

Tiong Woon
Heavy haulage buoying margins

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- Tiong Woon reported strong operating results yesterday, with a 49% YoY jump in both revenue and earnings, largely driven by its heavy lift haulage division (with revenue up 52% YoY).
- PBT margin for heavy haulage division was up from 21% to 26% on the back of a 15% YoY increase in rental rates, given continued demand strength and tight supply in the crane market. Key competitor Tat Hong, due to report interims next Wednesday, should likewise reflect a similarly strong earnings growth profile from the demand-supply mismatch.
- Overall operating margins for Tiong Woon would have expanded by 5% to 25.8% if not for start-up losses of S\$ 2.8 mn from its fabrication and engineering business which reported a maiden contribution of S\$ 9.1 mn in revenue.
- We revised earnings, raising margins by 2% on stronger rental rates, and paring back our shipyard to reflect slower ramp-up on yard operations. Our DCF value remains unchanged at S\$1.20, implying an FY08 P/E of 9x. Reiterate OUTPERFORM.

Bbg/RIC	TWC SP / TION.SI	Price (5 Feb 08, S\$)	0.72
Rating (prev. rating)	O (O) [M]	TP (S\$) (prev. TP)	1.20 (1.20)
Shares outstanding (mn)	337.58	Est. pot. % chg. to TP	67
Daily trad vol-6m avg (mn)	2.4	52-wk range (S\$)	1.22 - 0.34
Daily trad val-6m avg (US\$ mn)	1.7	Mkt cap (S\$/US\$ mn)	243.1/ 171.2
Free float (%)		Performance	1M 3M 12M
Major shareholders	Ang Choo Kim & Sons (42.65%)	Absolute	(29.4) (27.3) 77.8
		Relative	(21.1) (13.3) 86.2
Year	6/06A	6/07A	6/08E
			6/09E 6/10E
Revenues (S\$ mn)	69.2	99.8	161.8 218.3 259.8
EBITDA (S\$ mn)	25.3	40.4	55.6 69.3 78.6
Net profit (S\$ mn)	8.8	22.5	26.3 36.7 42.6
EPS (S\$)	0.03	0.07	0.08 0.11 0.13
- Change from prev. EPS (%)	n.a.	n.a.	0 0 -1
- Consensus EPS (S\$)	n.a.	n.a.	0.08 0.09 0.00
EPS growth (%)	(24.9)	146.4	16.9 39.4 16.0
P/E (x)	26.6	10.8	9.2 6.6 5.7
Dividend yield (%)	0.4	0.6	0.5 0.8 0.9
EV/EBITDA (x)	10.6	7.3	5.1 3.9 3.0
P/B (x)	2.8	2.2	1.8 1.4 1.2
ROE (%)	10.3	20.8	19.8 21.9 20.4
Net debt/equity (%)	30	48	30 17 net cash

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

Tiong Woon reported net profits of S\$ 10.6 mn in 1H08, despite booking a S\$ 2.8 mn start up loss for its shipyard. Excluding the loss, operating margin expanded by 4.3% YoY to 25.8%, given higher rental and charter rates from its heavy lift haulage and marine transportation division. Crane utilisation remained firm due to continued strength in demand. Management also revealed plans to add another 100 cranes to its fleet in the Middle East over the next two years. The shipyard business remains operationally sound, with expected 1H08 PBT margins of 5-10%, excluding the one off charges. Tiong Woon execution of its Norce pipe-laying barge contract remains on track. This maiden order is slated for delivery at end-08, with 10% completed so far.

Maintain OUTPERFORM

 EPS: **◀▶ TP: ◀▶**
Figure 1: Results summary comparison

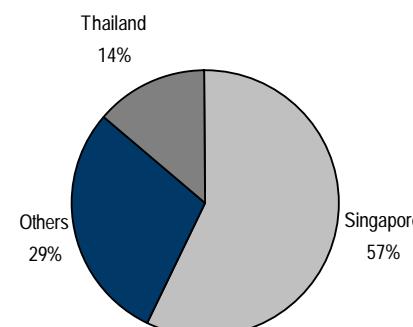
(S\$mn)	1H08	1H07	YoY (%)	FY08E (old)	% of FY08E
Revenue	65.8	44.1	49.1	175.1	37.6
- Heavy Lift Haulage	44.2	29.1	51.8	91.6	48.2
- Marine Transportation	7.4	8.6	-14.3	17.8	41.5
- Trading	5.2	6.4	-19.3	18.2	28.5
- Fabrication & engineering	9.1	0.0	n.m.	47.4	19.2
EBITDA	23.5	15.9	47.2	54.8	42.8
Op. profit	14.3	9.5	51.1	34.7	41.3
Interest income/ (expense)	-1.5	-0.7	128.4	-2.5	61.4
PBT	12.8	8.8	45.3	32.2	39.8
Tax	-2.2	-1.7	29.6	-5.8	38.0
MI	-0.1	-0.1	3.1	-0.2	27.6
Net profit	10.6	7.1	49.5	26.2	40.3
EPS (\$\$)	0.031	0.021	49.5	0.078	40.3
Op margin	21.8	21.5		19.8	

Source: Company data, Credit Suisse estimates.

Key earnings changes
Figure 2: Key forecasts changes

(S\$mn)	FY08 Est			FY09 Est		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	161.8	175.1	-7.6	218.3	229.0	-4.7
- Heavy Lift Haulage	93.0	91.6	1.4	123.5	118.5	4.2
- Marine Transportation	15.3	17.8	-14.3	20.0	20.2	-1.2
- Trading	15.6	18.2	-14.3	17.9	19.1	-6.1
- Fabrication and engineering	37.9	47.4	-20.0	56.9	71.2	-20.0
EBITDA	55.6	54.8	1.4	69.3	69.8	-0.7
Op. profit	35.5	34.7	2.2	48.3	47.8	1.2
Interest income/ (expense)	-3.1	-2.5	25.2	-3.3	-2.7	23.5
PBT	32.4	32.2	0.5	45.0	45.1	-0.1
Tax	-5.8	-5.8	0.5	-8.1	-8.1	0.0
MI	-0.2	-0.2	0.0	-0.2	-0.2	0.0
Net profit	26.318	26.2	0.5	36.692	36.7	-0.1
EPS (\$\$)	0.08	0.1	0.5	0.11	0.1	-0.1
Op margin	21.9	19.8		22.1	20.9	

Source: Company data, Credit Suisse estimates.

Figure 3: 1H08 revenue breakdown


Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 05 Feb 08)

Tiong Woon Corp. (TION.SI, S\$.72, OUTPERFORM [V], TP S\$.1.20)
 Tat Hong Holdings Ltd (TAT.SI, S\$.3.00, OUTPERFORM [V], TP S\$.3.25)
 Norce Offshore (Not Listed)

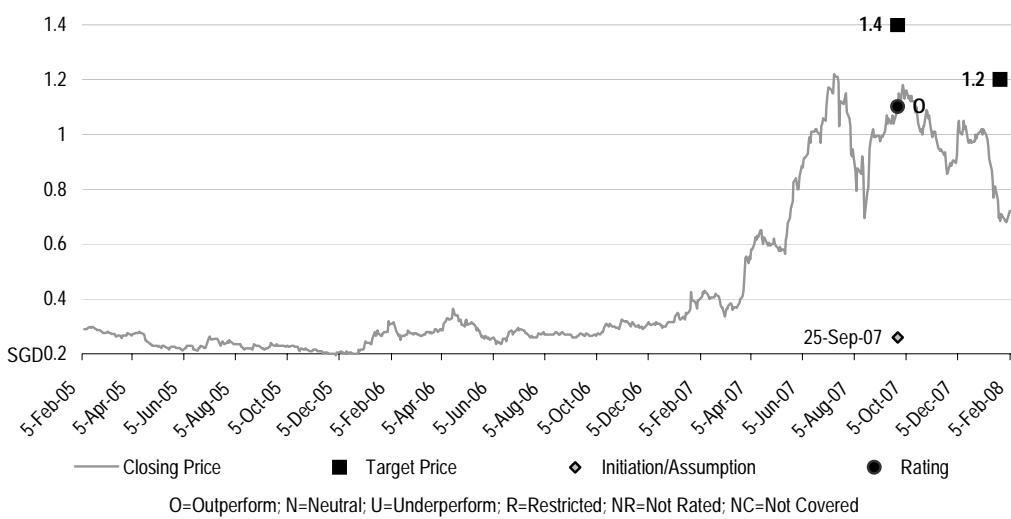
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3-Year Price, Target Price and Rating Change History Chart for TION.SI



TION.SI Date	Closing Price Price (SGD)	Target Price Price (SGD)	Rating	Initiation/Assumption
25-Sep-07	1.1	1.4	OUTPERFORM	X
24-Jan-08	.685	1.2		

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Method: Our target price of S\$1.20 for Tiong Woon (TION.SI) is based on the conservative end of the range of values suggested by price to earnings (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 11.3% cost of capital (a 3% risk-free rate, a 7% 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\$1.20 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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