

Design Studio

Proxy for Singapore's growth

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Services

DSFMSP / DESS.SI

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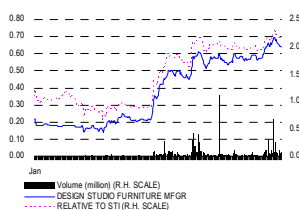
- Poised for growth.** Design Studio is one of Singapore's leading customised furniture manufacturers and interior fit-out specialists. We believe this stock would be re-rated further as a beneficiary of Singapore's growing population and influx of tourists when its two integrated resorts start full operations.
- Pipeline of residential property projects.** Design Studio has secured contracts for key residential developments. Given that it is a market leader in customised furniture manufacturing, it would be well positioned to tap a pipeline of more than 30k residential units which are slated for completion by 2012.
- Hospitality industry boom benefits interior fit-out specialists.** In Singapore, we anticipate that tourist arrivals will surpass 10m comfortably by 2010. To meet the demand, 11k new hotel rooms have been slated for completion by 2012. Existing hotels may also refurbish hotel rooms, given intensifying competition in the market.
- Attractive valuations.** Design Studio is trading at 4.1x CY11 consensus earnings vs. the 6.4x average for its peers. We believe it should be trading closer to its peers. Furthermore, forecast dividend yields (consensus) are attractive at 5-8%.

Financial summary

FYE Dec	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	76.4	74.4	112.0	150.0	173.0
EBITDA (S\$ m)	13.6	18.3	30.3	39.2	45.1
EBITDA margins (%)	17.7	24.7	27.1	26.1	26.1
Pretax profit (S\$ m)	11.0	15.3	33.0	40.8	47.3
Net profit (S\$ m)	8.8	12.8	27.1	33.5	38.8
EPS (S cts)	4.0	5.0	11.0	13.0	15.0
EPS growth (%)	+52%	+24%	+120%	+18%	+15%
P/E (x)	15.1	12.2	5.5	4.7	4.1
Core EPS (S cts)	4.0	5.0	11.0	13.0	15.0
Core EPS growth (%)	+52%	+24%	+120%	+18%	+15%
Core P/E (x)	15.1	12.2	5.5	4.7	4.1
FD EPS (S cts)	4.0	5.0	11.0	13.0	15.0
FD P/E (x)	15.1	12.2	5.5	4.7	4.1
Gross DPS (S cts)	1.5	1.0	3.2	3.9	4.6
Dividend yield (%)	2.5	1.6	5.3	6.4	7.6
P/NTA (x)	3.8	3.0	2.3	1.7	1.4
ROE (%)	30.1	27.5	45.3	43.0	39.0
Net cash per share (S cts)	7.0	10.0	12.0	17.0	26.0
P/CF (x)	12.5	9.0	6.4	4.7	4.3
EV/EBITDA (x)	9.3	6.5	4.1	3.2	2.7

Source: Company, CIMB-GK Research, Bloomberg

Price chart



Source: Bloomberg

Market capitalisation & share price info

Market cap	S\$154.4m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.10/S\$0.72	Relative	6.0	3.3	115.6
3-mth avg daily volume	S\$0.52m	Absolute	0.8	7.1	233.3
# of shares (m)	255.1	Major shareholders			% held
Est. free float (%)	41	Depa United Group			24.7
Conv. secs (m)	-	Straits Construction			16.1
Conv. price (S\$)	-	Bernard Lim			5.8

Source: Company, CIMB-GK Research, Bloomberg

Background

Leading furniture products specialist. Design Studio was established in 1994 as a bedroom furniture/interior renovation company by Bernard Lim and Jeremy Koh. In 1996, the group expanded into interior fitting-out for residential, commercial and retail properties, and the manufacturing and installation of panelling products. The group was listed on SGX in Jan 03.

Design Studio stands out as one of Singapore's leading specialists in the manufacturing, distribution and installation of furniture products. It has a competitive edge in its ability to develop numerous latest technologies, innovative methodologies and ideas to produce premium panelling & thermoformed products under house brands, PANELZ and i.FORMZ.

Figure 1: Completed projects

USA

William Weaver House, New York
Gramercy Park Hotel, New York
The Platinum, New York
The Beacon, New York
Trump International Hotel Tower, Las Vegas

Japan

Akasaka Tower, Tokyo
Amex Otori, Tokyo
Brillia Tower, Tokyo
Tokyo Midtown, Roponggi, Tokyo
Saisakei Hospital, Tokyo

UAE

Crowne Plaza Hotel, DFC, Dubai
Shoreline Apartments@Palm Jumeriah, Dubai
Rose Tower, Dubai
Intercontinental Hotel, DFC, Dubai

Thailand

Bangkok Residences & Radisson Hotel, Bangkok
59 Heritage, Tower A, Bangkok
Oakwood Residence, Sukhumvit, Bangkok
Hyde Park, Bangkok

Singapore

The Sail@Marina Bay
The Ladyhill
Admore Park
Light@Cairnhill
The Cosmopolitan
St. Regis Singapore
Crown Plaza Hotel@ T3
Duke-NUS Medical School
Novotel Clarke Quay
The Fullerton

Malaysia

Twenty Trees, KL
The Mertiz, KL
Park Seven, KL

Source: Company, CIMB-GK Research

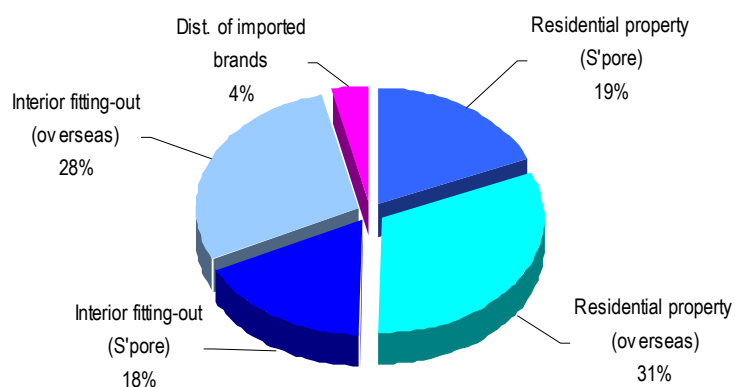
Integrated business. Design Studio has complementary businesses, which allow it to provide clients with integrated services. It is equipped with the expertise to provide and install furniture products, including its in-house brand products for residential and hotel developments. In addition, it advises clients on product designs, material usage, value-added solutions and costing from the planning stage to final execution. Also, it is able to provide clients with branded products such as SieMatic kitchens and DuPont™ Corian® solid surface.

Customised furniture provider. The group operates four production facilities in Singapore and Senai, Malaysia which manufactures case goods, architectural wood works, doors, frames, system kitchens, wardrobes, vanity cabinets and wall panels.

Business segments

Design Studio has three core businesses: 1) residential property - the supply and installation of manufactured products such as kitchen cabinets, vanity cabinets, wardrobes, doors and door frames; 2) interior fitting-out – a complete suite of interior fitting-out services to hospitality & commercial developments; and 3) the distributorship of imported brands in Singapore.

Figure 2: Revenue breakdown (9M09)



Source: Company, CIMB-GK Research

Residential property projects form the backbone of its business, at 50% of its revenue. The group manufactures a wide range of panelling products such as kitchen and vanity cabinets, wardrobes, doors and doorframes. Clients include Singapore-based residential and hotel developers such as CityDev, Keppel Land, Wheelock Properties and Wing Tai. Overseas clients include Emaar Properties in Dubai and VCAL Business Group in Thailand. Design Studio liaises directly with developers, architects, interior designers and main contractors. Projects take 1-2 years to complete, from the contract-win stage.

Figure 3: Residential projects secured (expected to be completed in FY10-11)

Developer	Project	Location	Nature of job
City Developments	Livia	Singapore	Supply & installment of doors and vanity cabinets to 724 units
City Developments	Quayside	Singapore	Supply & installment of kitchen cabinets, wardrobes and vanity cabinets to 228 units
Keppel Land	Reflections@Keppel Bay	Singapore	Supply & installment of kitchen cabinets, wardrobes and vanity cabinets to 1129 units
SPH	Sky@eleven	Singapore	Supply & installment of kitchen cabinets, wardrobes and vanity cabinets to 273 units
Wheelock	Scotts Square	Singapore	Supply & installment of SieMatic kitchens to 338 units
City Developments	Tribeca	Singapore	Supply & installment of kitchen and vanity cabinets to 175 units
NTUC Choice Homes/Ho Bee	Dakota Residences	Singapore	Supply & installment of kitchen cabinets, wardrobes and vanity cabinets to 340 units
SC Global	Marq@Paterson	Singapore	Supply & installment of kitchen cabinets & wardrobes to 66 units
Emaar	Burj Khalifa	Dubai	Supply & installment of doors, kitchens, wardrobes, vanity cabinets, wall panels & other joinery to 899 units
Mubadala and CapitaLand	Rihan Heights	Abu Dhabi	Supply & installment of doors, kitchens, wardrobes & vanity cabinets to 858 units

Source: Company, CIMB-GK Research

Figure 4: Clients include large property developers and contractors

Developers	Builders/contractors
Keppel Land International Ltd (S'pore)	Woh Hup (Pte) Ltd
Mubadala Capitaland Real Estate L.L.C. (Abu Dhabi)	Silver Coast- Sunway Innopave JV (Abu Dhabi)
City Developments Ltd (S'pore)	Tiong Seng Contractors (Pte) Ltd
SC Global Developments Ltd. (S'pore)	Depa Interiors LLC (Dubai)
Emaar (Dubai)	DDS Contracts & Interior Solutions Pte Ltd
Guoccoland Limited (S'pore)	Dragages Singapore Pte Ltd
Wing Tai Holdings Limited (S'pore)	Poh Lian Construction Pte Ltd
Wheelock Properties (S) Ltd (S'pore)	Keong Hong Construction Pte Ltd
Marina Bay Sands Pte Ltd (S'pore)	Obayashi Corporation (S'pore)
Singapore Press Holdings (S'pore)	China Construction (South Pacific) Pte Ltd

Source: Company, CIMB-GK Research

Owns two in-house brands. In 2001, Design Studio developed its PANELZ range of panelling products, including doors, doorframes, system kitchens and wardrobes that are wrapped in select veneer, vinyl or laminate materials. In 2004, it developed i.FORMZ, a range of products made exclusively with DuPont™ Corian® solid surface. i.FORMZ can be thermoformed and moulded into any shape, size or texture. Products include thermoformed basins, sinks and integrated tops with sinks.

Interior fit-out projects account for some 46% of its revenue. Design Studio provides fit-out, turnkey, and alteration & addition (A&A) services, and supplies furniture, fixtures and equipment (FF&E) to projects outside Singapore, Malaysia, Indonesia, Vietnam and Thailand. It also provides joinery products and installation services to domestic hospitality and commercial projects. Projects completed include Trump Tower in Las Vegas and St. Regis Hotel in Singapore. The turnaround period is 3-6 months for interior fit-out projects.

JV income coming from DDS. DDS (Depa Design Studio) is a JV between Depa (55%) and Design Studio (45%), to provide interior fitting-out work for hospitality and commercial projects in Singapore, Malaysia, Indonesia, Vietnam and Thailand. Each country will set up respective companies to bid for projects. Depa Limited is a global interior contracting company specialising in full-scope turnkey fit-out and the furnishing of five-star hotels, yachts, apartments, and other fine private and public facilities in Dubai and other parts of the world.

Figure 5: Singapore interior fitting-out projects

Developer	Project	Location
MBS	Marina Bay Sands	Supply & installation of joinery to Tower 1, VIP Suites and basement
RWS	Resorts World Sentosa Casino	Supply & installation of joinery including gaming & non gaming tables & chairs to Casino
Pontiac Land Group	Capella Singapore	Supply & installation of interior fit-out solutions to hotel guest rooms, suites, villas & other public areas (except F&B outlets)
OUE	Meritus Mandarin	Supply & installation of interior fit-out solutions to 5th and 6th storeys incl. lobby, speciality restaurants and bars

Source: Company, CIMB-GK Research

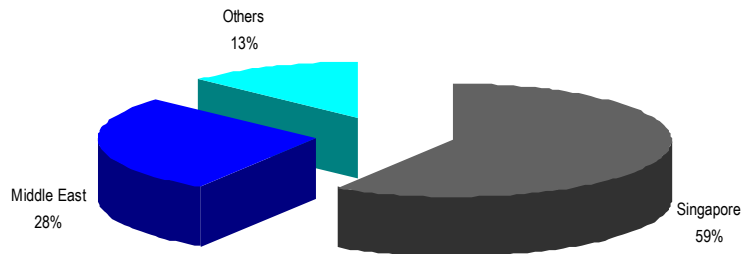
Figure 6: Overseas interior fitting-out projects

Developer	Project	Location
Meydan Group	Al Meydan Hotel, Dubai	Supply & installation of joinery to hotel guest rooms
Aldar Properties	Marina Hotel, Abu Dhabi	Supply & installation of joinery to 499 hotel guest rooms and suites
Aldar Properties	Crowne Plaza Hotel, Abu Dhabi	Supply & installation of joinery to 428 hotel guest rooms and suites
Union Properties	Ritz Carlton	Supply & installation of joinery to hotel guest rooms, suites and service residences

Source: Company, CIMB-GK Research

Distributorship accounts for around 4% of revenue. Design Studio distributes SieMatic kitchens (German high-end fitted kitchens and kitchen features) and DuPont™ Corian® solid surface from the US.

Figure 7: Revenue breakdown according to region (9M09)

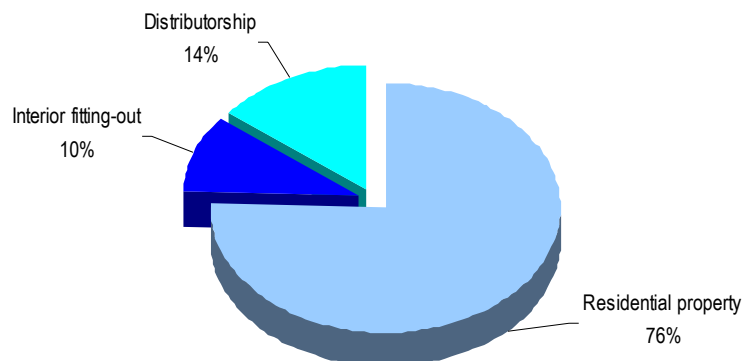


Source: Company, CIMB-GK Research

Outlook

Order-book value. As at end-Sep 09, Design Studio had an order book of S\$172m. Residential properties accounted for the bulk of this value (76%), while interior fit-out projects and distributorship accounted for 10% and 14%, respectively.

Figure 8: Order-book breakdown



Source: Company, CIMB-GK Research

Demand to come from residential-property developers. Persistently low interest rates and a growing population are expected to bolster demand for residential properties. Last year, SingStat reported the addition of 148k to Singapore's population in a recessionary period from Jul 08 to Jul 09. The increase was made possible by the addition of 36k citizens, 55k Singapore permanent residents and 57k foreigners. We expect population growth to be sustainable on the back of increasing job hires as the economy improves. Also, we reckon that high rollers visiting casinos in the two new integrated resorts may consider buying residential homes in Singapore as investment or holiday homes. Given that Design Studio as a leading furniture manufacturer and interior fitting-out specialist in Singapore, it should be well positioned to tap the pipeline of more than 30k residential units which are slated for completion by 2012.

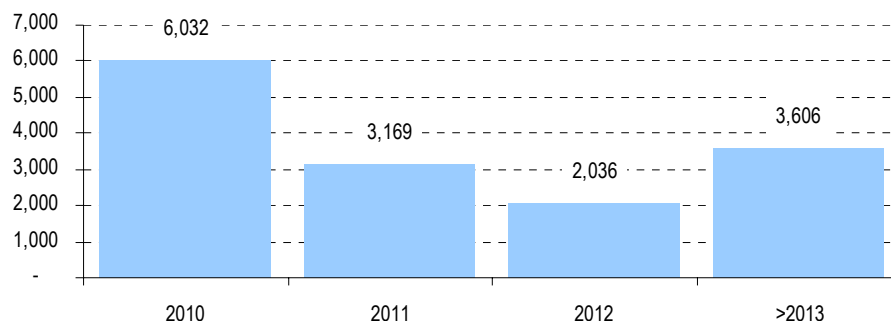
Figure 9: Pipeline supply of private residential units as at end-3Q09

	2010	2011	2012	2013	>2013	Total
Under construction	5,737	9,103	7,521	6,361	1,646	30,368
Planned	-	2,564	5,470	8,217	11,304	27,555
Total	5,737	11,667	12,991	14,578	12,950	57,923

Source: URA, CIMB-GK Research

More than 14k hotel rooms over next 4-5 years. Design Studio's associate company, DDS, could be a beneficiary of a hotel-room boom. We anticipate that tourist arrivals will surpass 10m comfortably by 2010. Apart from the opening of the resorts, a seamless chain of attractions around Marina Bay would be up-and-running by then while the rejuvenation of Orchard Road would have been completed. In 2007-08, tourist arrivals breached the 10m mark. Over the past few years, their average length of stay had been climbing. The trend should be reinforced by the opening of the two resorts, in our view. Officially, Singapore wants to welcome 17m tourists who will stay 4.5 days on average by 2015. Our house estimates 15.9m tourist arrivals by 2015. Existing hotels may also refurbish hotel rooms, given intensifying competition in the hospitality industry.

Figure 10: Pipeline supply of hotel rooms as at end-3Q09



Source: URA, CIMB-GK Research

Figure 11: Singapore hotels were the best performer in Asia Pacific (Nov 09)

Country	Occupancy	% change	ARR	% change	RevPAR	% change
Australia	78.3%	0.2%	A\$168.34	-4.6%	A\$131.79	-4.4%
China	60.7%	6.2%	Rmb728.09	-10.5%	Rmb442.25	-5.0%
India	71.2%	3.6%	Rp7375.67	-23.7%	Rp5252.38	-21.0%
Japan	73.1%	-5.2%	¥13888.61	-9.6%	¥10155.30	-14.5%
Singapore	83.4%	8.2%	S\$247.72	-11.3%	S\$214.93	-4.1%

Source: STR Global, CIMB-GK Research

Synergistic relationship with major shareholder. DDS (45% owned by Design Studio, 55% by Depa) has secured interior fit-out projects amounting to S\$155.6m. Projects under DDS include sections of the Marina Bay Sands (MBS) resort, RWS casino and sections of Hotel Meritus Mandarin. We note that Depa owns 25% of Design Studio. We believe the DDS JV will benefit from this relationship and expect more contract wins in the region.

Figure 12: Segmental breakdown

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Source: Company, CIMB-GK Research

Figure 13: SWOT analysis

Strengths	Opportunities
<ul style="list-style-type: none"> Manufactures customised furniture for residential properties and hotels Counts leading residential developers amongst its clients Depa as major shareholder is likely to refer projects to the group 	<ul style="list-style-type: none"> More than 30k residential units slated for completion by 2012 More than 11k new hotel rooms targeted for completion by 2012 Expansion into overseas markets
Weaknesses	Threats
<ul style="list-style-type: none"> Limited visibility given short term contracts Dependent on property market 	<ul style="list-style-type: none"> Intensifying competition in the sector Vulnerable to economic downturns in Singapore and Middle East

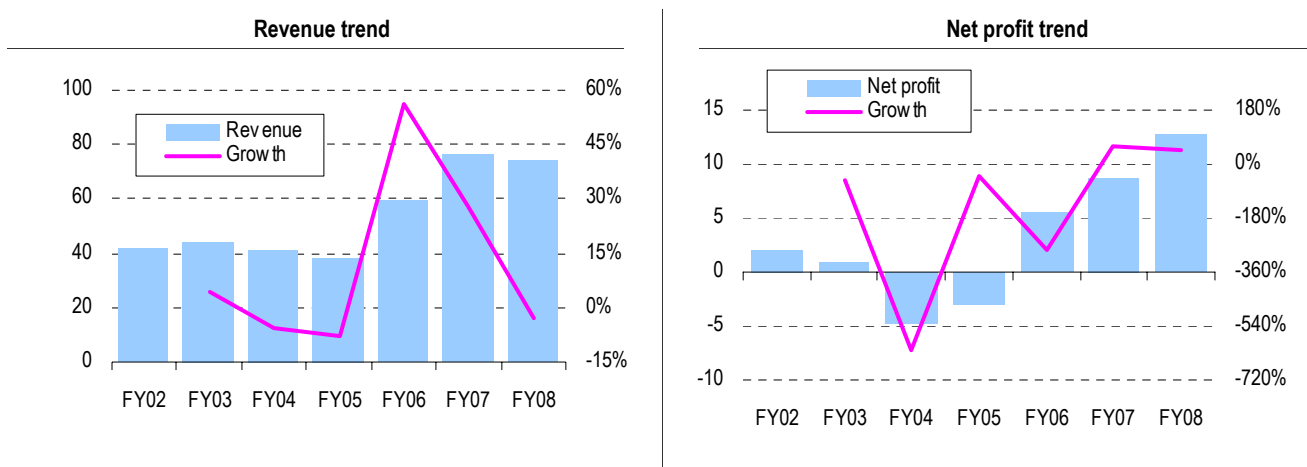
Source: Company, CIMB-GK Research

Financials

9M09 results review. 9M09 revenue rose 91.9% yoy to S\$89.2m on broad-based growth. Revenue from residential properties increased 50.9% yoy to S\$44.9m while revenue from interior fitting-out rose 177% to S\$41.1m. Revenue from distributorship increased 70% yoy to S\$3.2m. Gross margin expanded by 3.2% pts yoy to 31.1% on better utilisation of resources. Profit from the DDS JV improved from a loss of S\$0.3m in 9M08 to a gain of S\$1.8m in 9M09. Net earnings were S\$18.7m, up 184.7% yoy. We believe that the consensus forecast for FY09 earnings of S\$27.1m is achievable, based on the YTD performance. Earnings in 4Q09 are likely to be boosted by revenue recognition.

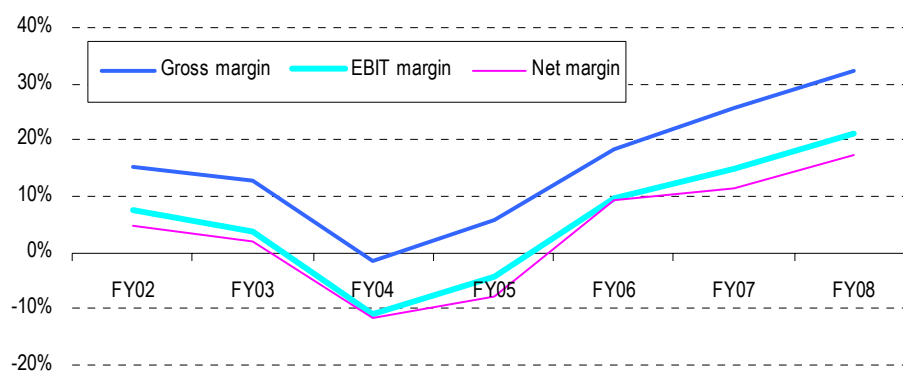
Growth in 2010-12. We believe that growth will be sustainable on the back of a solid order book, driven by: 1) the supply of more than 30k residential units and more than 11k new hotel rooms which would be completed by 2012; 2) growth in overseas markets; and 3) potential project wins once more casinos/resorts open in the region. Consensus is forecasting a dividend payout ratio of 30%.

Figure 14: Financial highlights



Source: Company, CIMB-GK Research

Figure 15: Margin trend



Source: Company, CIMB-GK Research

Valuation

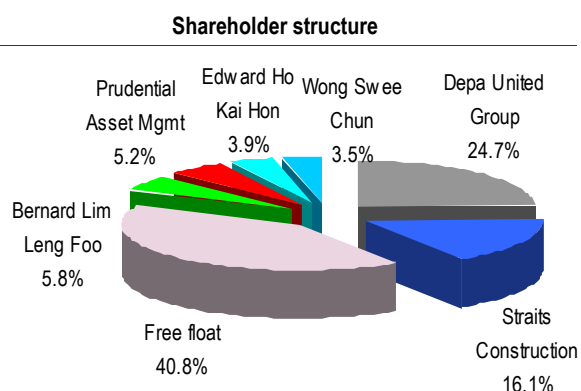
Trades at a discount to regional peers. Based on consensus earnings, the stock is trading at 4.1x consensus earnings, cheaper than its regional peers (average of 6.4x) due partly to its smaller market capitalisation. Given expectations of a growing population in Singapore and emerging markets, and a return of tourist dollars to the region, we believe the stock is due for a re-rating. We reckon that it should be trading closer to its peers. The key disadvantages of the stock are its small market capitalisation (S\$154.4m) and its exposure to Dubai.

Figure 16: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt. cap (US\$ m)	Core P/E (x) CY2010	Core P/E (x) CY2011	3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
Design Studio	DSFM SP	NR	0.61	NA	109.4	4.7	4.1	44.7	1.8	43.0	6.4
Kingsmen Creative	KMEN SP	NR	0.56	NA	79.1	6.9	6.8	4.6	1.9	28.3	5.2
Depa	DEPA DU	NR	0.53	NA	332.2	4.6	4.4	6.0	0.7	12.8	5.7
Pico Far East	752 HK	NR	1.41	NA	217.3	9.4	8.0	10.0	1.7	18.7	6.4
Simple Average (ex-Design Studio)						6.8	6.4	5.5	1.4	19.9	5.8

O = Outperform, N = Neutral, U = Underperform, NR = Not Rated, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

Figure 17: Background information



Management team

Name	Position
Bernard Lim	Executive Chairman, CEO
Elin Wong	Executive Director
Kelly Ng	Executive Director
Jeremy Koh	Director
Edward Ho	Admin Director (Dubai)
Michael Leong	Project Director (Dubai)
Lim Thiam Hock	Logistics Manager
See Beng Koon	Factory Manager

Source: Company, CIMB-GK Research

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RECOMMENDATION FRAMEWORK #1*

STOCK RECOMMENDATIONS

OUTPERFORM: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

RECOMMENDATION FRAMEWORK #2 **

STOCK RECOMMENDATIONS

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.