Tiong Woon Corp

Target	SGD1.29
Price	SGD0.98

Growing onshore and offshore

OFFSHORE & MARINE

Heng Tong Jin
+65 6232 3897
tong-jin.heng@dmgaps.com.sg

Stock Profile/Statistics

Bloomberg Ticker	TWC SP
Issued Share Capital (m)	337.58
Market Capitalisation (SGDm)	327.45
52 week H | L Price (SGD)	1.26 | 0.29
Average Volume (3m) '000	724
YTD Returns (%)	212.70
Net gearing (x)	0.48
Altman Z-Score	3.53
ROCE/WACC	1.21
Beta (x)	1.521
Book Value/share (SGD)	0.32

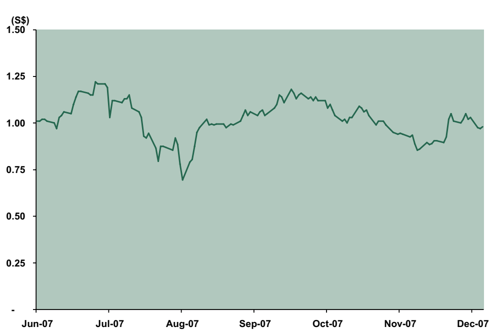
Major Shareholders (%)

Ang Choo Kim & Son	42.90
JP Morgan Chase	8.00
Credit Agricole Asset Mgt	5.72

Share Performance (%)

Month	Absolute	Relative
1m	5.9	7.5
3m	(8.4)	(1.8)
6m	(3.0)	4.5
12m	232.2	217.3

6-month Share Price Performance



INVESTMENT MERITS

- **Increases in Heavy Lift & Haulage rates of between 15-20% year on year lends a boost to the Group's top line.**
- **The new Bintan fabrication yard covering 64 hectares of land space is only 33% utilised at the moment. This sets the stage for another strong revenue driver going forward as utilisation steps up.**
- **The Middle East, which contributed only a portion of FY07 revenue, is expected to grow on the back of a larger crane fleet deployment and phenomenal growth in haulage rates.**
- **The addition of 49 tower cranes and 2 mobile cranes to its tower crane business after the acquisition of Soon Douglas will be another revenue generator.**

COMPANY PROFILE

Tiong Woon Corporation, which listed on the SGX on 17 Sept 1999, is a leading one-stop integrated services specialist and provider of infrastructure businesses, supporting mainly the oil & gas, as well as the petrochemical, power and construction sectors. It possesses its own heavy lift and haulage equipment (niche business), tugboats and barges, and fabrication yards. This enables it to widen its services offering to its EPC contractors and project owners. The company is headquartered in Singapore, and has establishments in Malaysia, Indonesia, Thailand, China and Saudi Arabia.

Its business segments can be split into 4 main categories consisting of Heavy lift & haulage, Marine transportation, Fabrication & engineering and Trading. In its key business of Heavy lift & haulage, Tiong Woon manages turnkey projects for international builders and contractors from the planning and design of requirements to the execution stage whereby the process equipment is lifted, transported, erected and installed at its customers' facilities.

KEY HIGHLIGHTS

Lifting & Haulage business still a gem. With a shortage of cranes in the region and around the globe, haulage rates have been rising between 15-20% y.o.y over the past 3 years. The largest portion of the rise was witnessed in the last 6 months. This is the main reason why organic NPAT almost doubled from FY06 to FY07. With oil prices above the US$90 handle, downstream onshore oil & gas facilities continue to be built around the region, which require Tiong Woon's expertise of turnkey solutions involving haulage and installation. The 100% acquisition of Soon Douglas's tower crane business in May this year is complementary to its existing haulage business, and helps tap into the local construction boom.

Bintan yard is the key revenue driver. Management had realised the importance of latching on to the booming offshore marine industry, and substantiated its thoughts by acquiring its 64 hectare yard in Bintan in Nov 2006 to capitalise on the golden opportunity. Coupled with prior expertise in ship building and repair, management secured a maiden contract in September this year to build a 146.3m derrick pipelay barge with a gross tonnage of 25,000 tons. With only a third of the land space developed, there is plenty of potential for a further onset of such contracts. In addition, the developed area of the yard can still afford to accommodate another 2 more vessels the size of the pipelay barge. Management has also indicated that it is confident of securing various fabrication contracts involving topside modules and jackets for FPSOs.

The Kingdom. Many offshore marine companies have been increasing their business exposure in the Middle East due to the explosive pace of development in oil & gas upstream and downstream projects. However, many companies face the problem of having to run their businesses through JVs, which makes it difficult for operational control. In Tiong Woon's case, however, it has obtained a 100% foreign owned investment license in the Kingdom of Saudi Arabia, giving it full control over its Lifting & Haulage operations. Prospects there are bustling, with haulage rates increasing 20-30% y.o.y. Management has indicated that its current fleet of 60 cranes there will be at least increased by 50% in the next 12 months to cope with overwhelming demand from oil, gas and petrochemical projects.

COMPANY REPORT CARD

ROE. With the boom in the oil & gas sector taking some time to seep into Tiong Woon's complementary Lifting & Haulage business, ROE took a huge jump between FY06 and FY07, rising from 12.5% to 23.2%. Stripping out the extraordinary gains in FY07 still give us a 3.3 ppt rise to 15.8%. We expect ROE to rise organically to 19.3% in FY08 and break just above the 20% level by end FY09.

Management. Mr Ang Kah Hong is the Group Chairman and Managing Director. He has more than 20 years of experience in the management of heavy lift and heavy haulage operations. He is mainly responsible for envisioning the Group as a regional integrated heavy lift, heavy haulage and marine transportation service provider.

Dividend. Management indicated that it will not pay less than 0.4 S cents per share as it has done before. However, we do not expect any increase in payout during this critical expansion phase.

RECOMMENDATION

Tiong Woon, has a and specialised business model, and the biggest portion of top line contribution only comes under global competition with names like *Mammoet* from Holland and *Sarens* from Belgium in the Lifting & Haulage industry. We believe that the company's current business arrangements and exposure will be very earnings accretive going forward. We assign a premium industry rating of 15x blended FY08/FY09 12 months forward PER based on its positive underlying potential to deliver strong earnings growth. We arrive at a target price of S$1.29.

Income Statement (SGDm)

FYE 30 June	FY06	FY07	FY08f	FY09f
Turnover	69.2	99.8	144.9	210.9
Growth (%)	(1.9)	44.3	45.2	45.6
EBITDA	26.7	42.3	47.4	63.7
Pretax	12.4	24.8	25.6	38.4
Net Earnings	8.8	22.5	23.2	35.0
EPS (cents)	2.7	6.7	6.9	10.4
Growth (%)	(24.7)	146.1	3.0	50.7
NTA/Share (S$)	0.25	0.32	0.39	0.50
Gross Div (cents)	0.3	0.4	0.5	0.5
Div Yield (%)	0.3	0.4	0.5	0.5
PER (x)	35.9	14.5	14.1	9.4
P/NTA (x)	3.8	3.0	2.5	2.0
Net Cash/Share	(0.08)	(0.15)	(0.17)	(0.18)

Balance Sheet (SGDm)

FYE 30 June	FY04	FY05	FY06	FY07
Fixed Assets	82.1	87.2	109.2	155.1
Current Assets	22.1	29.8	36.0	51.6
Current Liabilities	(23.0)	(28.3)	(26.0)	(47.5)
Others	0.0	0.0	0.0	0.0
Total	**81.2**	**88.7**	**119.2**	**159.2**
Share capital	27.1	27.1	50.0	50.0
Reserves	20.7	28.4	35.8	58.0
Shareholder Fund	47.8	55.5	85.8	108.0
LT Liabilities	29.6	27.8	29.5	47.5
Others	3.8	5.4	3.9	3.7
Total	**81.2**	**88.7**	**119.2**	**159.2**
Gross Debt	40.5	38.0	35.4	65.8
Net Cash/ (Debt)	(35.6)	(29.2)	(25.8)	(52.3)

Cash Flow Statement (SGDm)

FYE 30 June	FY05	FY06	FY07
Cash Flow from Ops	21.4	16.9	30.6
Cash Flow from Investing	(3.0)	(24.9)	(37.2)
Cash Flow from Financing	(14.1)	8.8	10.6
Net Increase in Cash	**4.3**	**0.8**	**4.0**
Cash at Beginning of Year	4.5	8.8	9.6
Other Changes	0.0	0.0	0.0
Cash at End of Year	8.8	9.6	13.6