

# Tiong Woon Corporation

Positive impressions from Bintan

OUTPERFORM	Maintained
<b>S\$ 1.11</b>	@28/09/07
Target: S\$1.50	Mkt.Cap: S\$375m
	Construction

TWC SP / TION.SI

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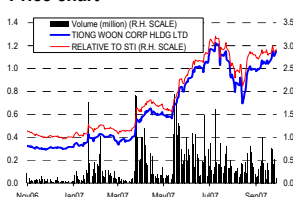
- **Positive yard visit.** We were impressed during our recent yard visit by the facilities and operations that TWC has put in place and the progress that TWC Oil & Gas Services has made since May 07, when it received all the relevant licences to operate the yard. The facility was only purchased in Nov 06, but TWC has already cleared a significant area for fabrication activities and built six workshops.
- **Expertise clearly in place.** Despite its short operating history, TWC Oil & Gas has demonstrated its expertise with the completion of its barge, the bagging of a derrick pipelay barge contract from NorCE and jacket pile fabrication work for Murphy Oil. The yard boasts capabilities in oil & gas offshore platforms, marine vessel fabrication and repair, blasting and painting work, and heavy steel module fabrication.
- **Latecomer benefits.** With regional yards running at full capacity till 2012, TWC is in a position to choose its customers with the best margins and payment terms, and clinch contracts without having to bid aggressively.
- **Contracts for yard provide earnings upside.** Possible new contracts can come from module fabrication e.g. topsides for FPSOs and jacket piles, offshore vessels like AHTS and offshore platforms. These contracts may range in value from S\$20m to S\$200m.
- **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 11.1x 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)	41.6	16.5	13.8	9.3	6.5
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)	41.6	22.2	13.8	9.3	6.5
Gross DPS (cts)	0.3	1.0	1.4	1.8	2.2
Dividend yield (%)	0.3%	0.9%	1.3%	1.6%	2.0%
P/NTA (x)	4.4	3.5	2.9	2.2	1.7
ROE (%)	10%	21%	21%	24%	25%
Net gearing (%)	30%	48%	38%	21%	1%
P/CF (x)	18.1	10.3	9.0	6.6	4.9
EV/EBITDA (x)	16.8	12.3	8.7	6.3	4.7
CIMB-GK/Consensus (x)	-	-	1.01	1.29	1.58

Source: Company, CIMB-GK estimates, Reuters Estimates

## Price chart



Source: Bloomberg

## Market capitalisation & share price info

Market cap	S\$374.7m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.27/S\$1.26	Relative	14.9	13.6	187.3
3-mth avg daily volume	S\$4.29m	Absolute	19.5	13.7	300.0
# of shares (m)	337.6	Major shareholders			% held
Est. free float (%)	48	Ang Choo Kim & Sons			42.7

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

## Bintan yard

**Positive impressions from Bintan yard visit.** We visited TWC's yard in Bintan on 28 Sep, together with 20 other analysts and fund managers. We were impressed by the facilities and operations team put in place and the progress that TWC Oil & Gas Services has made since May 07, when it received all the relevant licences to operate the yard. The facility was only purchased in Nov 06, but TWC has already cleared a significant area for fabrication activities and built six workshops. The yard has completed building its own barge for internal use within three months, and commenced work on its maiden contract from NorCE Offshore Pty Ltd of Norway, which is a derrick pipelay barge worth S\$64.8m.

**Maiden contract, with options.** The 65-ha fabrication yard in Bintan was originally started to support its fleet of tugs and barges. Given its experience in operating a yard in the previous cycle, management made a strategic decision to move into the fast-growing business of fabrication and engineering projects, targeting the oil and gas industries. The yard recently secured its maiden contract worth S\$64.8m for a derrick pipelay barge for delivery in Dec 08. We believe this contract from NorCE has options for an additional 1-2 such vessels to be built, which is typical among customers in this industry. As such, it would be reasonable to expect more such contracts to be announced in the coming months.

**Expertise clearly in place.** Mr Foo Kee Heng, Managing Director of TWC Oil & Gas, is a 30-year veteran in the business. He has assembled a highly experienced team, all of whom have been with the larger yards like Sembawang, Keppel and Pan United in Singapore. 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 80 permanent staff and 170 subcontract workers, and the total workforce is expected to rise to 1,100 in Mar/Apr 08, and 2,000 by end-2008. Given the manpower planning requirements, we believe management is optimistic in securing more contracts and filling up its capacity fairly quickly.

**Bintan yard is a key asset.** TWC has only developed 25ha of the available 65ha of land available, at a cost of about S\$9m. It has an open concrete bank area of 5ha, with a wharf length of 372m and water depth of 12m, which will allow it to handle larger vessels. Management expects to spend another S\$3m-4m in the near term to improve facilities and will be monitoring potential demand in the next few months. TWC's Bintan yard is an important asset to the group to propel it into the oil & gas business, in our view. This would also boost earnings given the better margins.

**Late-cycle entrant has advantages.** Despite TWC's late coming to the fabrication and engineering business, we see certain interesting advantages. Given that most, if not all, of the yards in the region are running at full capacity with order books stretching till 2012, TWC's entry is highly opportune. The following are some distinct advantages:

1. TWC does not need to tender competitively for contracts, given that all other yards are full, creating opportunities for margin expansion;
2. TWC's brand new yard should attract inquiries for various fabrication activities, without the need to spend heavily on marketing;
3. Given its extensive expertise with a strong professional team, TWC should be able to select its customers and projects with the best margins and payment terms; and
4. Low-risk entry point as demand visibility is as far as five years ahead.

**Contracts being tendered.** Other than its own barge that has already been built, TWC has secured a contract from Murphy Oil Corporation to fabricate jacket piles, which are due for completion in Oct 07. Management said that possible new contracts could come from module fabrication e.g. topsides for FPSOs and jacket piles, offshore vessels like AHTS and offshore platforms. These contracts may range in value from S\$20m to S\$200m.

**Growth impetus from tower-crane business in FY08.** Separately, TWC acquired Soon Douglas Pte Ltd in May 07 for S\$6.64m for its crane-leasing business and trading of equipment spare parts for the construction, mining and shipbuilding industries. Soon Douglas has 49 tower cranes and two mobile cranes in its equipment fleet, which will likely be expanded due to strong construction demand.

With about 170 en-bloc property sites to be redeveloped in Singapore, construction activity is expected to remain brisk. Soon Douglas is positioned to capture a reasonable slice of the construction pie. In addition, the broad construction demand from integrated resorts, the Marina Bay Financial Centre, Sports Hub, Downtown MRT line, could be overwhelming for any single contractor.

**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 region'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 on TWC, we have chosen 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 new tower-crane business.

Figure 1: Work commencement for pipelay barge



Source: Company, CIMB-GK

## 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 have maintained our forecasts for now. TWC continues to offer value at 11.1x CY08 P/E against a 3-year core earnings CAGR forecast of 50.3%.

As TWC establishes its track record in the oil & gas industry as a fabrication and engineering company, new contract wins and consequent earnings upgrades could drive the share price. Should the oil & gas business begin to assume a larger portion of group profit, our valuation methodology could potentially change as the oil & gas business may have to be valued separately from its core heavy lift and haulage, and marine logistics businesses.

**Financial tables**

<b>PROFIT &amp; LOSS (\$\$ m, FYE Jun)</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
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	-	-	-
<b>Pretax profit</b>	<b>12.6</b>	<b>25.1</b>	<b>31.9</b>	<b>47.5</b>	<b>67.5</b>
Tax	(3.4)	(2.1)	(4.7)	(7.1)	(10.1)
Minority interests	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
<b>Net profit</b>	<b>9.0</b>	<b>22.7</b>	<b>26.9</b>	<b>40.1</b>	<b>57.1</b>
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

<b>BALANCE SHEET (\$\$ m, as at 30 Jun)</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
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
<b>Total non-current assets</b>	<b>109.2</b>	<b>155.1</b>	<b>175.4</b>	<b>193.6</b>	<b>209.7</b>
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
<b>Total current assets</b>	<b>36.0</b>	<b>51.6</b>	<b>75.5</b>	<b>120.8</b>	<b>193.2</b>
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
<b>Total current liabilities</b>	<b>26.0</b>	<b>47.5</b>	<b>61.9</b>	<b>75.3</b>	<b>91.4</b>
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
<b>Total long-term liabilities</b>	<b>29.4</b>	<b>47.4</b>	<b>50.7</b>	<b>54.1</b>	<b>59.0</b>
<b>Shareholders' funds</b>	<b>85.9</b>	<b>108.0</b>	<b>134.3</b>	<b>180.8</b>	<b>248.0</b>
Minority interests	3.9	3.7	4.0	4.3	4.6
NTA/share (\$\$)	0.25	0.32	0.40	0.54	0.73

<b>CASH FLOW (\$\$ m, FYE Jun)</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
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)
<b>Cash flow from operations</b>	<b>7.6</b>	<b>14.0</b>	<b>47.2</b>	<b>62.4</b>	<b>85.2</b>
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
<b>Cash flow from investing</b>	<b>(24.9)</b>	<b>(37.2)</b>	<b>(31.1)</b>	<b>(30.8)</b>	<b>(30.1)</b>
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)
<b>Cash flow from financing</b>	<b>8.8</b>	<b>10.6</b>	<b>(7.2)</b>	<b>(8.9)</b>	<b>(7.7)</b>
<b>Change in cash</b>	<b>(8.4)</b>	<b>(12.7)</b>	<b>9.0</b>	<b>22.8</b>	<b>47.4</b>
<b>Change in net cash/(debt)</b>	<b>3.4</b>	<b>(26.5)</b>	<b>7.5</b>	<b>21.4</b>	<b>43.1</b>
<b>Ending net cash/(debt)</b>	<b>(25.8)</b>	<b>(52.3)</b>	<b>(44.8)</b>	<b>(23.4)</b>	<b>19.7</b>

<b>KEY RATIOS (FYE Jun)</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
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.

**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.

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