

# Tiong Woon Corporation

*Twin engines*

## OUTPERFORM

**S\$1.07** @19/09/07

Target: S\$1.50 Mkt.Cap: S\$361m

Construction

TWC SP / TION.SI

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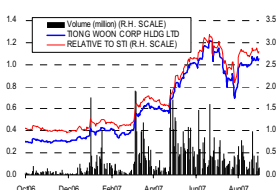
- **Integrated service provider.** TWC's twin offerings of heavy lift & haulage services and marine logistics services is unique, enabling the company to provide more compelling, higher value-added services to a wider range of customers. TWC is arguably the largest integrated crane and marine logistics company in the region, currently exploiting booms in the construction and oil & gas industries.
- **Bintan yard is potential money-spinner.** Acquired in 2006, the Bintan yard was initially meant to meet internal needs. TWC subsequently moved into fabrication and engineering services, with a maiden contract award of S\$64.8m for a derrick pipelay barge. To date, S\$9m has been invested in the yard with a further capex of S\$6m-7m planned for improving overall infrastructure and expanding capacity.
- **Financial turnaround.** FY07 net profit rose 153% yoy to S\$22.8m on margin expansion, higher equipment utilisation and higher chartering rates. TWC has strong operating cash flow to support its higher net gearing. FY07 ROE doubled to 21.1% from 10.5% in FY06.
- **Initiate with Outperform and target price of S\$1.50**, set at 15x CY08 P/E, comparable to valuations for SGX-listed construction peers. Our target implies upside potential of 43%. TWC trades at an attractive 10.7x 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)	40.1	15.9	13.3	8.9	6.3
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)	40.1	21.4	13.3	8.9	6.3
Gross DPS (cts)	0.3	1.0	1.4	1.8	2.2
Dividend yield (%)	0.3%	0.9%	1.3%	1.7%	2.1%
P/NTA (x)	4.2	3.3	2.8	2.1	1.6
ROE (%)	10%	21%	21%	24%	25%
Net gearing (%)	30%	48%	38%	21%	1%
P/CF (x)	17.4	9.9	8.6	6.3	4.7
EV/EBITDA (x)	16.2	11.9	8.5	6.1	4.5
CIMB-GK/Consensus (x)	-	-	1.01	1.29	1.58

Source: Company, CIMB-GK estimates, Bloomberg

## Price chart



Source: Bloomberg

## Market capitalisation & share price info

Market cap	S\$361.2m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.26/S\$1.26	Relative	14.9	13.6	187.3
3-mth avg daily volume	S\$4.20m	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		
Wrts/ICULS o/s (m)	None				
Conv. price (S\$)					

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

## Background

Listed in 1999, TWC is an integrated service provider of heavy lift, heavy haulage and marine transportation services mainly serving the oil & gas, petrochemical and power industries. TWC manages turnkey projects for international builders and contractors, from the planning and design of heavy lifting and haulage to the transportation, lifting and installation of heavy equipment at customers' facilities. The company is ranked the 11th largest crane-owning company worldwide by International Cranes, a reputed trade magazine, in its IC50 2007 survey.

**Heavy lift and haulage services.** TWC rents out heavy lift and haulage equipment, as well as offers turnkey engineering and advisory services. Customers are typically project owners, international construction contractors and multinational engineering companies in the oil and gas, petrochemical, power-generation and infrastructure industries.

**Marine transportation services.** Marine transportation services complement the provision of heavy lift and heavy haulage services. With this capability, TWC can provide integrated services to its customers by reducing the lead time in the delivery of specialised heavy lifting equipment to customers' construction sites located overseas.

**Trading of heavy equipment and spare parts.** This business also complements its core heavy lift and haulage activities. Besides distributing Ishikawajima Construction Machinery's crawler cranes, TWC trades in used heavy equipment and spare parts. Most of the used heavy equipment is purchased on order from Japanese and European suppliers.

From FY08 onwards, with the acquisition of Soon Douglas and the kick-off of the Bintan fabrication yard, TWC will have two new complementary businesses, in tower crane rentals and oil & gas activities.

## Company outlook

**Harnessing growth opportunities.** TWC is optimistic about prospects in the downstream oil and gas industry both locally and overseas. Management is reiterating its focus on integrated services for the oil & gas industry such as heavy lift and installation, heavy haulage, marine transportation as well as fabrication and engineering services for building oil & gas heavy structures and modules.

**Bintan yard gets maiden contract.** The 65-ha fabrication yard in Bintan was started to support its fleet of heavy lift equipment, tugs and barges. It is now used to service a new income stream from fabrication and engineering projects. The yard recently secured its maiden contract worth S\$64.8m for a derrick pipelay barge for delivery in Dec 08.

**Tower crane business to take off in FY08.** TWC acquired Soon Douglas Pte Ltd in May 07 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, which are expected to contribute positively in view of the current upturn in Singapore's property market.

**Tapping Middle East.** Management plans to pursue business opportunities in construction, infrastructure, offshore marine, power plants, petrochemicals and oil & gas projects in the region. Saudi Arabia, with its projected activity in oil and gas, will be one of TWC's key markets.

## Order book

Not applicable except for the Bintan fabrication yard, which had secured its maiden contract worth S\$64.8m.

## Risks

**Prolonged significant equipment downtime.** Any prolonged equipment downtime may cause major disruptions to operations, and affect TWC's financial performance. Equipment downtime occurs when machinery is sent for service or repair.

**Shortage of professionals & skilled labour.** TWC consistently faces shortages of specialised professionals and skilled labour in Singapore and overseas. It relies heavily on its engineers, crane operators, riggers and support team comprising technicians, electricians and mechanics for maintenance and repair services. Its ability to compete and develop its heavy lift and haulage businesses will depend on its ability to train and retain existing staff and attract new qualified staff.

**Industry cyclicality.** TWC is dependent on the oil & gas, petrochemical, power-

generation and other infrastructure-related industries. Any downturn in these industries may scale back spending and/or cause delays in construction projects. This will lead to a decline in demand for TWC's heavy lift and haulage services which would hurt its business and financial performance.

## Management

Mr Ang Kah Hong is the founder, Group Chairman and Managing Director. He has over 20 years of experience in the heavy lift and heavy haulage business, and is responsible for developing TWC into a regional integrated heavy lift, heavy haulage and marine transportation service provider. His key responsibilities include identifying, formulating, developing and implementing corporate objectives and business strategies.

Mr Ang Kha King is a co-founder and Executive Director. His key responsibilities include reviewing internal decision-making at TWC's businesses, overseeing external operational functions and supervising its key operations and maintenance division to ensure there are adequate machines and equipment available for its heavy lift and haulage assignments.

Mr Tan Swee Khim has been an Executive Director since 1993. He is also the Managing Director of Tiong Woon Crane and Transport Pte Ltd and is responsible for managing and overseeing TWC's heavy lift and haulage operations in Singapore as well as the region.

## Financials

**Margin expansion to continue.** FY07 net profit of S\$22.7m rose 153% yoy, attributable to significantly higher margins from the marine transportation and trading segments. Gross margins rose to 39.8% in FY07 from 36.7% a year ago.

**All business segments posted growth.** FY07 revenue rose 44% yoy to S\$99.8m on strong growth at marine transportation (+54% yoy), which was the result of higher equipment utilisation and higher chartering rates. Trading (+144% yoy) was in line with strong industry demand for equipment amid a global shortage. Heavy lift & haulage turned in revenue growth of 29% yoy and still formed 67.2% of group revenue.

**Higher gearing supported by strong operating cash flow.** TWC's net gearing rose to 48.4% from 30% in FY06, due to higher borrowings to fund the development of its Bintan fabrication yard as well as its fleet renewal and expansion and overseas forays. TWC's ROE improved from 10.5% in FY06 to 21.1% in FY07. Cash flow from operations was over S\$30m in FY07, and FY08 should be better with the improved business outlook.

## Valuation and recommendation

**Initiate with Outperform and target price of S\$1.50**, set at 15x CY08 P/E, comparable to valuations for SGX-listed peers involved in the construction industry. Our target price implies upside potential of 43%. TWC offers value at 10.7x CY08 P/E against a 3-year core earnings CAGR forecast of 50.3%.

## Financial tables

<b>PROFIT &amp; LOSS (\$\$ m, FYE Jun)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>
Revenue	51.0	70.5	69.2	99.8	150.5
Operating expenses	(30.7)	(44.7)	(43.5)	(64.9)	(101.2)
EBITDA	20.3	25.9	25.7	35.0	49.2
Depreciation & amortisation	(7.5)	(9.7)	(11.7)	(13.8)	(14.6)
EBIT	12.8	16.2	14.0	21.2	34.6
Net interest & invt income	(1.5)	(1.6)	(1.4)	(1.9)	(2.7)
Associates' contribution	(0.0)	0.0	0.0	-	-
Exceptional items	-	-	-	5.8	-
<b>Pretax profit</b>	<b>11.3</b>	<b>14.6</b>	<b>12.6</b>	<b>25.1</b>	<b>31.9</b>
Tax	(1.7)	(3.0)	(3.4)	(2.1)	(4.7)
Minority interests	(0.2)	(1.5)	(0.2)	(0.2)	(0.2)
<b>Net profit</b>	<b>9.4</b>	<b>10.0</b>	<b>9.0</b>	<b>22.7</b>	<b>26.9</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>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>
Fixed assets	81.5	86.6	109.1	154.9	175.3
Intangible assets	-	-	-	-	-
Other long-term assets	0.6	0.7	0.1	0.1	0.1
<b>Total non-current assets</b>	<b>82.1</b>	<b>87.2</b>	<b>109.2</b>	<b>155.1</b>	<b>175.4</b>
Cash and equivalents	4.8	8.8	9.6	13.6	21.0
Stocks	0.4	0.7	0.5	1.3	2.1
Trade debtors	14.5	18.6	23.6	30.4	41.2
Other current assets	2.3	1.8	2.3	6.3	6.6
<b>Total current assets</b>	<b>22.1</b>	<b>29.8</b>	<b>36.0</b>	<b>51.6</b>	<b>70.9</b>
Trade creditors	6.1	10.0	8.8	16.7	26.8
Short-term borrowings	16.4	17.4	15.1	29.0	31.3
Other current liabilities	0.5	0.9	2.1	1.8	3.8
<b>Total current liabilities</b>	<b>22.9</b>	<b>28.3</b>	<b>26.0</b>	<b>47.5</b>	<b>61.9</b>
Long-term borrowings	24.1	20.6	20.3	36.8	39.1
Other long-term liabilities	5.4	7.2	9.1	10.6	11.6
<b>Total long-term liabilities</b>	<b>29.6</b>	<b>27.8</b>	<b>29.4</b>	<b>47.4</b>	<b>50.7</b>
<b>Shareholders' funds</b>	<b>47.8</b>	<b>55.6</b>	<b>85.9</b>	<b>108.0</b>	<b>129.8</b>
Minority interests	3.8	5.3	3.9	3.7	4.0
NTA/share (\$\$)	0.14	0.16	0.25	0.32	0.38
<b>CASH FLOW (\$\$ m, FYE Jun)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>
Pretax profit	11.3	14.6	12.6	25.1	31.9
Depreciation & non-cash adjustments	5.8	9.2	11.5	8.5	18.3
Working capital changes	(1.8)	(0.1)	(6.7)	(1.8)	(4.0)
Cash tax paid	(0.4)	2.2	3.1	1.1	4.3
Others	5.9	5.9	5.9	5.9	5.9
<b>Cash flow from operations</b>	<b>20.8</b>	<b>31.8</b>	<b>26.3</b>	<b>38.8</b>	<b>56.3</b>
Capex	(30.0)	(14.6)	(27.3)	(36.9)	(35.0)
Net investments & sale of FA	12.5	3.8	2.2	(0.5)	3.6
Others	0.0	0.1	0.2	0.1	0.3
<b>Cash flow from investing</b>	<b>(17.5)</b>	<b>(10.7)</b>	<b>(24.9)</b>	<b>(37.2)</b>	<b>(31.1)</b>
Debt raised/(repaid)	0.8	(4.4)	(11.8)	13.8	1.5
Equity raised/(repaid)	-	-	22.9	-	-
Dividends paid	(0.7)	(0.7)	(1.0)	(1.5)	(4.7)
Cash interest & others	(1.2)	(1.4)	(1.3)	(1.8)	(4.0)
<b>Cash flow from financing</b>	<b>(1.1)</b>	<b>(6.5)</b>	<b>8.8</b>	<b>10.6</b>	<b>(7.2)</b>
<b>Change in cash</b>	<b>2.2</b>	<b>14.6</b>	<b>10.3</b>	<b>12.1</b>	<b>18.1</b>
<b>Change in net cash/(debt)</b>	<b>1.3</b>	<b>19.1</b>	<b>22.1</b>	<b>(1.7)</b>	<b>16.6</b>
<b>Ending net cash/(debt)</b>	<b>(34.3)</b>	<b>(15.2)</b>	<b>6.9</b>	<b>5.1</b>	<b>21.7</b>
<b>KEY RATIOS (FYE Jun)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>
Revenue growth (%)		38.3	(1.9)	44.3	50.7
EBITDA growth (%)		27.4	(0.8)	36.1	40.8
Pretax margins (%)		20.7	18.2	25.1	21.2
Net profit margins (%)		14.2	13.0	22.8	17.9
Interest cover (x)		9.1	9.7	13.8	12.7
Effective tax rates (%)		20.7	26.9	8.3	14.9
Net dividend payout (%)		10.1	11.2	14.8	17.4
Debtors turnover (days)		85.5	111.1	98.6	86.8
Stock turnover (days)		2.9	3.2	3.4	4.1
Creditors turnover (days)		41.6	49.5	46.6	52.8

Source: CIMB-GK Research

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