CIMB

COMPANY VISIT

4 December 2007

SINGAPORE

Tiong Woon Corporation

Business on track, Middle East kicks off

OUTPERFORM	Maintained
S$0.895	@03/12/07
Target: S$1.50	Mkt.Cap: S$306m
	Construction

TWC SP / TION.SI **Lawrence LYE** +65 6210 8994 – lawrence.lye@cimb.com

- **Positive meeting.** We met TWC's management yesterday and were assured that business remains on track and that the outlook remains excellent with strong customer demand. TWC has also secured its commercial registration licence to operate in Saudi Arabia, and plans to roll out there very soon.
- **Progress on maiden contract and Bintan.** On the NorCE contract worth S$64.8m clinched in Sep 07, progress has been good with 4% completion by end-Oct 07 and a further 2-4% at end-Nov 07. Progress will gain momentum from 1Q08 onwards and could hit about 40-50% by mid-2008. With this milestone, management is expected to accept more contracts.
- **It's never too late.** Despite being a latecomer in fabrication and engineering services, TWC has the advantage of not having to tender competitively with a relatively low-risk entry point and good customer demand visibility for 3-5 years. Management's strategy to engage in projects whereby the customer procures and provides materials and components mitigates the financial penalties from delays due to component shortages and rising component prices.
- **Middle East foray.** The incorporation of its subsidiary TWC Arabia, and award of the commercial registration licence in Saudi Arabia mark the start of TWC's entry into the Middle East. Management plans to expand its crane fleet from 50 to 150 units within the next two years to focus on the oil and gas segment.
- **Maintain Outperform and target price of S$1.50,** set at 15x CY08 P/E, comparable to valuations for SGX-listed peers in the construction industry. TWC continues to offer value at 9.0x CY08 P/E against a 3-year core earnings CAGR forecast of 50.3%.

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (S$ m)	69.2	99.8	150.5	219.1	302.2
EBITDA (S$ m)	25.7	35.0	49.2	68.2	91.8
EBITDA margins (%)	37.1	35.0	32.7	31.1	30.4
Pretax profit (S$ m)	12.6	25.1	31.9	47.5	67.5
Net profit (S$ m)	9.0	22.7	26.9	40.1	57.1
EPS (cts)	2.7	6.7	8.0	12.0	17.0
EPS growth (%)	-10%	153%	19%	49%	42%
P/E (x)	33.5	13.3	11.1	7.5	5.3
Core EPS (cts)	2.7	5.0	8.0	12.0	17.0
Core EPS growth (%)	-10%	88%	60%	49%	42%
Core P/E (x)	33.5	17.9	11.1	7.5	5.3
Gross DPS (cts)	0.3	1.0	1.4	1.8	2.2
Dividend yield (%)	0.3%	1.1%	1.6%	2.0%	2.5%
P/NTA (x)	3.5	2.8	2.2	1.7	1.2
ROE (%)	10%	21%	20%	22%	23%
Net gearing (%)	30%	48%	33%	13%	-8%
P/CF (x)	14.6	8.3	7.2	5.3	4.0
EV/EBITDA (x)	13.9	10.2	7.3	5.2	3.9
CIMB-GK/Consensus (x)	-	-	1.08	1.24	1.50

Source: Company, CIMB-GK estimates, Reuters Estimates

Price chart

Source: Bloomberg

Market capitalisation & share price info

Market cap	S$305.5m
12-mth price range	S$0.29/S$1.26
3-mth avg daily volume	S$2.39m
# of shares (m)	337.6
Est. free float (%)	48

Share price perf. (%)	**1M**	**3M**	**12M**
Relative	(8.8)	(11.7)	152.7
Absolute	(7.2)	(4.6)	249.2
Major shareholders			**% held**
Ang Choo Kim & Sons			42.7

Source: Company, CIMB-GK estimates / Research, Bloomberg, Reuters Estimates

Update

Recent meeting. We met key management yesterday for a business update and were assured that business remains on track and that the outlook remains excellent. The company has just secured its commercial registration licence to operate in Saudi Arabia, which means that it can now proceed with plans to establish its presence there.

Heavy lift and haulage and marine transportation. Management remains optimistic on market prospects as demand from customers continues to be robust. With a greater number of onshore oil & gas facilities being installed, TWC can hope to secure a continuous stream of contracts from customers as they schedule maintenance and repair activities. Margins have been improving as well as customers are willing to accept higher charges as TWC would pass on higher operating costs. Gross margins are estimated to be in the higher 30s, which we believe are sustainable for the next 2-3 years on the back of strong demand for TWC's expertise. Management plans to add 20 units of cranes in mid-2008 to its current fleet of about 300 units.

Progress at Bintan yard. While operations continue on the developed portion of the yard, TWC would likely spend a further S$3m-4m in the near term to improve facilities. The Bintan yard is an important asset to the group as it can propel it into the oil & gas business, in our view. The yard would also boost earnings given its better margins. The yard's expertise includes oil & gas offshore platforms, marine vessel fabrication and repair services, blasting and painting work, and heavy steel module fabrication. There are currently about 300 staff, including 80 permanent staff. The workforce is expected to rise to 1,100 in Mar/Apr 08, and 2,000 by end-2008.

Progress on maiden contract. TWC had secured its maiden contract from NorCE in Sep 07, worth S$64.8m for a derrick pipelay barge for delivery in Dec 08. Management disclosed that completion was only about 4% as at end-Oct 07, and expects another 2-4% more for end-Nov 07. Progress is expected to gain momentum in 1Q08, and hit about 40-50% completion by Jun-Jul 08. More importantly, when TWC achieves this milestone, management would likely be accepting new orders from NorCE, after demonstrating its capabilities, quality standards and ability to deliver. We believe NorCE has options for an additional 1-2 such vessels, which is typical among customers in this industry.

It's never too late. While TWC is a latecomer to the oil & gas fabrication and engineering business, we reiterate that it has certain interesting advantages. With many yards in the region running at full capacity and order books stretching into 2012, TWC's entry is highly opportune, in our view. TWC does not have to tender competitively for contracts, and is already receiving inquiries without any marketing. Demand visibility is good for 3-5 years. In addition, management's strategy is to engage in fabrication work whereby the customer procures and provides the materials and components while TWC provides fabrication and assembly services. This will ensure that TWC does not bear the financial consequences of any component shortages and project delays.

Middle East, here we come. With TWC's recent registration in Saudi Arabia, management is now able to proceed with its Middle East expansion. TWC Arabia Ltd will focus on installation, lifting, maintenance services for oil and gas, petrochemical and other electric power-related projects, as well as marine transportation services. Management also alluded to plans to expand its crane fleet in the Middle East from 50 units to 150 within the next two years. We believe the Middle East will be an interesting business area for TWC, with the potential for upside surprises.

Existing business remains robust; improving margins. TWC owns over 300 cranes and various construction and transportation equipment, rivalled only by Tat Hong, which is the world's largest crawler crane leasing company. However, TWC's fleet configuration is different in two aspects: 1) its fleet is more integrated with its land haulage and marine logistics businesses; and 2) its focus is primarily on the oil & gas industry. With the boom in oil & gas and construction, gross margins have been improving – from 35.6% in FY05 to 36.7% in FY06 and 39.8% in FY07. Despite our overall optimism, we have elected to be conservative in our assumption of a 39.1% gross margin for the group in FY08, mainly to factor in expenses related to the gestation of the Bintan yard and the Soon Douglas tower-crane business.

Valuation and recommendation

Maintain Outperform and target price of S$1.50, set at 15x CY08 P/E, comparable to valuations for SGX-listed peers in the construction industry. We are keeping our forecasts unchanged for now. TWC continues to offer value at 9.0x CY08 P/E, in our view, against a 3-year core earnings CAGR forecast of 50.3%.

Financial tables

PROFIT & LOSS (S$ m, FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue	69.2	99.8	150.5	219.1	302.2
Operating expenses	(43.5)	(64.9)	(101.2)	(150.9)	(210.5)
EBITDA	25.7	35.0	49.2	68.2	91.8
Depreciation & amortisation	(11.7)	(13.8)	(14.6)	(16.8)	(18.9)
EBIT	14.0	21.2	34.6	51.4	72.9
Net interest & invt income	(1.4)	(1.9)	(2.7)	(3.9)	(5.4)
Associates' contribution	0.0	-	-	-	-
Exceptional items	-	5.8	-	-	-
Pretax profit	**12.6**	**25.1**	**31.9**	**47.5**	**67.5**
Tax	(3.4)	(2.1)	(4.7)	(7.1)	(10.1)
Minority interests	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Net profit	**9.0**	**22.7**	**26.9**	**40.1**	**57.1**
Wt. shares (m)	337.6	337.6	337.6	337.6	337.6
Shares at year-end (m)	337.6	337.6	337.6	337.6	337.6

BALANCE SHEET (S$ m, as at 30 Jun)	2006	2007	2008F	2009F	2010F
Fixed assets	109.1	154.9	175.3	193.5	209.6
Intangible assets	-	-	-	-	-
Other long-term assets	0.1	0.1	0.1	0.1	0.1
Total non-current assets	**109.2**	**155.1**	**175.4**	**193.6**	**209.7**
Cash and equivalents	9.6	13.6	25.5	51.3	101.7
Stocks	0.5	1.3	2.1	3.0	4.1
Trade debtors	23.6	30.4	41.2	57.0	74.5
Other current assets	2.3	6.3	6.6	9.5	12.9
Total current assets	**36.0**	**51.6**	**75.5**	**120.8**	**193.2**
Trade creditors	8.8	16.7	26.8	37.8	49.7
Short-term borrowings	15.1	29.0	31.3	33.4	37.1
Other current liabilities	2.1	1.8	3.8	4.0	4.6
Total current liabilities	**26.0**	**47.5**	**61.9**	**75.3**	**91.4**
Long-term borrowings	20.3	36.8	39.1	41.3	44.9
Other long-term liabilities	9.1	10.6	11.6	12.8	14.1
Total long-term liabilities	**29.4**	**47.4**	**50.7**	**54.1**	**59.0**
Shareholders' funds	**85.9**	**108.0**	**134.3**	**180.8**	**248.0**
Minority interests	3.9	3.7	4.0	4.3	4.6
NTA/share (S$)	0.25	0.32	0.40	0.54	0.73

CASH FLOW (S$ m, FYE Jun)	2006	2007	2008F	2009F	2010F
Pretax profit	12.6	25.1	31.9	47.5	67.5
Depreciation & non-cash adjustments	11.5	8.5	18.3	20.4	22.1
Working capital changes	(6.7)	(1.8)	(4.0)	(8.5)	(10.2)
Cash tax paid	3.1	1.1	4.3	6.4	9.1
Others	(12.8)	(18.9)	(3.2)	(3.3)	(3.3)
Cash flow from operations	**7.6**	**14.0**	**47.2**	**62.4**	**85.2**
Capex	(27.3)	(36.9)	(35.0)	(35.0)	(35.0)
Net investments & sale of FA	2.2	(0.5)	3.6	3.6	3.6
Others	0.2	0.1	0.3	0.6	1.3
Cash flow from investing	**(24.9)**	**(37.2)**	**(31.1)**	**(30.8)**	**(30.1)**
Debt raised/(repaid)	(11.8)	13.8	1.5	1.4	4.3
Equity raised/(repaid)	22.9	-	-	-	-
Dividends paid	(1.0)	(1.5)	(4.7)	(6.1)	(7.4)
Cash interest & others	(1.3)	(1.8)	(4.0)	(4.2)	(4.5)
Cash flow from financing	**8.8**	**10.6**	**(7.2)**	**(8.9)**	**(7.7)**
Change in cash	**(8.4)**	**(12.7)**	**9.0**	**22.8**	**47.4**
Change in net cash/(debt)	**3.4**	**(26.5)**	**7.5**	**21.4**	**43.1**
Ending net cash/(debt)	**(25.8)**	**(52.3)**	**(44.8)**	**(23.4)**	**19.7**

KEY RATIOS (FYE Jun)	2006	2007	2008F	2009F	2010F
Revenue growth (%)	(1.9)	44.3	50.7	45.6	38.0
EBITDA growth (%)	(0.8)	36.1	40.8	38.6	34.6
Pretax margins (%)	18.2	25.1	21.2	21.7	22.3
Net profit margins (%)	13.0	22.8	17.9	18.3	18.9
Interest cover (x)	9.7	13.8	12.7	13.0	13.3
Effective tax rates (%)	26.9	8.3	14.9	14.9	14.9
Net dividend payout (%)	11.2	14.8	17.4	15.0	12.9
Debtors turnover (days)	111.1	98.6	86.8	81.8	79.4
Stock turnover (days)	3.2	3.4	4.1	4.2	4.3
Creditors turnover (days)	49.5	46.6	52.8	53.8	52.8

Source: Company, CIMB-GK estimates

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