

**Tiong Woon Corp.**
**Initiating coverage with OUTPERFORM**
**Emerging heavyweight**

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**EPS: ▲ ▲ TP: ▲ ▲**

- We initiate coverage of Tiong Woon with a 12-month target price of S\$1.40 and an OUTPERFORM rating, implying 33% potential upside.
- Tiong Woon's heavy lift and haulage segment, with a niche in heavy tonnage (>1000 tonnes), is its core business, and remains a significant earnings driver on higher utilisation rates coupled with stronger rental yields.
- Tiong Woon's recently acquired 64-hectare fabrication yard in Bintan (Indonesia) for offshore production facilities won its maiden project early this year. We expect order momentum to pick up, with margins improving due to scale, and increased efficiencies. We forecast earnings CAGR of 23% through FY10E.
- Our DCF valuation methodology is on WACC of 10.2%, and a terminal growth rate of 3%, implying an end-2008 P/E of 15x, undemanding given the strong underlying earnings profile.
- Key risks are economic downturn curbing construction spending, execution risks given tight project schedules, default of main contractors, regulatory changes, and industry concentration.

production facilities such as platforms and modules won its maiden project early this year. We expect the order momentum to pick up, with margins improving due to scale, and increased efficiencies. In aggregate, we forecast 3-year earnings CAGR of 23% through FY10E.

**Valuation**

We believe a DCF valuation methodology best captures the steady cash-generating profile of Tiong Woon's operations. We use a WACC of 10.2%, and a terminal growth rate of 3%, on our two-stage model. This implies an end-2008 P/E of 15x, undemanding given the company's strong underlying earnings profile.

**Risks**

Key risks are economic downturn, which may curb construction spending; execution risks, given tight project schedules and capacity; potential cost overruns, given competition for limited resources; default of main contractors; regulatory changes; and industry concentration.

**Figure 1: Revenue by segments**

Bbg/RIC	TWC SP / TION.SI	Price (24 Sep 07, S\$)	1.08
Rating (prev. rating)	O (NA) [V]	TP (S\$) (prev. TP)	1.40 (NA)
Shares outstanding (mn)	337.58	Est. pot. % chg. to TP	30
Daily trad vol-6m avg (mn)	6.1	52-wk range (S\$)	1.22 - 0.26
Daily trad val-6m avg (US\$ mn)	3.2	Mkt cap (S\$/US\$ mn)	364.6/ 242.2
Free float (%)		Performance 1M 3M 12M	
Major shareholders	Ang Choo Kim & Sons (42.65%)	Absolute 10.8 6.9 292.7	
		Relative 2.6 6.2 172.0	
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)	22.7 34.1 44.4 59.4 68.3		
Net profit (S\$ mn)	7.6 15.3 23.2 33.7 39.8		
EPS (S\$)	0.03 0.07 0.08 0.11 0.13		
- Change from prev. EPS (%)	n.a. n.a. n.a. n.a. n.a.		
- Consensus EPS (S\$)	n.a. n.a. 0.08 0.09 —		
EPS growth (%)	(24.9) 146.4 16.4 40.2 16.5		
P/E (x)	39.9 16.2 13.9 9.9 8.5		
Dividend yield (%)	0.3 0.4 0.4 0.5 0.6		
EV/EBITDA (x)	17.6 12.5 9.6 7.1 5.6		
P/B (x)	4.2 3.4 2.7 2.2 1.7		
ROE (%)	10.3 20.8 19.7 21.9 20.5		
Net debt/equity (%)	30 48 37 25 1		

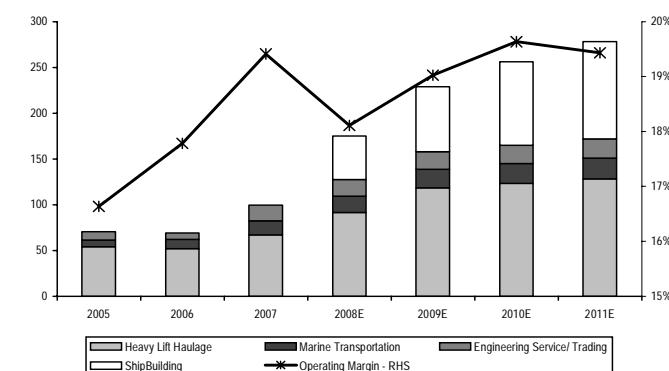
*Note 1: Tiong Woon is primarily in Heavy lift, heavy haulage & equipment installation works, Freight forwarding & transport services, and Trading of construction equipment.*

**Well positioned**

Higher infrastructure spending, driven by the robust outlook for construction, offshore marine, and oil & gas exploration activities, coupled with the lead-time and capital requirements for new crane deliveries, should continue to keep contract flows strong for the heavy equipment and machinery suppliers like Tiong Woon, in our view.

**Strong earnings outlook**

Tiong Woon's core business lies in its heavy lift and haulage segment, with a niche in heavy tonnage (>1000 tonnes) capacities. We believe this business should remain a significant earnings driver, and we anticipate higher utilisation rates coupled with stronger rental yields to drive our 28% earnings CAGR through FY10E. Tiong Woon's recently acquired 64-hectare fabrication yard in Bintan (Indonesia) for offshore



Source: Company data, Credit Suisse estimates.

**Figure 2: Key assumptions**

	2008E	2009E	2010E	2011E
Cranes - Price Change (%)	15.0	10.0	3.0	3.0
Cranes - Utilization Change (%)	10.0	5.0	-2.0	-2.0
Cranes - Units Change (%)	8.0	12.0	3.0	3.0
Marine - Price Change (%)	10	8	8	4
Marine - Units Change (%)	5	5	0	0
Shipyard - Utilization (%)	50	75	80	80
Shipyard - Operating profit margin (%)	8	12	15	18

Source: Company data, Credit Suisse estimates.

**Companies Mentioned** (Price as of 24 Sep 07)

Tiong Woon Corp. (TION.SI, S\$1.08, OUTPERFORM, TP S\$1.40)

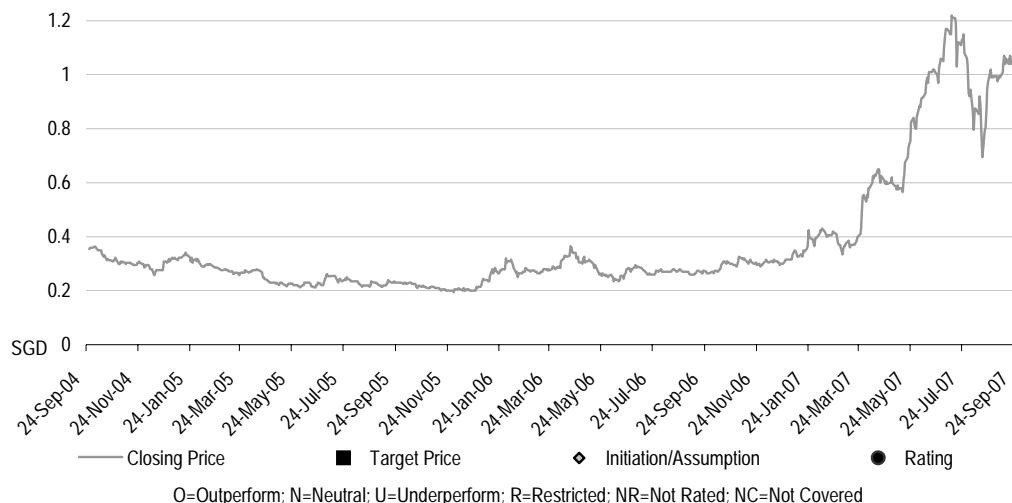
## Disclosure Appendix

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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



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

TION.SI	Closing Price	Target Price	Initiation/
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**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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**Price Target:** (12 months) for (TION.SI)

**Method:** Our target price of S\$1.40 for TION.SI is based on the conservative end of the range of values suggested by PER, 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 10.2% cost of capital (3% risk free rate, 6% equity risk premium, beta of 1.5, and 6% cost of debt) and a 3% terminal growth rate.

**Risks:** Risks to our target price of S\$1.40 for TION.SI are 1) slowdown in construction demand, 2) execution risk on projects won resulting in cost over runs, 3) credit risk due to default in payments from customers 4) regulatory risk from government bodies and 5) raw material cost pressures

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