

Tiong Woon Corporation

Ready for the next lap
OUTPERFORM

Maintained

S\$0.72

Target: S\$1.45

Mkt.Cap: S\$243m/US\$172m

Construction

TWC SP / TION.SI

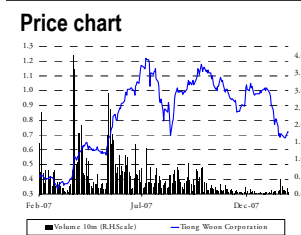
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- **Within expectations.** 1HFY08 net profit of S\$10.6m (+49% yoy) was within market and our estimates on an annualised basis. This was attributable to record turnover of S\$65.8m (+49% yoy), led by the Heavy Lift & Haulage division. Gross and pretax margins were relatively unchanged at 37.3% and 19.5% respectively, as improved rental rates for its core segments were partly negated by start-up losses at its Bintan fabrication yard. Core EPS was 3.15 cts, up 49% yoy.
- **Segmental review.** Heavy Lift was the star performer, with revenue of S\$44.2m (+52% yoy) and pretax profit of S\$11.4m (+87% yoy) on strong rental rates. Pretax margins expanded to 25.7% from 20.9% a year ago. The other two core segments posted lower revenues but pretax still grew from a year ago. Marine Transportation revenue fell 14% yoy to S\$7.4m on lower utilisation rates for smaller equipment and fewer integrated haulage and marine projects, while Trading revenue slipped 19% yoy to S\$5.2m on fewer cranes sold due to the ongoing global shortage of new cranes. But pretax margins expanded substantially for Marine, to 39.4% from 27.6% a year ago on improved rental rates, while Trading margins rose to 25.4% from 5.7%, thanks to strong crane prices.
- **Expenses well-managed.** Overall expenses rose 51.3% yoy to S\$13.6m, in line with the increase in business activities. In particular, the new Bintan fabrication yard incurred expected start-up expenses, which translated to a small pretax loss of S\$2.8m for the new Fabrication & Engineering segment.
- **Maintain Outperform; new target price of S\$1.45.** We are keeping our earnings forecasts unchanged as we assume a much stronger 2HFY08 with the substantial recognition of the Norce pipelay barge project. We are rolling forward our valuation to CY09, but using a lower P/E of 10x (previously 15x) to account for a lower risk appetite, translating to a lower target price of S\$1.45 (S\$1.50 previously).

Results comparison

FYE Jun (\$ m)	1HFY08	1HFY07	yoy % chg	2HFY07	hoh % chg	Prev. FY08F	Comments
Revenue	65.8	44.1	49.1	55.7	18.2	150.5	In line. Strong growth from Heavy Lift
Operating costs	(42.4)	(28.2)	50.2	(37.1)	14.3	(101.2)	In line. Expenses well managed
EBITDA	23.5	15.9	47.2	18.6	26.0	49.2	
EBITDA margin (%)	35.7	36.1		33.5		32.7	In line. Fabrication start-up losses
Depn & amort.	(9.1)	(6.5)	41.5	(7.3)	24.4	(14.6)	In line with more equipment
EBIT	14.3	9.5	51.1	11.3	27.0	34.6	
Interest expense	(1.6)	(0.7)	135.2	(1.2)	33.3	(2.7)	In line with higher borrowings
Interest & invt inc	0.1	0.0	261.1	0.1	19.3	-	
Associates' contrib	-	-	nm	-	nm	-	
Exceptionals	-	-	nm	5.8	(100.0)	-	
Pretax profit	12.8	8.8	45.3	16.0	(19.8)	31.9	In line with improved margins for all segments
Tax	(2.2)	(1.7)	29.6	(0.4)	487.7	(4.7)	In line with increased business
Tax rate (%)	17.2	19.3		2.3		14.9	
Minority interests	(0.1)	(0.1)	3.1	(0.2)	(62.3)	(0.2)	
Net profit	10.6	7.1	49.5	15.4	(31.7)	26.9	In line with improved margins
Core net profit	10.6	7.1	49.5	15.4	(31.7)	26.9	
EPS (sen)	3.1	2.1	49.5	4.6	(31.7)	8.0	
Core EPS (sen)	3.1	2.1	49.5	4.6	(31.7)	8.0	

Source: Company, CIMB-GK Research, Xxx



Source: Bloomberg

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 (S cts)	2.7	6.7	8.0	11.9	16.9
EPS growth (%)	(10.3%)	152.5%	18.2%	49.3%	42.3%
P/E (x)	27.0	10.7	9.0	6.1	4.3
Core EPS (S cts)	2.7	5.2	8.0	11.9	16.9
Core EPS growth (%)	(10.3%)	93.1%	54.6%	49.3%	42.3%
Core P/E (x)	27.0	14.0	9.0	6.1	4.3
FD core EPS (S cts)	2.7	5.2	8.0	11.9	16.9
FD core P/E (x)	27.0	14.0	9.0	6.1	4.3
Gross DPS (S cts)	0.1	0.3	0.4	0.5	0.7
Dividend yield (%)	0.1%	0.4%	0.6%	0.7%	0.9%
P/BV (x)	2.8	2.2	1.8	1.3	1.0
ROE (%)	12.7%	23.5%	22.2%	25.5%	26.6%
Net gearing (%)	28.7%	46.8%	32.4%	12.7%	N/A
Net cash per share (S\$)	N/A	N/A	N/A	N/A	0.06
P/FCFE (x)	(10.9)	(41.7)	12.3	7.0	4.0
EV/EBITDA (x)	10.6	8.6	5.9	4.0	2.5
% change in EPS estimates			0.0%	0.0%	0.0%
CIMB/Consensus (x)			1.05	1.13	1.25

Source: Company, CIMB-GK Research, Bloomberg

Fabrication & engineering

Maiden contributions from Fabrication. Since TWC's foray into the fabrication and engineering business in early 2007, it has built a barge for its internal use as well as clinched a S\$64.8m project to build a pipelay barge for Norce Offshore. In 1HFY08, TWC recognised just over 10% of the contract with S\$7m revenue and appears on track to complete the barge fabrication by Sep-Oct 08. We believe that once TWC completes certain progress milestones, there could be more such contracts.

Outlook remains positive. Leveraging the bright prospects for the construction industry as well as for oil & gas infrastructure development, TWC wants to tap the abundant market opportunities not only in Singapore but also in China, Thailand, the Middle East, Malaysia, Indonesia and Vietnam. With rental rates steadily rising and sustained strong demand, and positive contributions from its Fabrication segment, we project a strong 2H for TWC.

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)
				(Local)	(US\$ m)	CY2008	CY2009	CY2008	CY2008	CY2008
Tiong Woon	TWC SP	O	0.72	1.45	172	7.2	5.0	1.5	24.1	0.7
Tat Hong	TAT SP	O	3.00	5.00	1,054	11.4	9.0	2.9	29.5	0.3
Lian Beng	LBG SP	O	0.56	1.67	210	6.6	4.0	2.8	48.2	0.3
KSH	KSHH SP	O	0.46	0.77	57	5.9	4.0	1.4	26.2	4.0
Simple average						7.8	5.5	2.2	32.0	1.3

O = Outperform, N = Neutral, U = Underperform, NR = Not Rated, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

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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.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

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.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

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STOCK RECOMMENDATIONS

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

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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