

# Tiong Woon Corp



**Singapore**  
Marine/Oil & Gas  
29 January 2008

## Construction Heavyweights

### ◆ Leveraged to resilient construction sector

Tiong Woon Corporation (TWC) is another beneficiary of the current construction boom in Singapore. In our recent Singapore strategy report dated 10<sup>th</sup> Jan 2008, we highlighted the construction industry's position as a key growth driver of the Singapore economy, with over S\$22bn worth of contracts expected to be awarded in FY08. The longer term outlook for the sector also remains solid, with demand coming from the ongoing construction of the two Integrated Resorts, en-bloc redevelopment and public sector projects. Tiong Woon is a natural beneficiary.

### ◆ Overall demand boosting rates

While TWC has been more focused on serving the industrial engineering and oil & gas industries, it will still benefit from this solid demand from civil & structural construction projects, as demand for cranes and heavy lifting equipment remains tight across all industries. Contract rates are picking up, as a consequence. Furthermore, TWC is now more directly involved in construction projects with its purchase of Soon Douglas in May 2007. However, while we believe that TWC may be in discussions for the IR construction projects, we do not believe that such a contract win is critical, as TWC already has its hands full.

### ◆ Positive surprises ahead?

TWC will be announcing its 1H08 results in early February, where we expect the company to post interim net earnings of between S\$9.5-9.7m. This is in line with a typical 40:60 seasonal split for the company. Furthermore, we are building in some additional conservatism into our forecasts, and therefore tweaking our full year forecasts down by 5% to S\$24.8m, as the numbers may have been too aggressive on the profit recognition schedule for its ongoing pipelay barge newbuild being undertaken at its Bintan yard, which is currently approximately 8% completed, and scheduled for full completion in January 2009. However, we believe that overall earnings can surprise on the upside, from 1) improved margins for subsequent vessel newbuilds, 2) improved rates for its cranes and 3) higher margins from its new projects in Saudi Arabia. TWC has also recently acquired one additional AHT vessel for a firm charter in Vietnam for 18 months, and has plans to increase capacity to take advantage of this tight market.

### ◆ Maintain Buy, TP S\$1.23

We are also adjusting our target price to S\$1.23 from S\$1.35, based on our new earnings and a PEG of 0.4x. This translates into an FY08 PE of 17x, which is in line with where we see fair value for the construction industry and other Downstream O&G plays. 3-year earnings CAGR stands at 28% p.a. (ex-extraordinaries). Reiterate BUY.

Year End Jun 30	2006	2007	2008F	2009F	2010F
Sales (\$ m)	69.2	99.8	193.4	220.2	279.0
Pre-tax (\$ m)	12.4	24.8	32.6	37.7	46.6
Net profit (\$ m)	8.8	22.5	24.8	28.7	35.0
EPS (cts)	2.6	6.7	7.4	8.5	10.4
EPS growth (%)	-30.9	155.0	10.3	15.4	22.1
PER (x)	26.6	10.4	9.4	8.2	6.7
EV/EBITDA (x)	10.9	8.7	6.3	5.5	4.6
Yield (%)	0.4	0.7	1.0	1.2	1.4

## BUY

### Company Update

#### Analyst:

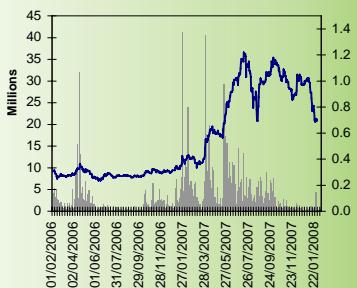
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Price	<b>\$0.695</b>
Target	<b>\$1.23</b>
ST Index	<b>3,041.06</b>

### Historical Chart



Performance	1m	3m	6m
Absolute (%)	-29.5	-35.3	-34.7
Relative (%)	-21.7	-20.7	-27.5

### Stock Information

Ticker code	TWCN.SI
	TWC.SP
Market Cap (US\$m)	1330.7
52-week high (\$)	1.26
52-week low (\$)	0.34
Shares issued (m)	337.6
6m avg. daily vol (US\$m)	2.18
Free float (%)	57.3
Major Shareholders (%)	Ang Choo Kim & Sons (42.7)

### Key Indicators

ROE (%)	10.3
Net gearing (%)	28.7
NTA (\$)	0.27
Interest cover (x)	8.6

**Profit and Loss**

YE Jun (\$\$m)	2006	2007E	2008E	2009E	2010E
Sales	69.2	99.8	193.4	220.2	279.0
Cost of goods sold	(45.2)	(66.7)	(145.2)	(165.5)	(214.7)
<b>EBITDA</b>	<b>24.0</b>	<b>33.2</b>	<b>48.2</b>	<b>54.8</b>	<b>64.4</b>
Depreciation & amortisation	(11.7)	(13.8)	(15.2)	(16.7)	(18.4)
<b>Operating Profit</b>	<b>12.3</b>	<b>19.4</b>	<b>33.0</b>	<b>38.1</b>	<b>46.0</b>
Net interest	(1.4)	(1.9)	(2.1)	(2.3)	(1.6)
Interest income	0.0	0.0	0.0	0.0	1.0
Interest expense	(1.4)	(1.9)	(2.1)	(2.3)	(2.6)
Net investment income/(loss)	1.5	7.4	1.8	1.9	2.1
Net other non-op. JV+Assoc.	0.0	0.0	0.0	0.0	0.0
Net exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax income	12.4	24.8	32.6	37.7	46.6
Income taxes	(3.4)	(2.1)	(7.5)	(8.7)	(11.2)
Minority Interest	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
<b>Net profit</b>	<b>8.8</b>	<b>22.5</b>	<b>24.8</b>	<b>28.7</b>	<b>35.0</b>
EBITDA	24.0	33.2	48.2	54.8	64.4
<b>EPS(\$)</b>	<b>2.6</b>	<b>6.7</b>	<b>7.4</b>	<b>8.5</b>	<b>10.4</b>

Source: Company data, Kim Eng estimates

**Cashflow**

YE Jun (\$\$m)	2006	2007E	2008E	2009E	2010E
<b>Operating cash flow</b>	<b>16.9</b>	<b>30.6</b>	<b>19.0</b>	<b>31.4</b>	<b>37.9</b>
Net Profit	8.8	22.5	24.8	28.7	35.0
Depreciation & amortisation	11.7	13.8	15.2	16.7	18.4
Change in working capital	(7.0)	(1.8)	(11.8)	(3.7)	(6.2)
Others	3.3	(3.9)	(9.2)	(10.2)	(9.2)
<b>Investment cash flow</b>	<b>(24.9)</b>	<b>(37.2)</b>	<b>(33.3)</b>	<b>(27.3)</b>	<b>(33.2)</b>
Net capex	(25.6)	(42.6)	(28.0)	(21.5)	(21.7)
Change in LT investment	0.8	5.4	0.0	0.0	0.0
Change in other assets	0.0	0.0	(5.3)	(5.8)	(11.5)
Cash flow after invt.	(8.0)	(6.6)	(14.3)	4.1	4.8
<b>Financing cash flow</b>	<b>8.8</b>	<b>10.6</b>	<b>24.5</b>	<b>(3.5)</b>	<b>(10.9)</b>
Change in share capital	22.9	0.0	0.0	0.0	0.0
Net change in debt	(11.9)	10.6	25.8	(2.1)	(9.2)
Change in other LT liab.	(2.2)	0.0	(1.4)	(1.5)	(1.6)
<b>Net cash flow</b>	<b>0.9</b>	<b>4.0</b>	<b>10.2</b>	<b>0.5</b>	<b>(6.1)</b>

Source: Company data, Kim Eng estimates

**Balance Sheet**

YE Jun (\$\$m)	2006	2007E	2008E	2009E	2010E
<b>Total assets</b>	<b>145.2</b>	<b>206.6</b>	<b>272.5</b>	<b>303.0</b>	<b>344.2</b>
Current assets	36.0	51.6	90.8	101.3	122.6
Cash & ST investment	10.1	16.2	25.7	27.7	30.2
Inventories	0.5	1.3	2.6	2.9	3.7
Accounts receivable	23.6	30.4	58.8	67.0	84.9
Others	1.8	3.7	3.7	3.7	3.7
LT assets	109.2	155.1	181.7	201.7	221.7
LT investments	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
Net fixed assets	109.1	154.9	181.5	201.5	221.5
Others	0.1	0.1	0.1	0.1	0.2
<b>Total liabilities</b>	<b>55.4</b>	<b>94.9</b>	<b>141.1</b>	<b>144.5</b>	<b>149.3</b>
Current liabilities	26.0	47.5	67.8	73.3	87.3
Accounts payable	8.8	16.7	32.4	36.8	46.7
ST borrowings	15.1	29.0	29.0	29.0	29.0
Others	2.1	1.8	6.5	7.5	11.6
Long-term liabilities	29.4	47.4	73.3	71.2	62.0
Long-term debts	20.3	36.8	62.7	60.6	51.4
Others	9.1	10.6	10.6	10.6	10.6
<b>Shareholder's equity</b>	<b>89.8</b>	<b>111.7</b>	<b>134.5</b>	<b>160.8</b>	<b>192.8</b>
Paid-in capital	50.0	50.0	50.0	50.0	50.0
Reserve	35.8	58.0	80.5	106.4	138.0
Min Int	3.9	3.7	4.0	4.3	4.7

Source: Company data, Kim Eng estimates

**Key Ratios**

YE Jun (\$\$m)	2006	2007E	2008E	2009E	2010E
<b>Growth (% YoY)</b>					
Sales	(1.9)	44.3	93.8	13.9	26.7
EBITDA	11.9	38.2	45.2	13.7	15.8
Pretax	(5.1)	100.5	31.4	15.4	23.7
NP	3.6	155.0	10.3	15.4	22.1
EPS	(30.9)	155.0	10.3	15.4	22.1
<b>Profitability (%)</b>					
EBITDA margin	34.7	33.2	24.9	24.9	23.1
EBIT margin	17.8	19.4	17.1	17.3	16.5
Pretax margin	17.9	24.9	16.9	17.1	16.7
Net Profit margin	12.8	22.5	12.8	13.0	12.5
ROA	6.1	10.9	9.1	9.5	10.2
ROE	10.3	20.8	19.0	18.3	18.6
<b>Stability</b>					
Gross debt/equity (%)	39.5	58.9	68.2	55.7	41.7
Net debt/equity (%)	28.7	46.8	52.9	42.1	29.8
Int. coverage (x)	8.6	10.0	15.5	16.2	17.8
Int. & ST debt coverage (x)	0.7	0.6	1.1	1.2	1.5
Cash flow int. coverage (x)	11.9	15.8	8.9	13.4	14.7
Cash flow int. & ST debt (x)	1.0	1.0	0.6	1.0	1.2
Current ratio (x)	1.4	1.1	1.3	1.4	1.4
Quick ratio (x)	1.3	1.0	1.2	1.3	1.3
Net debt (\$\$m)	25.8	52.3	71.1	67.7	57.5
<b>Per share data (Scts)</b>					
EPS	2.6	6.7	7.4	8.5	10.4
CFPS	5.0	9.1	5.6	9.3	11.2
BVPS	26.6	33.1	39.8	47.6	57.1
SPS	20.5	29.6	57.3	65.2	82.7
EBITDA/share	7.1	9.8	14.3	16.2	19.1
DPS	0.3	0.5	0.7	0.8	1.0

Source: Company data, Kim Eng estimates

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