

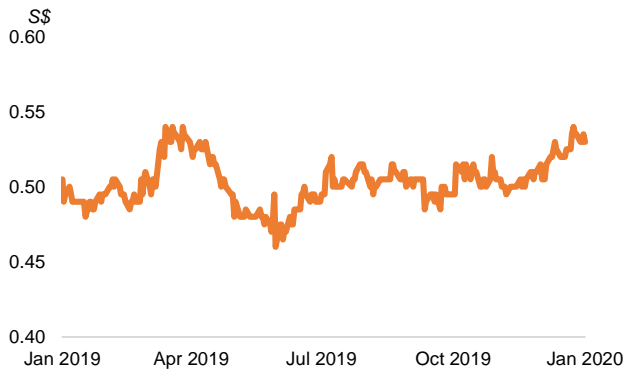
# Lian Beng Group Ltd

Date: 24 January 2020

## Non-Rated

### Lian Beng Group Ltd (L03.SI)

Price: S\$0.53 (as at 23 January 2020)



Share price	1M	3M	6M	1Y
Lian Beng Group Ltd	2.9%	7.1%	7.1%	5.0%
Straits Times Index	0.6%	2.9%	-4.1%	2.0%

Market capitalisation	S\$264.8 million
Current price	S\$0.53
Shares outstanding	499.7 million
Free Float	59.38%
Substantial shareholders	Ong Sek Chong & Sons Pte Ltd 29.99% Ong Pang Aik 5.67%
Recommendation of other brokers	N/A

Source: Annual Report, SGX StockFacts, Bloomberg, SAC Capital

### Analyst

Terence Chua +65 6232 3236  
[tchua@saccapital.com.sg](mailto:tchua@saccapital.com.sg)

Chow Zheng Jie +65 6232 3239  
[chowzj@saccapital.com.sg](mailto:chowzj@saccapital.com.sg)

## 2QFY20 net profit grew 51.1%

Lian Beng Group Ltd (“Lian Beng”, “Company”, or the “Group”) recorded revenue of S\$164.7 million for the quarter ended 30 November 2019 (“2QFY20”), which represents 102.8% year on year growth of S\$83.5 million compared to 2QFY19 revenue of S\$81.2 million. This was mainly due to higher revenue generated from both the Construction and Property Development segments. Higher Construction segment revenue was due to the progressive revenue recognition of construction projects which were mostly at the initial stage of construction. Higher contribution from the Property Development segment was mainly due to an increase in revenue recognised from Mactaggart Foodlink, partially offset by the absence of revenue from the T-Space @ Tampines industrial project which was substantially completed in June 2018. Overall, net profit attributable to shareholders in 2QFY20 rose 51.1% year on year to S\$11.2 million from S\$7.4 million in 2QFY19.

**Construction demand for 2020 is expected to remain strong.** According to the Building and Construction Authority (“BCA”), the total value of construction contracts to be awarded in 2020 is projected to fall between S\$28 billion and S\$33 billion. Public sector construction demand in 2020 is expected to contribute to about 60% of total projected demand, spurred mainly by infrastructure projects. Private sector demand is expected to be supported by the redevelopment of en-bloc sale sites, in addition to infrastructure projects.

**Robust order book and pipeline of construction projects.** Lian Beng has a demonstrated history of building a robust order book. In December 2019, 60% owned subsidiary United Tec Construction Pte. Ltd. secured a contract worth S\$178 million for the construction of a private residential development at Clementi Avenue 1. As of the Group’s 2QFY20 results announcement date on 13 January 2020, its order book stood at approximately S\$1.6 billion, which management notes should support the Group’s activities through FY2023.

**Key risks:** Overhang from cooling measures.

## Key Historical Financials

Year ended 31 May (S\$'000)	FY2015	FY2016	FY2017	FY2018 (Restated)	FY2019
Revenue	746,998	445,415	281,665	406,960	386,791
% Growth	9.4%	-40.4%	-36.8%	n.m.	-5.0%
Gross profit	79,299	56,100	74,881	113,147	81,787
Gross profit margin (%)	10.6%	12.6%	26.6%	27.8%	21.1%
Profit/(loss) before tax	143,670	111,715	70,208	119,959	44,487
Profit/(loss) before tax margin (%)	19.2%	25.1%	24.9%	29.5%	11.5%
Profit/(loss) attributable to owners	108,028	102,930	53,238	82,546	32,863
EPS/(LPS) (Singapore cents)	20.85	20.41	10.65	16.52	6.58
P/E (x)	2.5	2.6	5.0	3.2	8.1
P/B (x)	0.5	0.4	0.4	0.3	0.3
Net Debt/Equity (%)	19.4%	49.1%	83.8%	63.8%	57.4%

Source: Company Data, SAC Capital FY2015 - FY2017 figures may not be comparable with FY2018 - FY2019 due to preparation of the latter under SFRS (I) Following the adoption of SFRS(I) with effect from FY2019, the Group restated its financial results for FY2018 to allow for meaningful comparison

## Investment Highlights

**Lian Beng recorded revenue of S\$164.7 million for 2QFY20, which represents 102.8% year on year growth of S\$83.5 million compared to 2QFY19 revenue of S\$81.2 million.** This was mainly due to higher revenue generated from both the Construction segment and the Property Development segment.

Financial Highlights	2QFY20	2QFY19
Revenue (S\$ million)	164.7	81.2
Profit attributable to shareholders (S\$ million)	11.2	7.4
Earnings per Share (Singapore cents)	2.24	1.48

Source: Company data, SAC Capital

### Business Overview:

Lian Beng Group is primarily engaged in the business of construction as a main contractor, with a strong track record in residential, commercial and industrial projects. The group's subsidiary SLB development is a diversified property development company that develops and sells residential, industrial, commercial and mixed-use properties. Lian Beng Group also holds a portfolio of investment properties and owns two dormitories through joint ventures.

Higher Construction segment revenue was due to the progressive revenue recognition of construction projects which were mostly at the initial stage of construction. Higher contribution from the Property Development segment was mainly due to an increase in revenue recognised from Mactaggart Foodlink, partially offset by the absence of revenue from the T-Space @ Tampines industrial project which was substantially completed in June 2018. Other operating income increased to S\$4.7 million in 2QFY20 from S\$ 2.8 million in 2QFY19, mainly due to an increase in interest income from loans to associates and a gain on disposal of a subsidiary company. Share of profit of associates fell from S\$1.7 million in 2QFY19 to S\$1.1 million in 2QFY20 mainly due to the absence of profits from the disposal of office units in Prudential Tower. This was partially mitigated by an increase in development profits recognised from Riverfront Residences and Affinity @ Serangoon as the construction of both projects made progress in 2QFY20. Overall, net profit attributable to shareholders in 2QFY20 rose 51.1% year on year to S\$11.2 million from S\$7.4 million in 2QFY19. The Group declared a tax-exempt interim dividend of S\$0.01.

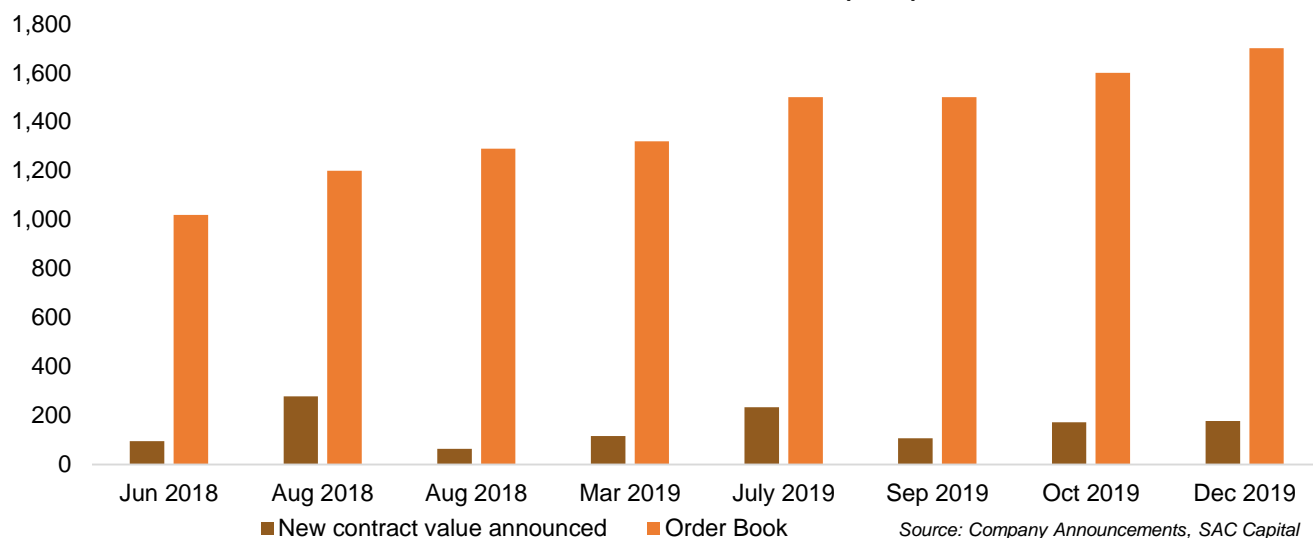
**Construction demand for 2020 is expected to remain strong.** According to the Building and Construction Authority, the total value of construction contracts to be awarded in 2020 is projected to fall between S\$28 billion and S\$33 billion. This comes off the back of the 9.5% expansion in construction demand in 2019 which reached S\$33.4 billion, approximately S\$1.4 billion higher than the upper bound of the BCA's forecast. Public sector construction demand in 2020 is expected to contribute to about 60% of total projected demand, spurred mainly by infrastructure projects. Private sector demand is expected to be supported by the redevelopment of en-bloc sale sites, in addition to infrastructure projects. In the medium term, construction demand is expected to reach between S\$27 billion and S\$34 billion per year for 2021 and 2022 and between S\$28 billion and S\$35 billion per year for 2023 and 2024.

**Continued focus on industry transformation plays to Lian Beng's capabilities.** Since the launch of the Construction Industry Transformation Map in 2017, increasing emphasis has been placed on using advanced construction methods to increase production quality and efficiency, as well as to improve safety. The BCA noted in a January media release that the public sector will continue to take the lead in adopting these advanced construction methods. For example, the Housing and Development Board ("HDB") will adopt Design for Manufacturing and Assembly ("DfMA") construction methods in 75% of all units launched in 2020. The Group's proven capabilities in Prefabricated Prefinished Volumetric Construction ("PPVC") – a key technology under DfMA – make it well placed to capture demand in this segment.

## Order Book

### Robust order book and pipeline of construction projects

#### Contract value and order book (\$m)



\*Contract and order book values are as reflected on the initial announcement dates.

Date Announced	Description	Contract Value (\$m)	Order Book (\$b)
Jun 2018	Condominium development comprising of 9 blocks of 8-storey residential buildings (428 units in total), 1 clubhouse block with a basement carpark, swimming pool and tennis court at Flora Drive.	95.8	1.02
Aug 2018	Residential flat development comprising 2 blocks of 56-storey apartments (955 units in total), multi-storey and basement carparks, communal facilities and additions and alterations to existing 5 blocks of conserved 4-storey flats (136 units in total) involving new shops and a childcare centre at Silat Avenue.	278.5	1.2
Aug 2018	Wholly-owned subsidiary Deenn Engineering Pte Ltd secured a construction contract worth approximately S\$65 million.	65	1.29
Mar 2019	Wholly-owned subsidiary Deenn Engineering Pte Ltd secured a construction contract worth approximately S\$117 million.	117	1.32
Jul 2019	Secured a contract from NTUC Fairprice Co-operative Limited for the construction of a 7-storey ramp up fresh food distribution centre comprising automatic storage and retrieval systems, cold rooms and ancillary facilities at Sunview Road.	234.7	1.5
Sep 2019	Construction of a residential development at Kampong Java Road, covering the building of 2 towers of 23-storey apartments (378 units in total) with landscape deck, common basement carparks & communal facilities.	107.5	1.5
Oct 2019	Secured a contract for a proposed condominium comprising 2 towers of 36-storey apartments, basement carparks and communal facilities at River Valley Close.	173	1.6
Dec 2019	United Tec Construction Pte. Ltd., a 60% owned subsidiary of the Group, secured a contract for a proposed residential flat development comprising 2 blocks of 37-storey apartments with a childcare centre, basement carparks, swimming pool and communal facilities at Clementi Avenue 1.	178	1.7

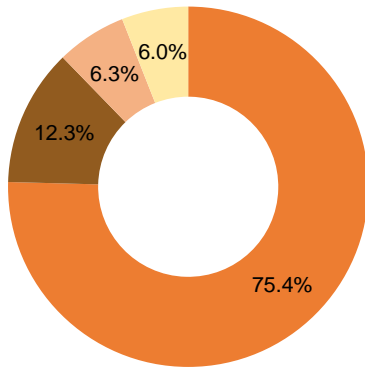
\*Contract and order book values are as reflected on the initial announcement dates.

Source: Company Announcements, SAC Capital

The Group has a demonstrated history of building a robust order book. As of Lian Beng's 2QFY20 results announcement date on 13 January 2020, its order book stood at approximately S\$1.6 billion, which management notes should support the Group's activities through FY2023.

## Company Background

### FY2019 Revenue



- Construction
- Property Development
- Investment Holding
- Dormitory

Source: Company data, SAC Capital

With a company history dating back to 1973, Lian Beng Group is a well established home-grown construction enterprise with a full suite of construction and civil engineering capabilities. The Group's primary business is the construction of residential, industrial and commercial projects. The Group also engages in the production of construction material, the leasing of construction machinery and the provision of engineering services to support its construction business as well as for external sales. The Group's property development business is carried out through SLB Development, which was listed on the Catalist board of the Singapore Exchange in 2018. Lian Beng Group's investment portfolio includes residential and commercial properties, held directly by the Group and through joint ventures. The Group also has stakes in two dormitories and provides dormitory services.

The Group's businesses can be categorised into 4 segments:

- a) Construction
- b) Property Development
- c) Investment Holding
- d) Dormitory

### Construction



Construction projects at The Jovell and Martin Modern



Source: Lian Beng Group

Lian Beng holds an A1 grade status as a General Builder, which enables the company to tender for building projects of unlimited contract value, and an A2 grade for civil engineering works which enables it to tender for projects worth up to S\$85 million in contract value.



Source: Lian Beng Group

Production of construction materials, including ready-mix concrete, rebar, asphalt premix and the provision of scaffolding and engineering services.

## Company Background

### Property Development



KAP & KAP Residences, T-Space @ Tampines

Source: SLB Development

SLB Development's projects include private residential, mixed-use, industrial and commercial developments.

### Investment Holdings



Wilkie Edge mixed development building

Source: Lian Beng Group

A portfolio of retail and commercial properties, including Wilkie Edge, Sembawang Shopping Centre and Broadway Plaza contribute to the Group's recurring income.

### Dormitory



Westlite Mandai and Westlite Papan

Source: Lian Beng Group, Westlite

Lian Beng Group owns two dormitories through joint ventures, which are collectively capable of housing over 14,000 workers.

## Key Risks

### Overhang from cooling measures

For 2020 – 2024, a fall in construction demand to the lower range of the BCA's forecasts would bring total construction contract value to levels approximately 10% lower than in 2018, which could have a negative effect on Group revenue. This could be offset by Lian Beng's order book which management expects to support the Group's activities through to FY2023.

On the property development front, demand for property typically follows a cyclical pattern and is generally affected by local and global economic conditions, local market sentiment and expectations, government regulations, competition from other property developers, and the extent of supply of properties for sale and availability of financing. So far, sentiment is muted in light of ongoing economic uncertainty and slowing local growth.

## Income Statement

(S\$'000)	Fiscal Year Ended 31 May				
	FY 2015	FY 2016	FY 2017	FY 2018 (Restated)	FY 2019
<b>Revenue</b>	<b>746,998</b>	<b>445,415</b>	<b>281,665</b>	<b>406,960</b>	<b>386,791</b>
Cost of sales	(667,699)	(389,315)	(206,784)	(293,813)	(305,004)
<b>Gross profit</b>	<b>79,299</b>	<b>56,100</b>	<b>74,881</b>	<b>113,147</b>	<b>81,787</b>
Other operating income	11,612	13,692	14,275	54,322	11,115
Distribution expenses	(2,145)	(1,249)	(2,192)	(8,450)	(3,856)
Administrative expenses	(25,352)	(28,203)	(22,920)	(31,309)	(25,881)
Other operating expenses	(10,233)	(19,754)	(14,176)	(10,493)	(8,843)
Finance costs	(5,510)	(8,474)	(9,977)	(17,178)	(17,600)
Impairment losses on financial assets				(3,210)	(2,022)
Share of results of associates	21,542	62,063	10,171	4,491	(246)
Share of results of joint ventures	22,083	37,667	5,583	8,982	6,533
Fair value gain on investment properties	52,374	(127)	14,563	9,657	3,500
<b>Profit before taxation</b>	<b>143,670</b>	<b>111,715</b>	<b>70,208</b>	<b>119,959</b>	<b>44,487</b>
Taxation	(7,607)	(3,395)	(7,427)	(24,710)	(6,313)
<b>Profit for the year, net of taxation</b>	<b>136,063</b>	<b>108,320</b>	<b>62,781</b>	<b>95,249</b>	<b>38,174</b>
Profit attributable to:					
Owners of the Company	108,028	102,930	53,238	82,546	32,863
Non-controlling interests	28,035	5,390	9,543	12,703	5,311
EPS: Basic and Diluted (SG cents)	20.85	20.41	10.65	16.52	6.58

## Balance Sheet

(S\$'000)	Fiscal Year Ended 31 May				
	FY 2015	FY 2016	FY 2017	FY 2018 (Restated)	FY 2019
Cash and cash equivalents	187,058	160,127	187,804	209,214	179,924
Development properties	111,216	163,392	161,431	68,243	104,509
Trade receivables	159,742	108,911	59,093	50,463	43,738
Other current assets	250,176	227,824	214,569	415,791	390,303
<b>Total current assets</b>	<b>708,192</b>	<b>660,254</b>	<b>622,897</b>	<b>743,711</b>	<b>718,474</b>
PPE	91,589	78,126	63,577	159,356	158,015
Investment properties	351,277	438,533	703,860	529,472	533,047
Investment in joint ventures	27,871	69,855	34,540	19,064	19,097
Investment in associates	11,084	69,814	43,970	49,235	41,075
Others	54,380	117,447	168,360	174,202	169,105
<b>Total non-current assets</b>	<b>536,201</b>	<b>773,775</b>	<b>1,014,307</b>	<b>931,329</b>	<b>920,339</b>
<b>Total assets</b>	<b>1,244,393</b>	<b>1,434,029</b>	<b>1,637,204</b>	<b>1,675,040</b>	<b>1,638,813</b>
Trade and other payables	210,732	189,585	173,565	158,123	164,219
Bank loans and bills payable	65,878	110,517	258,174	330,707	309,966
Others	197,803	178,271	108,917	59,939	65,675
<b>Total current liabilities</b>	<b>474,413</b>	<b>478,373</b>	<b>540,656</b>	<b>548,769</b>	<b>539,860</b>
Refundable rental deposits	640	426	2,109	2,978	3,067
Bank loans	211,284	317,543	422,325	309,194	268,450
Obligations under hire purchase	10,237	6,634	3,224	2,327	3,139
Deferred tax liabilities	2,552	1,473	1,240	5,271	4,165
<b>Total Non-current liabilities</b>	<b>224,713</b>	<b>326,076</b>	<b>428,898</b>	<b>319,770</b>	<b>278,821</b>
Share capital	82,275	82,275	82,275	82,275	82,275
Treasury shares	(12,781)	(17,777)	(17,777)	(17,777)	(17,777)
Retained earnings	394,505	480,801	523,721	596,137	627,967
Other reserves				14,037	1,595
<b>Non-controlling interests</b>	<b>81,268</b>	<b>84,281</b>	<b>79,431</b>	<b>131,829</b>	<b>126,072</b>
<b>Total equity</b>	<b>545,267</b>	<b>629,580</b>	<b>667,650</b>	<b>806,501</b>	<b>820,132</b>

## Cash Flow Statement

(S\$'000)	Fiscal Year Ended 31 May				
	FY 2015	FY 2016	FY 2017	FY 2018 (Restated)	FY 2019
Profit before taxation	143,670	111,715	70,208	119,959	44,487
Depreciation of property, plant and equipment	15,830	16,776	15,465	14,779	15,636
Total changes in working capital	(12,641)	(16,008)	(4,289)	(99,190)	25,440
Interest paid and capitalised in development properties	(653)	(2,260)	(2,668)	(638)	(731)
Income tax paid	(14,549)	(8,084)	(4,368)	(10,777)	(18,217)
Others	(97,595)	(84,530)	(27,532)	(5,677)	13,109
<b>Net cash flows from operating activities</b>	<b>34,062</b>	<b>17,609</b>	<b>46,816</b>	<b>18,456</b>	<b>79,724</b>
Purchase of PPE	(17,619)	(9,659)	(1,404)	(2,965)	(11,744)
Others	(63,550)	(109,080)	(213,047)	41,989	17,501
<b>Net cash flows from investing activities</b>	<b>(81,169)</b>	<b>(118,739)</b>	<b>(214,451)</b>	<b>39,024</b>	<b>5,757</b>
Proceeds from bank loans and bills payable	102,306	135,870	313,846	145,760	134,095
Repayment of bank loans and bills payable	(3,056)	(23,715)	(61,407)	(185,743)	(197,090)
Dividends paid on ordinary shares	(17,021)	(15,135)	(14,990)	(11,243)	(11,243)
Others	3,703	(22,714)	(42,206)	15,302	(39,666)
<b>Net cash flows used in financing activities</b>	<b>85,932</b>	<b>74,306</b>	<b>195,243</b>	<b>(35,924)</b>	<b>(113,904)</b>

## Ratios

	Fiscal Year Ended 31 May				
	FY 2015	FY 2016	FY 2017	FY 2018 (Restated)	FY 2019
<b>Profitability (%)</b>					
Gross profit/(loss) margin	10.6%	12.6%	26.6%	27.8%	21.1%
Profit/(loss) before tax margin	19.2%	25.1%	24.9%	29.5%	11.5%
<b>Liquidity (x)</b>					
Current ratio	1.5	1.4	1.2	1.4	1.3
Quick ratio	1.2	1.0	0.8	1.2	1.1
Interest coverage ratio	27.1	14.2	8.0	8.0	3.5
Net Debt to Equity	19.4%	49.1%	83.8%	63.8%	57.4%
<b>Valuation (x)</b>					
P/S	0.4	0.6	0.9	0.7	0.7
P/E	2.5	2.6	5.0	3.2	8.1
Core P/E at target price	n.m.	n.m.	n.m.	n.m.	n.m.
P/B	0.5	0.4	0.4	0.3	0.3
P/NTA	n.m.	n.m.	n.m.	n.m.	n.m.
<b>Cash Conversion Cycle</b>					
Trade receivable days	71	110	109	49	44
Inventory days	n.m.	n.m.	n.m.	n.m.	n.m.
Trade payable days	98	188	321	206	193
CCC days	n.m.	n.m.	n.m.	n.m.	n.m.

*n.m. denotes not meaningful*

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Party	Quantum of position
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Company	Nature of business relation	Date of business relation
SAC Capital	SAC Capital acts as Continuing Sponsor to SLB Development Ltd, of which Lian Beng Group Ltd is a controlling shareholder.	Ongoing relations

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Nil	Nil

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