

# SLB Development Ltd

15 March 2022

## Non-Rated

<b>BBG</b>	SLB SP
<b>Market cap</b>	S\$109.6m
<b>Price (15 March 2022)</b>	S\$0.12
<b>52-week range</b>	S\$0.101 – S\$0.15
<b>Target Price</b>	Non-rated
<b>Shares Outstanding</b>	913m
<b>Free Float</b>	23%
<b>Major Shareholder</b>	Lian Beng Group Ltd 77.6%
<b>P/BV (11/21)</b>	0.6x
<b>Net Debt to EBITDA (05/21)</b>	9.3x

Source: Company data, Bloomberg, SAC Capital

## Building recurring income from real estate

**Strong home sales in 2021 lifted 1H22 earnings by 117% to S\$12m.** All 3 residential projects (20%-owned Riverfront Residences, 20%-owned Affinity @ Serangoon and 42%-owned REZI 24) are fully sold before the cooling measures were imposed on 16 Dec 2021.

51%-owned industrial project INSPACE contributed positive gain of ~S\$2.3m. It also booked S\$1.8m rental income from freehold industrial property Thye Hong Centre, which was acquired for S\$112.5m, or S\$550/sf ppr. Annual rental is expected rise to about S\$5m (cap rate 4.4%) after AEI that drove a 30% rental uplift.

Other projects on hand include 1) a 10%-stake in the en-bloc acquisition of Peace Centre for S\$650m or about S\$1,385/sf ppr, to be re-developed into a 60:40 commercial/residential development; and 2) a 9-10% stake in Gaobeidian, a mixed-use development project spanning 5.3m sqm land in Hebei Province.

**Building recurring income.** SLB is building recurring income through rental and fee income from real estate fund management. These could be via 1) taking equity stake in management companies. It has a 20%-stake in UK-based Pinnacle Investment Management; 2) investing in real estate funds. SLB has invested £2m in Pinnacle Residential Fund, a UK residential fund; and 3) jointly invest in projects with external funds, such as a 5%-stake in RMIT Bourke Street Centre.

Through 33%-owned 32 Real Estate Pte Ltd, a real estate investment platform, SLB has a 20/80 S\$150m JV with Weave Co-Living to acquire, develop, refurbish and operate co-living and rental accommodation assets in Singapore. They recently bought 17 shophouses in Jalan Sultan for S\$74.8m to be converted into co-living space. Weave Living will take a significant majority stake.

**Strengthening its balance sheet.** Net debt as at end Nov 21 was S\$107m, or net gearing of 57.8%. We expect substantial cash inflow of S\$190m in 2022/2023 from the residential projects and INSPACE, as these reached TOP. About S\$35m might be deployed as equity at the Peace Centre project.

**Valuation.** SLB trades at 40% discount to book. The discount should narrow when fee income and carry interest become a significant and stable income stream.

## Analyst

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YE 31 May (S\$m)	FY18A	FY19A	FY20A	FY21A
Revenue	154.4	47.6	46.2	42.4
EBIT	31.6	0.6	15.8	17.2
Net profit	15.6	(5.0)	10.8	13.4
EPS (S cents)	1.7	(0.6)	1.2	1.5
DPS (S cents)	-	-	-	-
Net cash / (debt)	(66.5)	(51.6)	(25.2)	(117.8)
<b>Valuation</b>				
EBIT margin (%)	20.5	1.3	34.1	40.6
ROIC (%)	-	-	-	-
EV/EBITDA (x)	6.2	20.3	7.4	21.9
P/E (x)	7.0	(21.8)	10.1	8.2
Dividend yield (%)	-	-	-	-

## Income Statement

FYE 31 May (\$\$m)	FY18A	FY19A	FY20A	FY21A
<b>Revenue</b>	<b>154.4</b>	<b>47.6</b>	<b>46.2</b>	<b>42.4</b>
Cost of sales	(124.0)	(34.4)	(27.5)	(31.6)
<b>Gross profit</b>	<b>30.4</b>	<b>13.2</b>	<b>18.7</b>	<b>10.8</b>
Other income	1.1	2.3	5.6	6.1
Operating expenses	(9.4)	(7.5)	(5.9)	(6.6)
<b>EBITDA</b>	<b>22.1</b>	<b>7.9</b>	<b>18.3</b>	<b>10.4</b>
Associates & JV	2.5	(7.3)	(2.5)	6.8
Fair value change on invt property	7.0	-	-	-
<b>EBIT</b>	<b>31.6</b>	<b>0.6</b>	<b>15.8</b>	<b>17.2</b>
Finance costs	(3.4)	(2.8)	(3.9)	(3.0)
Pretax profit	28.2	(2.2)	11.9	14.3
Tax expense	(3.7)	(1.5)	(2.0)	(2.4)
Minority interests	(9.0)	(1.4)	0.9	1.5
<b>Net profit</b>	<b>15.6</b>	<b>(5.0)</b>	<b>10.8</b>	<b>13.4</b>

## Balance Sheet

FYE 31 May (\$\$m)	FY18A	FY19A	FY20A	FY21A
<b>Assets</b>				
PPE	0.3	0.5	0.6	0.3
Associates & JV	17.0	3.2	2.4	10.2
Other investments	-	4.1	10.2	14.1
Deferred tax	-	-	0.7	0.8
<b>Non-current assets</b>	<b>17.3</b>	<b>7.8</b>	<b>13.9</b>	<b>25.4</b>
Cash	51.1	36.3	39.4	40.2
Trade receivables	13.3	4.3	0.1	1.5
Development properties	75.8	105.5	79.4	180.9
Contract assets	85.1	43.1	35.3	19.8
Capitalised contract costs	0.2	1.5	1.7	1.4
Due from associates & JV	119.7	121.9	130.1	142.7
Due from non-controlling int	-	0.3	0.3	0.3
Others	6.2	0.3	0.3	0.2
<b>Current assets</b>	<b>351.4</b>	<b>313.2</b>	<b>286.6</b>	<b>387.0</b>
<b>Total assets</b>	<b>368.6</b>	<b>321.0</b>	<b>300.5</b>	<b>412.4</b>
<b>Liabilities</b>				
Bank loans	82.1	9.5	6.1	68.0
Trade payables	5.2	2.3	1.4	4.7
Accruals and provisions	5.3	3.0	3.0	6.9
Due to related co	10.7	4.1	2.9	2.9
Due to associates & JV	12.9	2.5	0.8	1.0
Due to holding co	0.1	0.3	0.2	0.1
Due to non-controlling int	12.8	13.8	14.4	15.0
Income tax payable	0.0	2.0	3.2	4.2
<b>Current liabilities</b>	<b>129.0</b>	<b>37.4</b>	<b>32.0</b>	<b>102.9</b>
Bank loans	35.5	78.4	58.5	90.1
Deferred tax	4.3	3.7	3.2	1.5
Due to holding co	33.8	33.8	33.8	33.8
Investment in associates	-	9.4	12.3	12.5
<b>Non-current liabilities</b>	<b>73.6</b>	<b>125.3</b>	<b>107.9</b>	<b>137.8</b>
<b>Net assets</b>	<b>166.0</b>	<b>158.3</b>	<b>160.7</b>	<b>171.7</b>
<b>Equity</b>				
Share capital	146.2	146.2	146.2	146.2
Other reserves	(30.2)	(30.7)	(31.1)	(30.5)
Retained earnings	38.3	33.2	43.1	56.5
	<b>154.3</b>	<b>148.7</b>	<b>158.2</b>	<b>172.2</b>
Minority interests	11.7	9.6	2.4	(0.6)
<b>Total equity</b>	<b>166.0</b>	<b>158.3</b>	<b>160.7</b>	<b>171.7</b>

## Cash Flow

FYE 31 May (\$\$m)	FY18A	FY19A	FY20A	FY21A
Pretax profit	28.2	(2.2)	11.9	14.3
Depreciation & amortisation	6.1	2.4	2.3	2.3
Associates & JV	(2.5)	7.3	2.5	(6.8)
Net finance expense	3.2	0.8	0.2	(0.3)
Non-fund items	(7.5)	0.1	(1.1)	(0.5)
Working capital changes	(40.5)	12.5	21.5	(82.0)
Interest paid	(3.6)	(3.2)	(3.7)	(2.2)
Dividend from associates	19.4	15.3	2.1	-
Tax paid	(2.1)	-	(2.0)	(3.2)
<b>Operating cash flow</b>	<b>0.7</b>	<b>33.0</b>	<b>33.8</b>	<b>(78.5)</b>
Capex	(0.1)	(0.2)	(0.2)	-
Net investments	(2.4)	-	3.0	(0.2)
Fixed assets disposall	-	0.2	-	-
Others	(67.5)	(4.6)	(11.3)	(12.7)
<b>Investing cash flow</b>	<b>(70.0)</b>	<b>(4.6)</b>	<b>(8.5)</b>	<b>(12.9)</b>
<b>Free cash flow</b>	<b>(69.2)</b>	<b>28.3</b>	<b>25.3</b>	<b>(91.4)</b>
Dividend paid	(38.4)	(3.5)	(7.2)	(1.5)
Borrowings	79.9	(39.6)	(15.1)	93.7
Equity	52.6	-	-	-
<b>Financing cash flow</b>	<b>94.1</b>	<b>(43.1)</b>	<b>(22.3)</b>	<b>92.2</b>
<b>Net change</b>	<b>24.8</b>	<b>(14.8)</b>	<b>3.0</b>	<b>0.8</b>

## Ratios

FYE 31 May (\$\$m)	FY18A	FY19A	FY20A	FY21A
<b>Profitability (%)</b>				
Gross margin	19.7	27.7	40.5	25.5
EBIT margin	20.5	1.3	34.1	40.6
<b>Liquidity (x)</b>				
Current ratio	2.7	8.4	9.0	3.8
Net Debt/EBITDA	2.4	5.0	1.2	9.3
Interest coverage ratio	8.3	3.7	5.3	4.3
Net Debt to Equity (%)	40.1	32.6	15.7	68.6
<b>Valuation (x)</b>				
P/E	7.0	(21.8)	10.1	8.2
P/B	0.7	0.7	0.7	0.6
EV/EBITDA	6.2	20.3	7.4	21.9
<b>Cash Conversion Cycle</b>				
Trade receivable days	31.5	33.1	0.4	12.8
Inventory days	-	-	-	-
Trade payable days	15.3	24.3	18.9	54.4

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