SLB Development Ltd

1 August 2022

Non-Rated

BBG	SLB SP
Market cap	S$100.4m
Price (1 August 2022)	S$0.11
52-week range	S$0.101 – S$0.15
Target Price	Non-rated
Shares Outstanding	913m
Free Float	23%
Major Shareholder	Lian Beng Group Ltd 77.6%

P/BV (05/22)	0.5x
Net Debt to EBITDA (05/22)	4.3x

Source: Company data, Bloomberg, SAC Capital

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Buoyant residential sales lifted profit and cash flow

FY22 net earnings rose 97% to S$26.3m, underpinned by higher profit contribution from 51%-owned INSPACE (~S$5.6m) and three residential projects held at associate level which were substantially sold (pretax profit ~S$19.3m, +182% yoy). Thye Hong Building generated higher rental income of ~S$5m. Fund management fee was a marginal S$0.8m.

SLB has been adding land bank with two en bloc acquisitions: 1) a 10% stake in Peace Mansion (average land cost S$1,385 psf ppr) to be redeveloped into a mixed commercial and residential project; and 2) a 15% stake in Euro-Asia Apartments (at S$1,313 psf ppr) for residential development. We expect these projects to contribute from FY2024 (YE May), and command margin of 10-15%, supported by low inventory industry-wide.

It is also building recurring income through 1) rental income from Thye Hong Building, commercial building at North Canal Road (acquired for S$14.4m), office building in Melbourne (acquired for A$35.5m); 2) JV with Weave Living for co-living assets; and 3) fund management income.

Residential prices are likely to be supported by elevated land cost, but demand uncertainty is rising. In spite of the mid-Dec 2021 cooling measures, Singapore private home prices continued to climb, up 4.2% YTD (FY21: +10.6%). Units sold fell 26.6% to 12,154 (FY21: +60.5% to 33,557) while new units fell 34.6% to 4,222 (FY21: +30.5% to 13,027). 2H22 government land sale, comprising 3,505 units on confirmed list and 3,805 on reserve list, is also expected to add to new supply from 2024. Rising mortgage rates, however, could dampen demand and buyers' affordability.

Net debt of S$106.9m and net gearing at 0.52x are expected to further improve with ~S$140m to be received from associates from the residential sale. We expect an earnings lull in FY23, as higher rental income might not be sufficient to offset taper development gains.

Valuation. SLB trades at 0.5x of book value of $0.22/share.

YE 31 May (S$m)	FY18A	FY19A	FY20A	FY21A	FY22A
Revenue	154.4	47.6	46.2	42.4	92.8
EBIT	31.6	0.6	15.8	17.2	38.7
Net profit	15.6	(5.0)	10.8	13.4	26.3
EPS (S cents)	1.7	(0.6)	1.2	1.5	2.9
DPS (S cents)	0.1	0.1	-	0.1	0.2
Net cash / (debt)	(66.5)	(51.6)	(25.2)	(117.8)	(106.9)
Valuation					
EBIT margin (%)	20.5	1.3	34.1	40.6	41.7
ROIC (%)	2.7	(0.3)	1.8	1.6	2.5
EV/EBITDA (x)	5.9	19.2	6.9	21.0	10.7
P/E (x)	6.4	(20.0)	9.3	7.5	3.8
Dividend yield (%)	0.9	0.9	-	0.9	1.8

Income Statement

FYE 31 May (S$m)	FY19A	FY20A	FY21A	FY22A
Revenue	**47.6**	**46.2**	**42.4**	**92.8**
Cost of sales	(34.4)	(27.5)	(31.6)	(68.8)
Gross profit	**13.2**	**18.7**	**10.8**	**24.0**
Other income	2.3	5.6	6.1	7.7
Operating expenses	(7.5)	(5.9)	(6.6)	(12.3)
EBITDA	**7.9**	**18.3**	**10.4**	**19.4**
Associates & JV	(7.3)	(2.5)	6.8	19.3
Fair value change on invt property	-	-	-	-
EBIT	**0.6**	**15.8**	**17.2**	**38.7**
Finance costs	(2.8)	(3.9)	(3.0)	(3.5)
Pretax profit	(2.2)	11.9	14.3	35.2
Tax expense	(1.5)	(2.0)	(2.4)	(3.6)
Minority interests	(1.4)	0.9	1.5	(5.4)
Net profit	**(5.0)**	**10.8**	**13.4**	**26.3**

Balance Sheet

FYE 31 May (S$m)	FY19A	FY20A	FY21A	FY22A
Assets				
PPE	0.5	0.6	0.3	0.2
Associates & JV	3.2	2.4	10.2	24.3
Other investments	4.1	10.2	14.1	24.6
Deferred tax	-	0.7	0.8	-
Non-current assets	**7.8**	**13.9**	**25.4**	**49.1**
Cash	36.3	39.4	40.2	26.1
Trade receivables	4.3	0.1	1.5	1.4
Development properties	105.5	79.4	180.9	120.1
Contract assets	43.1	35.3	19.8	47.8
Capitalised contract costs	1.5	1.7	1.4	2.7
Due from associates & JV	121.9	130.1	142.7	157.1
Due from non-controlling int	0.3	0.3	0.3	0.3
Others	0.3	0.3	0.2	6.6
Current assets	**313.2**	**286.6**	**387.0**	**361.9**
Total assets	**321.0**	**300.5**	**412.4**	**411.0**
Liabilities				
Bank loans	9.5	6.1	68.0	35.9
Trade payables	2.3	1.4	4.7	5.2
Accruals and provisions	3.0	3.0	6.9	5.3
Due to related co	4.1	2.9	2.9	0.3
Due to associates & JV	2.5	0.8	1.0	1.4
Due to holding co	0.3	0.2	0.1	0.2
Due to non-controlling int	13.8	14.4	15.0	15.6
Income tax payable	2.0	3.2	4.2	2.1
Current liabilities	**37.4**	**32.0**	**102.9**	**65.8**
Bank loans	78.4	58.5	90.1	97.1
Deferred tax	3.7	3.2	1.5	1.5
Due to holding co	33.8	33.8	33.8	33.8
Investment in associates	9.4	12.3	12.5	8.0
Non-current liabilities	**125.3**	**107.9**	**137.8**	**140.4**
Net assets	**158.3**	**160.7**	**171.7**	**204.8**
Equity				
Share capital	146.2	146.2	146.2	146.2
Other reserves	(30.7)	(31.1)	(30.5)	(27.6)
Retained earnings	33.2	43.1	56.5	81.8
	148.7	**158.2**	**172.2**	**200.4**
Minority interests	9.6	2.4	(0.6)	4.4
Total equity	**158.3**	**160.7**	**171.7**	**204.8**

Cash Flow

FYE 31 May (S$m)	FY19A	FY20A	FY21A	FY22A
Pretax profit	(2.2)	11.9	14.3	35.2
Depreciation & amortisation	2.4	2.3	2.3	5.4
Associates & JV	7.3	2.5	(6.8)	(19.3)
Net finance expense	0.8	0.2	(0.3)	0.1
Non-fund items	0.1	(1.1)	(0.5)	0.6
Working capital changes	12.5	21.5	(82.0)	16.3
Interest paid	(3.2)	(3.7)	(2.2)	(2.8)
Dividend from associates	15.3	2.1	-	-
Tax paid	-	(2.0)	(3.2)	(5.0)
Operating cash flow	**33.0**	**33.8**	**(78.5)**	**30.4**
Capex	(0.2)	(0.2)	-	(0.1)
Net investments	-	3.0	(0.2)	0.5
Fixed assets disposall	0.2	-	-	-
Others	(4.6)	(11.3)	(12.7)	(18.6)
Investing cash flow	**(4.6)**	**(8.5)**	**(12.9)**	**(18.2)**
Free cash flow	**28.3**	**25.3**	**(91.4)**	**12.3**
Dividend paid	(3.5)	(7.2)	(1.5)	(1.3)
Borrowings	(39.6)	(15.1)	93.7	(25.1)
Equity	-	-	-	-
Financing cash flow	**(43.1)**	**(22.3)**	**92.2**	**(26.4)**
Net change	**(14.8)**	**3.0**	**0.8**	**(14.1)**

Ratios

FYE 31 May (S$m)	FY19A	FY20A	FY21A	FY22A
Profitability (%)				
Gross margin	27.7	40.5	25.5	25.8
EBIT margin	1.3	34.1	40.6	41.7
Liquidity (x)				
Current ratio	8.4	9.0	3.8	5.5
Net Debt/EBITDA	5.0	1.2	9.3	4.3
Interest coverage ratio	3.7	5.3	4.3	7.1
Net Debt to Equity (%)	32.6	15.7	68.6	52.2
Valuation (x)				
P/E	(20.0)	9.3	7.5	3.8
P/B	0.7	0.6	0.6	0.5
EV/EBITDA	19.2	6.9	21.0	10.7
Cash Conversion Cycle				
Trade receivable days	33.1	0.4	12.8	5.5
Inventory days	-	-	-	-
Trade payable days	24.3	18.9	54.4	27.6

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