9	16.9	16.9
Shareholder's Equity	1,250	1,305	1,324	1,384	1,465	1,514
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>1,331</b>	<b>1,782</b>	<b>1,838</b>	<b>1,929</b>	<b>2,082</b>	<b>2,030</b>

Non-Cash Wkg. Capital	845	1,381	1,153	1,044	725	486
Net Cash/(Debt)	146	(310)	(37.7)	137	542	834
Debtors Turn (avg days)	145.7	35.6	18.4	29.4	17.7	13.3
Creditors Turn (avg days)	821.1	122.3	225.7	444.1	444.1	444.1
Inventory Turn (avg days)	N/A	0.4	0.9	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	13.6	19.2	10.1	9.0	5.4	4.6
Quick Ratio (x)	2.5	1.1	2.0	2.6	2.3	2.4
Net Debt/Equity (X)	CASH	0.2	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.2	0.0	CASH	CASH	CASH
Capex to Debt (%)	N/A	6.8	0.3	0.0	0.0	0.1

## Asset Breakdown



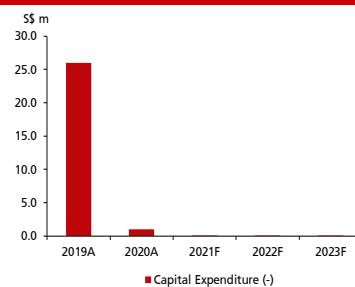
AMK Ave 5 land hidden here and recorded at historical cost

Source: Company, DBS Bank

## Cash Flow Statement (\$m)

FY Mar	2018A	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	60.0	128	102	120	154	128
Dep. & Amort.	0.26	0.32	6.10	5.14	5.14	5.14
Tax Paid	(26.1)	(0.6)	(1.0)	(44.8)	(20.3)	(26.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(134)	(531)	181	123	306	232
Other Operating CF	(33.8)	24.7	54.2	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>(133)</b>	<b>(378)</b>	<b>343</b>	<b>203</b>	<b>444</b>	<b>339</b>
Capital Exp.(net)	(1.1)	(26.0)	(1.0)	(0.1)	(0.1)	(0.1)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts 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
<b>Net Investing CF</b>	<b>(1.1)</b>	<b>(26.0)</b>	<b>(1.0)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Div Paid	(85.4)	(46.6)	(57.0)	(28.5)	(38.8)	(46.6)
Chg in Gross Debt	0.0	384	(45.4)	0.0	(84.4)	(152)
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(6.8)	(11.9)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(85.5)</b>	<b>331</b>	<b>(114)</b>	<b>(28.5)</b>	<b>(123)</b>	<b>(199)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(220)	(73.4)	228	174	321	140
Opg CFPS (\$ cts)	0.15	59.1	62.4	30.9	53.5	41.3
Free CFPS (\$ cts)	(51.9)	(156)	132	78.3	172	131

## Capital Expenditure



Source: Company, DBS Bank



## Company Background

**Corporate History.** Bukit Sembawang Estates Limited ("BSEL") was incorporated in Singapore in 1967. As a Singapore-focused property developer, BSEL was listed in 1968 and has completed notable development projects such as Luxus Hills and Skyline Residences. More recently, BSEL entered Singapore's serviced apartment space, opening Fraser Residence Orchard in 2019.

### Experienced landed property developer with coveted projects.

BSEL has a long track record of developing properties in Singapore, having begun developing landed properties in the 1950s. The group has developed over 4,600 landed homes and over 1,800 residences units in Singapore. It has also garnered multiple awards from organisations such as FIABCI and New York Design Awards in the process. As evident from BSEL's development projects, the group is a specialty landed property developer and owns sizable parcels of land that have been steadily developed over the years.

### Selected completed projects\*

Development	Type	Completion
Luxus Hills	Landed	2018
Mimosa Terrace	Landed	2000
14, 16 Lengkok Angsa	Landed	2015
Skyline Residences	Condo	2015
Paterson Suites	Condo	2011
Verdure	Condo	2014
The Vermont on Cairnhill	Condo	2014
Parc Mondrian	Condo	2010

*\*list is non-exhaustive*

Source: Company, DBS Bank

**Vast land bank to be unlocked.** BSEL owns an estimated c.235,000 sqm of undeveloped land, with c.93% of it located in the Ang Mo Kio Avenue 5 region. The land has yet to be earmarked for development and is mostly held on a 999-year tenure from 1879 for non-residential rural use. That said, we observe that BSEL has been successful in converting parcels of this land for residential use with a shortened 99-year tenure.

### BSEL's land in Ang Mo Kio Ave 5



Source: Google Maps, DBS Bank

**Pure play Singapore-focused developer.** Until recently, BSEL was a pure play Singapore property developer focused on luxury residential projects and landed homes. The addition of Fraser Residence Orchard in 2H19 has added a new hospitality segment to the business. We can expect income to become more recurring in the future once the hospitality market recovers from COVID-19 and Fraser Residence Orchard ramps up.

### NIM Collection



Source: Company, DBS Bank

### The Atelier



## Management

**Management refresh.** Of late, we observe that BSEL's management team has undergone significant changes with the retirement of Mr Ng (Chief Executive Officer), Ms Katharine Kum (Head of Projects) and Mr Justin Ho (Head of Property and Maintenance Management).

**BSEL's share ownership indicates links to OCBC Bank.** We note that a significant shareholder of BSEL is Selat Pte Ltd (11.4%) which is also a significant shareholder of OCBC Bank (12.0%) and has ties to OCBC Bank's founding Lee family.

### Key Management Team

Name & Position	Experience
Mr Ooi Chee Eng <i>Acting Chief Executive Officer and Chief Financial Officer</i>	<p>Mr Ooi Chee Eng took on the role of Acting Chief Executive Officer after the retirement of Mr Ng Chee Seng in August 2019. He is also the Chief Financial Officer as well as the Company Secretary of BSEL and joined the group in 2018.</p> <p>Mr Ooi has over 20 years of experience in accounting and finance. He was previously the financial controller of Oxley Holdings and Group Financial Controller of Achieva Ltd.</p> <p>Mr Ooi graduated with a Bachelor of Accountancy degree from Nanyang Technological University. He is also a Chartered Accountant of Singapore.</p>
Mr McDonald Low Hoong Chiong <i>Head of Project</i>	<p>Following the retirement of Ms Katharine Kum in March 2020, Mr McDonald Low Hoong Chiong became the Head of Projects of BSEL. Mr Low joined BSEL in 2015.</p> <p>Having gained over 25 years of experience in project management and property development, Mr Low is believed to have previously worked with GuocoLand.</p> <p>Mr Low also holds a Master of Science in International Construction Management from Nanyang Technological University. He is a member of The Society of Project Managers and a BCA Certified Green Mark Manager.</p>
Mr Michael Chan Lim Huat <i>Head of Property Management</i>	<p>Mr Michael Chan Lim Huat joined BSEL in 2020 and is responsible for the management and maintenance of the group's properties. He took over from Mr Justin Ho who resigned in March 2020.</p> <p>Mr Chan was previously a Property Service Manager with Hong Leong Holdings for almost nine years. He has accumulated over 12 years of experience in the construction and property development industry.</p> <p>Mr Chan graduated with a Diploma in Manufacturing Engineering from Singapore Polytechnic.</p>

Source: Company, DBS Bank

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 22 Oct 2020 07:34:49 (SGT)

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## DBS Regional Research Offices

### HONG KONG

#### DBS (Hong Kong) Ltd

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

### THAILAND

#### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel: 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand

### MALAYSIA

#### AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com  
Co. Regn No. 198401015984 (128540-U)

### INDONESIA

#### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaresearch@dbs.com

### SINGAPORE

#### DBS Bank Ltd

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E