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Lum Chang Holdings

Bloomberg: LCH SP | Reuters: LUCS.SI | Price: SGD0.32 | Date: August 30, 2012

GICS: Industrials/Construction & Engineering

Business Summary: Founded since the 1940s, and listed on the main board of SGX on Dec. 28, 1984, Lum Chang Holdings (LCH) is a key player in the Singapore construction industry. The group provides services in general construction, property development and property management.

Country of Incorporation: Singapore

Head Office Location: 1 Selegie Road, #06-02, PoMo, Singapore 188306

Place of Operations: Singapore

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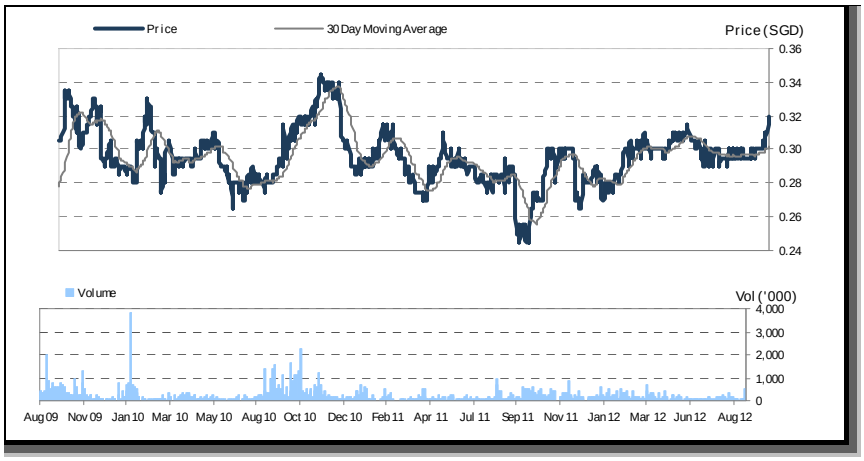

Results Review

- LCH's FY12 (Jun.) results were ahead of our expectations, with net profit of SGD21.0 mln (+31%) coming in about 60% above our estimates. The stronger performance was due to better-than-expected gross margin of 13.0% (FY12E:10%) and lower taxation offset partially by higher operating costs. A final net DPS of 1.25 cent was declared, bringing the total net DPS for FY12 to 2 cents (FY11:2 cents).
- FY12 group revenue increased 48% to SGD282.9 mln, driven by: (i) higher construction revenue (+40%) due to recognition of on-going projects which include the MRT C912, Esparina Residences, Audi terminal and office at North Buona Vista Drive; and (ii) higher property revenue (+265%) with the completion of two phases of the group's residential developments in Malaysia which led to the recognition of sale of 28 units.
- The higher revenue was partially offset by: (i) weaker gross margin of 13.0% (-3.5%-pts) attributable to rising prices in construction costs; and (ii) higher distribution and marketing expenses (+199%) due to advertising costs incurred for the Malaysian developments. The group also registered a higher effective tax rate (+16.2%-pts to 16.7%). Excluding the exceptional gain from disposal of the Twenty Anson property, FY12 net profit would have reduced by about 8.4%.
- Meanwhile, LCH's financial position remains healthy, with a net cash position of SGD49.5 mln as at Jun. 30, 2012.

Earnings Outlook / Estimates Revision

- After fine-tuning, we have kept our FY13 net profit forecast relatively unchanged after reducing margins to incorporate higher operating costs offset by lower taxation. We expect FY13 earnings to be bolstered by the completion of its fully-sold 20%-owned Executive Condominium, Esparina Residences. Meanwhile, we introduce our FY14 net profit forecast of SGD14.9 mln. At current share price, the stock offers an attractive dividend yield of about 6.3%.
- LCH's outstanding order book stands at SGD945.6 mln. The construction sector outlook is expected to remain decent with a continuous roll-out of public sector works and HDB to offer 25,000 new flats this year and at least 20,000 in 2013. For its property business, the construction of the launched phases for its Malaysian developments is proceeding smoothly and new marketing initiatives have resulted in increased level of interest. We understand that LCH is presently seeking new projects worth about SGD500 mln which include commercial and residential.

Investment Risks

- A sharp rise in labor or material costs, shortage of skilled labor or increase in project execution costs can adversely affect project viability and profitability. Similarly, a deteriorating economic outlook will likely reduce construction demand (particularly for private projects) and may affect the group's property sales.

Key Stock Statistics

52-week Share Price Range (SGD)	0.27 - 0.32
Avg Vol - 12 months ('000 shares)	158.6
Price Performance (%) - 1 month	8.5
- 3 month	6.7
- 12 month	20.8
No. of Outstanding Shares (mln)	369.6
Free Float (%)	59.4
Market Cap (SGD mln)	118.3
Enterprise Value (SGD mln)	68.8
Major Shareholders (%)	
Beverian Holdings	16.7
Lum Chang Investments	16.2
Kwan Sung Lum, Raymond	2.7

Per Share Data

FY Jun.	2011	2012	2013E	2014E
Book Value (SG cents)	39.20	42.46	47.93	49.97
Cash Flow (SG cents)	4.6	6.4	7.6	5.2
Reported Earnings (SG cents)	4.2	5.6	6.6	4.0
Dividend (SG cents)	2.0	2.0	2.0	2.0
Payout Ratio (%)	47.5	35.2	29.7	49.6
PER (x)	7.6	5.7	4.8	8.0
P/Cash Flow (x)	6.9	5.0	4.2	6.1
P/Book Value (x)	0.8	0.8	0.7	0.6
Dividend Yield (%)	6.3	6.3	6.3	6.3
ROE (%)	10.8	13.7	14.9	8.2
Net Gearing (%)	0.0	0.0	0.0	0.0

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Earnings Performance

FY Jun. / SGD mln	4Q12	4Q11	% Change
Reported Revenue	98.6	128.6	-23.3
Reported Operating Profit	15.4	8.1	89.9
Depreciation & Amortization	-0.9	-0.4	>100
Net Interest Income / (Expense)	0.3	0.3	20.7
Reported Pre-tax Profit	15.7	8.5	85.7
Reported Net Profit	9.6	9.7	-1.1
Reported Operating Margin (%)	15.6	6.3	-
Reported Pre-tax Margin (%)	15.9	6.6	-
Reported Net Margin (%)	9.7	7.6	-

Source: Company data

Profit & Loss

FY Jun. / SGD mln	2011	2012	2013E	2014E
Reported Revenue	191.5	282.9	359.4	416.4
Reported Operating Profit	13.6	27.2	15.5	19.2
Depreciation & Amortization	-1.7	-2.6	-3.4	-4.4
Net Interest Income / (Expense)	0.8	0.8	0.8	0.8
Reported Pre-tax Profit	16.0	27.9	35.9	22.1
Effective Tax Rate (%)	0.4	16.7	28.0	28.0
Reported Net Profit	16.0	21.0	24.9	14.9
Reported Operating Margin (%)	7.1	9.6	4.3	4.6
Reported Pre-tax Margin (%)	8.4	9.9	10.0	5.3
Reported Net Margin (%)	8.4	7.4	6.9	3.6

*FY11 figures restated due to adoption of the INT FRS 115 accounting standard

Source: Company data, S&P Equity Research

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