Tiong Woon -- Maintain OUTPERFORM

Another yardstick

EPS: ◄► TP: ◄►

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- While Tiong Woon's silence in recent months suggests that corporate action initiatives are in the works, our recent meeting with management reaffirms our view that the earnings outlook for its core operations remains strong.
- Tiong Woon's heavy lift and haulage segment, with a niche in heavy tonnage (>1000 tonnes), remains leveraged to the booming infrastructure and oil and gas sectors, with earnings driven by higher utilisation rates coupled with stronger rental yields.
- While operations at its Bintan yard remain on track, and despite hints at repeat orders from NorCE, we believe that management is holding out for more profitable contracts, achievable when its maiden order is nearly half completed, expected in June 2008.
- Tiong Woon's control over much of the heavy haulage equipment here, against a tight demand/supply backdrop, has seen it recently ink an exclusive service contract for the Shell Houdini Project, as well as short-listed for Exxon's second petrochemical complex, furthering deepening its footprint within the oil and gas market.

Bbg/RIC	**TWC SP / TION.SI**	**Price (5 Dec 07, S$)**			**1.02**
Rating (prev. rating)	**O (O) [V]**	**TP (S$) (prev. TP)**			**1.40 (1.40)**
Shares outstanding (mn)	337.58	Est. pot. % chg. to TP			37
Daily trad vol–6m avg (mn)	6.2	52-wk range (S$)			1.22 - 0.30
Daily trad val–6m avg (US$ mn)	3.4	Mkt cap (S$/US$ mn)			344.3/ 237.4
Free float (%)		**Performance**	**1M**	**3M**	**12M**
Major shareholders	Ang Choo Kim & Sons (42.65%)	Absolute	3.0	3.6	223.8
		Relative	6.2	0.2	164.0

Year	**6/06A**	**6/07A**	**6/08E**	**6/09E**	**6/10E**
Revenues (S$ mn)	69.2	99.8	175.1	229.0	256.2
EBITDA (S$ mn)	25.3	40.4	54.8	69.8	79.9
Net profit (S$ mn)	8.8	22.5	26.2	36.7	42.8
EPS (S$)	0.03	0.07	0.08	0.11	0.13
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (S$)	n.a.	n.a.	0.08	0.09	0.00
EPS growth (%)	(24.9)	146.4	16.4	40.2	16.5
P/E (x)	37.7	15.3	13.1	9.4	8.0
Dividend yield (%)	0.3	0.4	0.4	0.5	0.6
EV/EBITDA (x)	14.6	9.8	7.2	5.5	4.3
P/B (x)	4.0	3.2	2.6	2.1	1.7
ROE (%)	10.3	20.8	19.7	21.9	20.5
Net debt/equity (%)	30	48	37	25	1

Note 1: Tiong Woon is primarily in Heavy lift, heavy haulage & equipment installation works, Freight forwarding & transport services, and Trading of construction equipment.

Cranes – the big lift

Tiong Woon's cranes are positioned largely in Singapore (about 100-odd), where management is optimistic that rental rates could rise by some 10-15% over the next two to three years, driven by major infrastructure and oil & gas projects planned on nearby Jurong Island. Tiong Woon is continuing to purchase new cranes, and is looking to raise its current fleet size of 230 (excluding crawler cranes) to 250 by end 2008. At the same time, Tiong Woon is witnessing strong demand for its lower-tonnage (50 to 500 tonne) lifting equipment (with arguably longer hire-out tenures) from the Middle East. Management is targeting to nearly triple its fleet size there from 60 currently to 150 over the next two years.

Yard operations on track

Management's update on operations at its Bintan yard was that about 4% of its maiden project, a pipe-laying derrick barge for NorCE which commenced operations in September 07, has been completed, and should continue to be fulfilled over the next 14 months. While Tiong Woon has already hinted of repeat orders, we believe that management is holding out for more profitable contracts, which are likely to be achieved when this first order is almost half completed, which has been targeted for June 08. A strengthening track record would certainly also help Tiong Woon in negotiating for more favourable contract terms. (We understand that the first contract involves a letter of credit, and that Tiong Woon can only claim the cashflows upon completion—Tiong Woon will likely pursue progressive payments for its next project.) We estimate that operating margins could like rise from 8% to 15% by FY10E.

Gaining traction in oil and gas

The recent service contract inked with FH Bertling (FHB) for the Shell Houdini Project (which includes the Bukom Modification, Ethylene Cracking Complex and Mono Ethylene Glycol projects) suggests that Tiong Woon is continuing to gain traction within the oil and gas industry. While FHB handles international freight (to Singapore), TWC leverages its heavy haulage equipment, storage facilities, and marine barges to ply the route from Singapore to offshore Bukom Island. We understand that Tiong Woon has also been short-listed for Exxon's second Petrochemical Project, which it has jointly bid with various international contractors. The reality is that given the tightness in supply of heavy haulage equipment, it is likely that Tiong Woon, which controls much of the supply of equipment here, will stand to gain.

Undervalued

Despite rising investor interest, and against the much broader backdrop of buoyant infrastructure and oil and gas activities which have driven earnings for a large number of companies lodged firmly within this space, management has been consciously quiet in recent months. We can therefore reasonably infer that perhaps some extent of corporate action initiatives are in the works. Like any investor who would consider Tiong Woon's shares undervalued at sub-10x fiscal June 08E P/E, given strong underlying earnings profile, we believe there could be other players, such as much larger crane rental operators, project management companies, or even EPC players with their engineering competencies, that could be potentially eyeing the operational synergies in Tiong Woon's businesses. Should such developments arise then, we would not be surprised given that these strategic alliances should remain consistent with management's longer term plans to see Tiong Woon evolve from a logistics player into an integrated offshore-services company.

Companies Mentioned ***(Price as of 05 Dec 07)***
Tiong Woon Corp. (TION.SI, S$.93, OUTPERFORM [V], TP S$1.40)
Tat Hong Holdings Ltd (TAT.SI, S$3.08, NEUTRAL [V], TP S$2.80)
ExxonMobil Corporation (XOM, $88.12, NEUTRAL, TP $90.00, MARKET WEIGHT)
Royal Dutch Shell plc (RDSa.L, 1956.00 p, NEUTRAL, TP 2252.50 p, MARKET WEIGHT)

Disclosure Appendix

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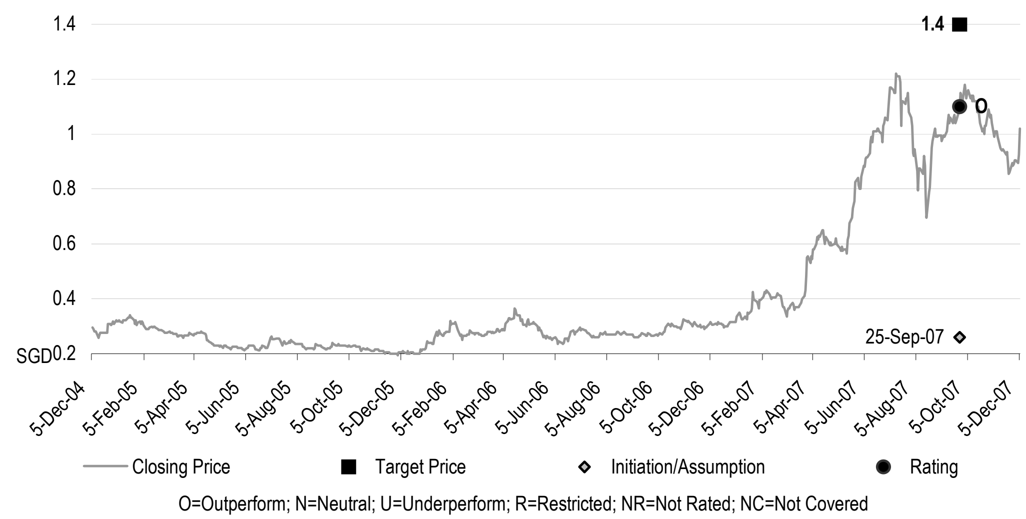
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TION.SI



TION.SI Date	Closing Price Price (SGD)	Target Price Price (SGD)	Rating	Initiation/ Assumption
25-Sep-07	1.1	1.4	OUTPERFORM	X

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Price Target: (12 months) for (TION.SI)
Method: Our target price of S$1.40 for Tiong Woon (TION.SI) is based on the conservative end of the range of values suggested by price to earniings (P/E), price to book (P/B) and dividend yield comparisons with peers within the heavy equipment supply industry, the Singapore mid-cap space and the Singapore market generally. We have reinforced this methodology with discounted cash flow analysis using a 10.2% cost of capital (a 3% risk-free rate, a 6% equity risk premium, a beta of 1.5, and a 6% cost of debt) and a 3% terminal growth rate.
Risks: Risks to our target price of S$1.40 for Tiong Woon (TION.SI) are: 1) a slowdown in construction demand, 2) execution risk on projects won resulting in cost overruns, 3) credit risk, due to default in payments from customers, 4) regulatory risk from government bodies and 5) raw material cost pressure.

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