

Tiong Woon Corporation

Seasonally weak 3Q

OUTPERFORM

Maintained

S\$0.66

Target: S\$1.21

Mkt.Cap: S\$221m/US\$162m

Construction

TWC SP / TION.SI

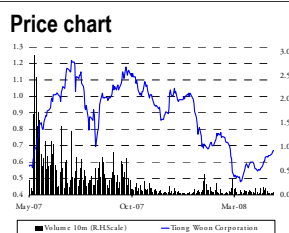
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- **Within expectations.** 3Q08 net profit of S\$5.2m (-21.8% yoy) was within consensus and our annualised forecasts. 9M08 net profit constitutes 65.7% and 67.3% of the respective full-year forecasts. 3Q08 revenue rose 49% yoy to S\$42.1m, driven by the heavy haulage, fabrication and trading segments.
- **Maiden quarterly reporting.** TWC's 3Q is typically the year's slowest quarter due to festivities. The company also experienced weakness in the marine transportation segment on lower utilisation, repairs and scheduled maintenance for its barges and tugboats. There was also mobilisation of equipment. Fabrication & engineering lost S\$0.6m in 3Q08 and S\$3.3m in 9M08, mainly on start-up costs at its Bintan yard. Gross margins slipped to 35% from 38.9% in 9M07. Finance costs increased 129% to S\$2.5m in 9M08 due to higher borrowings to fund the fabrication of its NorCE pipelay barge contract as well as the purchase of new cranes.
- **Positive outlook.** Management maintains a positive outlook, anticipating robust demand for crane services; it expects all segments to post good revenue growth. In particular, TWC is moving into repair services, targeting offshore and marine equipment, given their better margins, sizeable contract values of US\$30m-50m and faster turnaround. However, there are pressures from staff costs (mainly crane operators), interest costs as well as an industry shortage of operators. Meanwhile, management is watching its net gearing, which currently stands at 76.6%, and will be working to reduce this to 60% by FY09.
- **Maintain Outperform; good proxy.** We maintain our FY08 forecast but cut FY09-10 forecasts by 8-23% to reflect a more challenging environment with rising cost pressures, despite management's optimism. However, we continue to view TWC as a good proxy for the robust construction and oil & gas sectors. Our target price dips to S\$1.21 from S\$1.45 following our earnings reductions, still based on 10x CY09 P/E, or a 30% discount to our target P/E for Tat Hong (in view of TWC's smaller size).

Results comparison

FYE Jun (\$ m)	3QFY08	3QFY07	yoy % chg	3QFY08 Cum	3QFY07 Cum	yoy % chg	Prev. FY08F	Comments
Revenue	42.1	28.3	48.8	107.9	72.4	49.0	150.5	In line
Operating costs	(29.7)	(16.8)	77.2	(72.1)	(45.0)	60.3	(105.5)	In line
EBITDA	12.4	11.5	7.5	35.8	27.4	30.6	45.0	
EBITDA margin (%)	29.4	40.7		33.2	37.9		29.9	Weaker on start-up expenses, marine segment
Depn & amort.	(5.1)	(3.7)	39.0	(14.3)	(10.1)	40.6	(14.6)	Due to fleet renewal
EBIT	7.2	7.8	(7.4)	21.6	17.3	24.7	30.4	
Interest expense	(0.9)	(0.4)	119.2	(2.5)	(1.1)	129.4	(2.7)	Due to increased borrowing to finance working cap
Interest & invt inc	0.0	0.1	(33.9)	0.2	0.1	77.9	-	
Associates' contrib	-	-	nm	-	-	nm	-	
Exceptionals	-	-	nm	-	-	nm	-	
Pretax profit	6.4	7.5	(14.3)	19.2	16.3	17.9	27.7	In line
Tax	(1.1)	(1.0)	2.9	(3.3)	(2.7)	19.4	(4.1)	
Tax rate (%)	16.8	14.0		17.1	16.8	1.2	14.9	In line
Minority interests	(0.2)	0.2	(214.7)	(0.2)	(0.2)	11.4	(0.2)	
Net profit	5.2	6.6	(21.8)	15.7	13.3	17.8	23.3	In line
Core net profit	5.2	6.6	(21.8)	15.7	13.3	17.8	23.3	
EPS (cts)	1.5	2.0	(21.8)	4.7	4.0	17.8	6.9	
Core EPS (cts)	1.5	2.0	(21.8)	4.7	4.0	17.8	6.9	

Source: Company, CIMB-GK Research



Source: Bloomberg

Financial summary

FYE Jun	2006	2007	2008F	2009F	2010F
Revenue (\$\$ m)	69.2	99.8	150.5	199.1	227.8
EBITDA (\$\$ m)	25.7	35.0	49.7	68.7	79.4
EBITDA margins (%)	37.1%	35.0%	33.0%	34.5%	34.9%
Pretax profit (\$\$ m)	12.6	25.1	27.7	43.9	52.3
Net profit (\$\$ m)	9.0	22.7	23.3	37.0	44.1
EPS (\$ cts)	2.7	6.7	6.9	11.0	13.1
EPS growth (%)	(10.3%)	152.5%	2.5%	58.6%	19.2%
P/E (x)	24.5	9.7	9.5	6.0	5.0
Core EPS (\$ cts)	2.7	5.2	6.9	11.0	13.1
Core EPS growth (%)	(10.3%)	93.1%	34.0%	58.6%	19.2%
Core P/E (x)	24.5	12.7	9.5	6.0	5.0
FD core EPS (\$ cts)	2.7	5.2	6.9	11.0	13.1
FD core P/E (x)	24.5	12.7	9.5	6.0	5.0
Gross DPS (\$ cts)	0.1	0.3	0.4	0.5	0.7
Dividend yield (%)	0.1%	0.5%	0.6%	0.8%	1.0%
P/BV (x)	2.6	2.0	1.7	1.3	1.0
ROE (%)	12.7%	23.5%	19.6%	24.4%	22.1%
Net gearing (%)	28.7%	46.8%	36.7%	13.5%	N/A
P/FCFE (x)	(9.9)	(38.0)	4.5	4.8	3.6
EV/EBITDA (x)	9.8	7.9	5.5	3.6	2.7
% change in EPS estimates			-	(7.9%)	(22.8%)
CIMB/Consensus (x)			0.96	1.10	1.06

Source: Company, CIMB-GK Research, Bloomberg

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	0.66	1.21	162	7.3	5.5	36.3	1.5	22.3	0.7
Tat Hong	TAT SP	O	2.17	4.43	790	9.3	7.3	41.0	2.0	25.1	2.0
CSC	CSC SP	O	0.28	0.57	231	6.2	4.9	85.7	2.1	36.8	1.1
Hong Leong Asia	HLA SP	O	2.45	4.23	685	10.0	8.6	14.5	1.4	14.6	2.7
Yongnam	YNH SP	O	0.22	0.42	196	7.4	6.3	18.3	1.1	21.2	0.0
OKP	OKP SP	O	0.56	0.69	62	9.0	6.5	11.1	2.2	26.0	2.7
Lian Beng	LBG SP	O	0.37	1.32	142	5.3	3.2	138.2	1.8	38.9	2.2
KSH	KSHH SP	O	0.37	0.77	48	4.8	3.2	32.9	1.2	26.2	5.0
Hor Kew	HKC SP	O	0.12	0.28	56	4.8	3.4	45.7	1.0	22.5	2.1
Simple average						7.1	5.4	47.1	1.6	26.0	2.1

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

Figure 2: Revenue and pretax breakdown

FYE Jun (\$\$ m)	3QFY08	3QFY07	yoy chg	9MFY08	9MFY07	yoy chg
Heavy Lift & Haulage	23.7	18.3	29.9%	67.9	47.4	43.3%
Marine Transportation	2.5	2.9	-15.1%	9.9	11.6	-14.5%
Fabrication & Engg	6.9	0.0	nm	16.0	0.0	nm
Trading	9.0	7.1	27.1%	14.2	13.5	5.0%
Total revenue	42.1	28.3	48.8%	107.9	72.4	49.0%
Heavy Lift & Haulage	6.4	4.3	46.8%	18.5	10.4	77.6%
Marine Transportation	0.3	0.6	-52.6%	3.2	3.0	6.2%
Fabrication & Engg	(0.6)	-	nm	(3.4)	-	nm
Trading	0.8	1.3	-40.6%	2.1	1.7	25.8%
Others	(0.4)	1.2	-135.3%	(1.2)	1.2	-197.3%
Total pretax profit	6.4	7.5	-14.3%	19.2	16.3	17.9%

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

OUTPERFORM: Expected positive total returns of 15% or more over the next 12 months.

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.

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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