UBS Investment Research

Tiong Woon Corporation

Rising star

■ Niche player in the 1,000 ton segment

Tiong Woon specialises in integrated lifting solutions for the petrochemical, oil and gas, and infrastructure sectors, as its high capacity cranes are particularly suited for these loads. We forecast an earnings CAGR of 31% from FY07-10 on increased contract flows from these sectors, rising rental rates, an expanded fleet, and contributions from its yard business. We initiate coverage with a Buy rating.

■ Tapping the oil and gas sector—new yard business

We think the next two years will be crucial for Tiong Woon as it expands its engineering and fabrication division. The Bintan yard is presently one-third utilised but the successful delivery of its S$64m maiden contract could lead to faster contract momentum. We think the fabrication division, if executed well, could mark the start of an exciting earnings transformation of the company.

■ Strong earnings growth

We forecast strong revenue and earnings of S$147m (up 47% YoY) and S$24.5m (up 27% YoY, ex one-off gains in FY07), respectively for FY08. Over the longer term, we project a 31% sales CAGR (FY07-10) to S$225m and an earnings CAGR of 22% to S$35m.

■ Valuation: price target of S$1.08

We base our price target on a DCF methodology, using a 9.8% COE discount rate (COE assumptions: a 2.3% risk-free rate; a 5% equity risk premium; 1.5 beta) and 1.5% terminal growth. Our price target implies 11.5x FY09 estimated PE, in line with the forward PE for our assembled basket of construction-related companies.

Highlights (S$m)	06/06	06/07	06/08E	06/09E	06/10E
Revenues	69.2	99.8	147.0	202.8	224.9
EBIT (UBS)	13.6	26.6	32.2	41.5	45.7
Net Income (UBS)	8.8	22.5	24.2	31.7	34.9
EPS (UBS, S$)	0.03	0.07	0.07	0.09	0.10
Net DPS (UBS, S$)	0.00	0.00	0.01	0.01	0.01

Profitability & Valuation	5-yr hist av.	06/07	06/08E	06/09E	06/10E
EBIT margin %	18.7	26.7	21.9	20.5	20.3
ROIC (EBIT) %	-	19.0	17.9	19.6	19.1
EV/EBITDA (core) x	-	5.1	6.1	5.1	4.6
PE (UBS) x	8.3	6.4	9.6	7.3	6.6
Net dividend yield %	1.6	0.9	0.7	1.0	1.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of S$0.69 on 24 Jan 2008 23:38 HKT

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Heavy Construction

12-month rating	**Buy**
	Prior: Not Rated
12m price target	**S$1.08/US$0.76**
	-
Price	**S$0.69/US$0.48**

RIC: TION.SI BBG: TWC SP

Trading data (local/US$)

52-wk range	S$1.22-0.34/US$0.80-0.22
Market cap.	S$0.23bn/US$0.16bn
Shares o/s	338m (ORD)
Free float	55%
Avg. daily volume ('000)	690
Avg. daily value (S$m)	0.6

Balance sheet data 06/08E

Shareholders' equity	S$0.13bn
P/BV (UBS)	1.8x
Net Cash (debt)	(S$0.06bn)

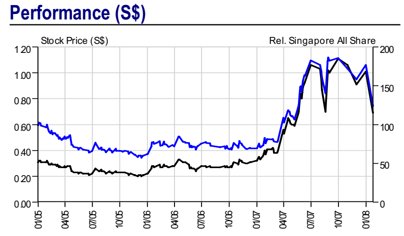
Forecast returns

Forecast price appreciation	+57.7%
Forecast dividend yield	0.7%
Forecast stock return	+58.4%
Market return assumption	6.5%
Forecast excess return	+51.9%

EPS (UBS, S$)

	06/08E			06/07
	From	To	Cons.	Actual
H1E	-	-	-	-
H2E	-	-	-	-
06/08E	-	0.07	-	
06/09E	-	0.09	-	

Performance (S$)



Source: UBS

www.ubs.com/investmentresearch

Investment case

We initiate coverage of Tiong Woon with a Buy rating and a 12-month price target of S$1.08. As a heavy lift and installation specialist for the petrochemical, oil & gas, and infrastructure sectors, we think it is well positioned to exploit the ongoing boom—around 75% of its revenue is derived from these sectors. Our price target implies 11.5x FY09 estimated earnings.

Niche positioning is its ability to integrate the land and marine transport logistics with onsite installation

- **Transport logistics provider and heavyweight lifter.** Tiong Woon manages 224 cranes, with capacities ranging from 20MT to 1,250MT, and operates a fleet of prime movers and tugs and barges. The company's niche positioning, in our view, is its ability to integrate the land and marine transport logistics with onsite installation of equipment.

- **Good traction with the oil and gas sector.** The group recently secured a contract for Shell's Houdini project, which requires heavy haulage and marine transportation services from Singapore to Bukom Island. With ExxonMobil and Jurong Aromatics also kicking off their building phase, we foresee impending demand for Tiong Woon's services. Management has indicated that the company has been short-listed to provide haulage services for Exxon's second petrochemical complex.

Tower crane business to target high-rise construction

- **Riding the commercial and residential boom.** Tiong Woon is also benefiting from the high-rise building boom through its 49-strong tower crane fleet. Once these cranes are erected, they will stay on the site for over nine months thereby providing a steady earnings stream.

- **Middle East—continuing to ride the cycle.** As the first Singapore company to be awarded an investment licence to run a wholly foreign owned business entity in Saudi Arabia, we think Tiong Woon is well positioned to enter the region. Management intends to maximise opportunities and invest S$20m in the Jubai facility for 50-100 cranes of 50 to 300 tonnes capacity. Management's three-year goal is for the Jubai facility to account for 25% of revenue.

New growth segment—fabrication and engineering

- **Bintan fabrication—the new growth driver.** To further entrench its position within the oil and gas segment, Tiong Woon is providing a new range of engineering, procurement, and construction services, including fabrication and repair of platforms for oil rigs, jackets, modules, as well as building of vessels and barges. If executed well, we think the company's earnings mix will undergo a transformation over the next two years.

- **Macro factor for the fabrication business certainly positive.** UBS expects Brent crude to remain above US$86, a price that should encourage exploration activity and buoy demand for support vessels. Tiong Woon's yard utilisation is only 33%; hence we think the group can aggressively pursue these opportunities and there is good potential for earnings expansion.

- **Strong earnings growth.** For FY08, we forecast revenue and earnings of S$147m (up 47% YoY) and S$24.5m (up 27% YoY, ex one-off gains in FY07), respectively. Over the longer term, we project a 31% sales CAGR (FY07-10) to S$225m and a 22% earnings CAGR to S$35m. We expect this to be driven by strong rental cycles for crane rental, an expanded fleet size, and contributions from the fabrication business.

- **Valuation: Buy rating and a 12-month price target of S$1.08.** Our price target of S$1.08 implies 11.5x FY09 estimated PE. Our assumptions are a 9.8% COE discount rate for the explicit forecast years (COE assumptions: a 2.3% spot risk-free rate, a 5% equity risk premium; 1.5 two-year beta), 10.4% for the terminal value (COE assumptions: a 3.6% normalised risk-free rate; a 5% equity risk premium; 1.35 five-year beta) and 1.5% terminal growth. This multiple is in line with our assembled basket of marine and construction-related companies.

Buy rating and a 12-month price target of S$1.08

Potential price catalysts

(1) We think Tiong Woon will have better earnings visibility once the company commences quarterly reporting in 2008.

(2) Contract momentum for its Bintan yard business.

(3) More newsflow on its Middle East operations.

1. Quarterly reporting
2. Contract wins
3. News on Middle East operations

Company risks

- **Execution risk for fabrication segment.** As a new entrant to fabrication and engineering services, the key risk is poor execution and unsuccessful contract bids beyond the current job. Under this scenario, fabrication earnings would taper off, derailing our projections. Tiong Woon has stated that it has experience in fabrication (1990-1994), but we think this is not a meaningful yardstick to measure its capabilities and the company would have to rebuild its track record.

Execution risk in new growth segment

- **Stock liquidity risk.** Tiong Woon is fairly illiquid with an average daily traded value of only S$0.6m. The two-year weekly adjusted beta is also above 1.5x. We think this is the result of strong share price performance in 2007 and could be reflective of the risk involved in the fabrication business.

The stock is fairly illiquid

- **Outlook for the oil and gas sector.** The health and outlook of the group's fabrication business is reliant on continuing oil and gas exploration and production activity, which in turn will lead to demand for Tiong Woon's services in building offshore support vessels.

- **Foreign currency risk.** Yen movement impacts earnings through the costs of equipment purchased for distribution. To minimise exchange rate risk, Tiong Woon hedges these purchase at contracted forward exchange rates.

- **Termination of distributorship.** Tiong Woon has established a standing relationship with IHI for the supply of its cranes. Notwithstanding this, the distributorship can be terminated with six months notice and could be detrimental to earnings.

Distributorship can be terminated with six months notice

- **Crane backlog, rental and utilisation rates.** While a global shortage of cranes is positive for Tiong Woon's rental business, unanticipated delivery delays would reduce the profitability of the distribution division, in our view. Once this supply bottleneck reverses, Tiong Woon should be able to build its inventory for the distribution arm, but could find it challenging to sustain the high rental rates and utilisation levels.

- **Shortage of qualified contractors.** Like cranes, the market for qualified operators is also witnessing a shortage and wage pressure. Tiong Woon's operating costs would increase if it is unable to pass on the higher staffing costs to its customers.

Shortage of skilled crane operators could lead to higher operating expenses

Financials

Return on capital

FY08-09 would be a period for Tiong Woon to drive margin expansion through raising rental rates and optimising fleet utilisation, in our view

- Our channel checks indicate that the order lead time for cranes is between 18 and 24 months, depending on the lifting capacity. This should keep supply tight. We therefore see FY08-09 as a period for Tiong Woon to exploit rental rates and optimise fleet utilisation.
- We think operational efficiency in the lifting and haulage segment would, however, be diluted by the lower-margin fabrication segment (12% EBIT margin). We do, however, expect blended margins to stabilise at 20%.
- ROIC should increase to high double digits from the higher asset turn. This is also reflective of the more favourable operating environment. We forecast ROE to remain at around 20%.

Table 26: ROCE/ROE decomposition

June year end	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Asset turnover	58.8%	80.1%	67.5%	71.5%	81.8%	95.6%	94.0%
EBIT margin	24.7%	20.7%	19.6%	26.7%	21.9%	20.5%	20.3%
EBIT ROIC	**14.5%**	**16.6%**	**13.2%**	**19.1%**	**17.9%**	**19.6%**	**19.1%**
Taxes	84.8%	76.9%	72.8%	91.6%	82.0%	82.0%	82.0%
Returns on invested capital	**12.3%**	**12.7%**	**9.6%**	**17.5%**	**14.7%**	**16.0%**	**15.7%**
IC as a % of capital employed	99.3%	99.3%	99.6%	99.9%	99.9%	99.9%	99.9%
Returns on other invested capital	**-0.6%**	**3.3%**	**0.5%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other assets/CE	0.7%	0.7%	0.4%	0.1%	0.1%	0.1%	0.1%
Returns on capital employed	**12.2%**	**12.7%**	**9.6%**	**17.4%**	**14.7%**	**16.0%**	**15.7%**
Leverage	148.4%	140.8%	124.5%	129.4%	135.3%	133.9%	124.7%
Minorities	108.0%	108.9%	106.5%	103.9%	103.2%	102.9%	102.6%
Exceptionals	102.3%	84.9%	98.0%	98.9%	98.9%	98.9%	98.9%
Net profit/sales	18.8%	12.1%	12.8%	22.5%	16.5%	15.6%	15.5%
Sales/assets	0.59	0.80	0.68	0.72	0.82	0.96	0.94
Assets/equity	1.99	1.70	1.45	1.44	1.51	1.46	1.36
ROE	**20.0%**	**16.5%**	**12.5%**	**23.2%**	**20.3%**	**21.8%**	**19.8%**

Source: Company data, UBS estimates

Profit and loss

FY08E: revenue and earnings of S$147m (+47% YoY) and S$24.5m (7.5% YoY), respectively

- For FY08, we forecast revenue and earnings of S$147m (up 47% YoY) and S$24.5m (up 7.5% YoY), respectively. Stripping out the negative goodwill arising from the Soon Douglas acquisition (S$2.3m) and gains from the sale of financial assets (S$1.1m), growth would have been 27% YoY.

We are projecting 32% sales CAGR (2007-10) to S$225m and earnings growth of 22% CAGR to S$35m

- Over the longer term, we project a 32% sales CAGR (2007-10) to S$225m and a 22% earnings CAGR to S$35m. We assume an effective tax rate of 18%.
- The blended margin is likely to be diluted by the fabrication division, in our view. Tiong Woon's lifting and haulage business' operating margin is about 23%, whereas the fabrication segment would generate low double digits, according to our analysis.

Table 27: Profit and loss statement

June year end (S$ m)	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Revenues	51	71	69	100	147	203	225
Cost of goods sold	(31)	(45)	(44)	(60)	(91)	(129)	(142)
Gross profit	**20**	**25**	**25**	**40**	**56**	**74**	**83**
SGA	(11)	(13)	(13)	(20)	(28)	(36)	(41)
Other core income	3	3	1	7	4	4	4
EBIT	**13**	**15**	**14**	**27**	**32**	**42**	**46**
Income from associates	(0)	0	0	-	-	-	-
Abnormal items (pre-tax)	-	-	-	-	-	-	-
Interest	(2)	(2)	(1)	(2)	(2)	(2)	(3)
Profit before taxes	**11**	**13**	**12**	**25**	**30**	**39**	**43**
Taxes	(2)	(3)	(3)	(2)	(5)	(7)	(8)
Profit after tax	**9**	**10**	**9**	**23**	**24**	**32**	**35**
Minorities	0	(2)	(0)	(0)	(0)	(0)	(0)
Net income	**10**	**9**	**9**	**23**	**24**	**32**	**35**
Revenue growth		**38.3%**	**-1.9%**	**44.3%**	**47.3%**	**37.9%**	**10.9%**
EBIT margin	**24.7%**	**20.7%**	**19.6%**	**26.7%**	**21.9%**	**20.5%**	**20.3%**
EBIT growth		**15.9%**	**-6.9%**	**96.1%**	**20.9%**	**29.0%**	**10.2%**
Net profit growth		**-11.0%**	**3.5%**	**155.0%**	**7.5%**	**31.2%**	**10.1%**

Source: Company data, UBS estimates

- Management has stated its intention to grow the fleet over the medium term to broaden the earnings base, although management has not mentioned any specific target. However, Tiong Woon is to take possession of five tower cranes in January 2008 and 20 150-200MT cranes in June/July 2008, increasing fleet size by 10% and 9%, respectively.

Fleet expansion of more than 5,000MT by 2010

- It is inherently challenging to model rental revenue with precision as it comprises three moving variables: utilisation rates, rental rates, and fleet size within each lifting class. This is made more difficult in the case of Tiong Woon, as it combines the revenue from lifting and haulage. Still, we have attempted this and our model assumes fleet expansion of more than 5,000MT by 2010, an average rental increase of about 8% pa until 2010.

  (1) If we assume a rental rate increase with no change in fleet size, revenue would grow to S$99m by FY10. Conversely, fleet growth of 5,000MT at the current base rate would add an incremental S$12m.

  (2) On our assumptions of both rate and fleet growth, we expect revenue to increase from S$67m in FY07 to S$123m in FY10. This is underpinned by margin expansion and fleet growth. We think the favourable operating environment will enable fleet optimal utilisation at the 80% plus level and maintain lifting and haulage EBIT margins at 23%. For FY08, we forecast incremental revenue of S$7m from the tower crane business.

Table 28: Crane rental forecasts

June year end (S$ m)	Variable	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Crane rental rate increase (base case)		10.0%	9.0%	9.0%	2.0%	2.0%	0.0%
Base earnings S$67m in FY07:							
Revenue from rate increase assuming:	No fleet growth	80.7	90.1	**99.2**	100.5	102.2	103.2
Revenue from fleet growth assuming:	No rental rate change	2.0	8.0	**12.0**	19.3	27.3	35.3
Total revenue:		82.7	98.1	**111.2**	119.8	129.5	138.5
Our assumptions:							
Rental revenue assuming rate increase		80.7	90.1	**99.2**	100.5	102.2	103.2
Fleet tonnage increase	*Cumulative*	1,500	3,000	5,000	8,000	11,000	14,000
Total fleet size in MT	*From base 28,500MT*	27,500	29,000	31,000	34,000	37,000	40,000
Rental revenue from fleet growth		2.1	9.0	**14.7**	25.4	36.8	48.0
Tower crane revenue		7.0	8.6	**9.4**	9.6	9.8	9.8
Total crane rental		89.7	107.7	**123.3**	135.5	148.8	161.0
Growth			20.1%	14.5%	9.9%	9.8%	8.2%

Source: UBS estimates

Table 29: Segment revenue

June year end (S$ m)	FY07	FY08E	FY09E	FY10E
Heavy lift	67.1	89.7	107.7	123.3
Marine transportation	15.4	11.7	13.2	14.8
Trading	17.3	18.7	20.2	21.8
Fabrication & engineering	-	26.9	61.6	65.0
Operating profits				
Heavy lift	14.3	20.6	25.3	29.0
Marine transportation	3.2	2.5	2.8	3.1
Trading	1.9	1.9	2.0	1.9
Fabrication & engineering	-	3.2	7.4	7.8

Source: Company data, UBS estimates

We assume Tiong Woon secures a further S$65m for FY09

- For the fabrication segment, we have modelled for projects worth S$65m in FY09 and thereafter. We think this is conservative as the Bintan yard is currently one-third utilised, but we prefer to increase our forecast only when contract wins are announced. Our forecast operating and net margins are 12% and 8%, respectively. Management mentioned it is unlikely to take on new work until June 2009 despite being offered a second option with NorCE. We think management may be holding out for better margins and terms; we estimate the NorCE contract has a net margin of about 8%, and is likely back-end loaded in terms of payment.

Progress on the NorCE contract is about 4% complete

- Checks with management suggest progress on the maiden NorCE contract is about 4% completed. By June 2008, management is confident of completing about 40% with launch slated for August/September. In terms of revenue recognition, this would amount to S$27m by end-FY08.

- For the marine transport business, we forecast modest expansion through to FY10. Growth is unlikely to be spectacular, in our view, as this segment primarily complements the core business of heavy lifting and haulage.

- We think trading in general equipment might post double-digit growth. Strong demand across the sectors should result in higher selling prices and better margins for both new and second-hand cranes. To generate higher growth, we expect management to take advantage of opportunistic purchases and sales.

We think trading in general equipment might have post double-digit growth

Balance sheet

- We expect net tangible assets to rise from S$155m in FY07 to S$203m in FY10, as the group progressively expands and renews the fleet. The average age of Tiong Woon's current fleet is about 12 years.

- We think working capital requirements will increase as Tiong Woon expands its Middle East operations and takes on more fabrication works. As of FY07, the group's net debt was S$52m with 48% net gearing. We think there is scope for the balance sheet to be optimised further; in 2003, when sector prospects were less favourable, Tiong Woon's net gearing was as high as 71%.

As of FY07, the group is net debt S$52m with net gearing at 48%

- The cash conversion cycle is likely to lengthen as the group expands its fabrication business. For the core lifting and haulage business, Tiong Woon bills rental customers on a monthly basis and has little issue with receivables. For the fabrication segment, payments are likely to be backend loaded.

Table 30: Balance sheet

June year end (S$ m)	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Net tangible fixed assets	81	87	109	155	174	188	203
Net intangible fixed assets	-	-	-	-	-	-	-
Net working capital	11	10	15	20	32	52	57
Other long-term liabilities	(5)	(7)	(9)	(11)	(11)	(11)	(11)
Total invested capital	**87**	**89**	**115**	**164**	**195**	**229**	**249**
Investments/other assets	1	1	0	0	0	0	0
Total capital employed	**87**	**90**	**116**	**164**	**196**	**229**	**250**
Net (cash)/debt	36	29	26	52	61	65	52
Provisions	-	-	-	-	-	-	-
Minority interests	4	5	4	4	4	4	5
Shareholders' funds	48	56	86	108	131	160	193
Total capital employed	**87**	**90**	**116**	**164**	**196**	**229**	**250**
Fixed asset growth		**6%**	**26%**	**42%**	**13%**	**8%**	**8%**
Working capital growth		**-5%**	**53%**	**27%**	**62%**	**64%**	**9%**
Capital employed growth		**3%**	**28%**	**42%**	**19%**	**17%**	**9%**

Source: Company data, UBS estimates

Table 31: Working capital

June year end (S$ m)	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Accounts receivable	15	19	24	30	46	69	76
Inventory (comprise of fuel and spare parts)	0	1	1	1	3	4	5
Other current assets	2	2	2	6	6	6	6
Accounts payable	(6)	(10)	(9)	(17)	(22)	(27)	(29)
Other short-term liabilities	(0)	(1)	(2)	(2)	(2)	(2)	(2)
Net working capital	**11**	**10**	**15**	**20**	**32**	**52**	**57**
Days of receivables		97	124	111	115	125	124
Days of inventory		4	3	5	8	8	8
Days of payables		80	73	101	90	75	75
Days of NWC		52	81	71	79	93	92

Source: Company data, UBS estimates

Cash flow

- We expect capex of S$35m over the next few years for fleet expansion. Tiong Woon will be taking possession of 20 crawler cranes in June/July 2008 and five tower cranes in January 2008.
- We expect net effective capex to adjusted sales to trend towards 25%, which should be sufficient for fleet expansion to support our earnings growth forecasts. To be conservative, we think it is likely to be 70% cash-financed and 30% through capital leases. Adjusted sales comprise crane rental and marine transport that will require capex.
- The net effective capex to adjusted sales figures were higher for FY04 and FY06 due to special purchases. In 2004, Tiong Woong acquired a 1,250 ton high-capacity crane, and in 2006, it acquired a fleet of new cranes and tug boats.
- In our DCF analysis, the cash portion of capital expenditure is under capex while net capital leases are under net debt issued. The financing of the interest is included in net income.

Table 32: Capex schedule

June year end (S$ m)	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Sales	31.7	38.9	70.5	69.2	99.8	147.0	202.8	224.9	238.6	252.2	268.3
Adj sales (crane & marine)	27.4	34.3	61.7	62.1	82.5	101.4	121.0	138.1	151.8	166.7	180.8
Cash capex	11.6	12.8	6.9	27.3	36.9	24.5	21.2	24.2	26.6	29.2	31.6
Financed by borrowings/leases	5.0	23.9	9.1	8.7	1.9	10.5	9.1	10.4	11.4	12.5	13.6
Effective capex	16.6	36.7	16.1	36.0	38.8	35.0	30.2	34.5	37.9	41.7	45.2
Effective capex to adj sales	61%	107%	26%	58%	47%	35%	25%	25%	25%	25%	25%
Less cash from disposals	-2.0	-12.2	-3.9	-3.3	-3.9	-	-	-	-	-	-
Net effective capex	14.6	24.5	12.2	32.7	34.9	35.0	30.2	34.5	37.9	41.7	45.2
Net effective capex/adj sales	53%	71%	20%	53%	42%	35%	25%	25%	25%	25%	25%

Source: Company data, UBS estimates

Table 33: Cash flow

	2004	2005	2006	2007	2008E	2009E	2010E
EBIT	13	15	14	27	32	42	46
Depreciation	7	10	12	14	16	17	19
Change in working cap	(2)	(0)	(7)	(2)	(12)	(20)	(5)
Other operating	(1)	3	3	(4)	3	3	3
Operating cash flow	**18**	**27**	**22**	**35**	**38**	**41**	**63**
Interest	(2)	(2)	(1)	(2)	(2)	(2)	(3)
Taxes paid	(0)	(1)	(0)	(1)	(5)	(7)	(8)
Capex	(1)	(3)	(24)	(33)	(25)	(21)	(24)
Free cash flow	**15**	**22**	**(4)**	**(1)**	**6**	**10**	**28**
Net acquisitions / disposals	-	-	(2)	(6)	-	-	-
Dividends (common)	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Dividends (preferred)	-	-	-	-	-	-	-
Share issues / buybacks	-	-	23	-	-	-	-
Other	(23)	(15)	(13)	(19)	(13)	(12)	(13)
Cash flow (inc)/dec in net debt	**(8)**	**6**	**3**	**(26)**	**(9)**	**(4)**	**12**
Free cash flow yield	**16.1%**	**30.4%**	**-4.5%**	**-0.7%**	**2.6%**	**4.5%**	**12.2%**
Dividend yield	**0.8%**	**1.2%**	**1.1%**	**0.6%**	**0.7%**	**1.0%**	**1.1%**
Capex/sales	**1.2%**	**4.3%**	**34.7%**	**33.1%**	**16.7%**	**10.4%**	**10.7%**
Net debt to equity	**74.5%**	**52.6%**	**30.0%**	**48.4%**	**46.8%**	**40.4%**	**27.2%**

Source: Company data, UBS estimates

Price target derivation

Buy rating and a 12-month price target of S$1.08 based on DCF

- We have a Buy rating on Tiong Woong and a 12-month price target of S$1.08 based on a DCF methodology. Our price target implies 11.5x FY09 estimated PE. We have six years of explicit forecasts with a 20.2% earnings CAGR over the rapid growth phase (FY08-10) and 6.1% long-term (FY10-13) growth and 1.5% terminal growth. Our assumptions are a 9.8% COE discount rate for our explicit forecasts (COE assumptions: a 2.3% risk-free rate; a 5% equity risk premium; Bloomberg two-year beta of 1.5) and 10.4% for the terminal value (COE assumptions: a 3.6% normalised risk-free rate, a 5% ERP; Bloomberg five-year beta of 1.35).
- We think our terminal rate is reasonable as Tiong Woon is targeting a high-growth market (Middle East) and because of its expansion in the oil and gas sector.

Table 34: Price target derivation

June year end (S$ m)	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E
Net Income	24.2	31.7	34.9	36.8	39.3	41.7
Less capex	(24.5)	(21.2)	(24.2)	(26.6)	(29.2)	(31.6)
Add depreciation	15.5	17.1	18.8	20.7	22.8	25.0
Change in working capital	(12.1)	(20.3)	(4.8)	(2.3)	(3.4)	(3.9)
Net debt issued / (less debt repaid)	7.5	4.1	5.4	6.4	7.5	8.6
Free cash flow	**10.6**	**11.4**	**30.1**	**35.0**	**37.1**	**39.8**
Terminal value						**252.7**
Long-term growth	1.5%					
Discount rate (COE)	9.8%					
Discounted value of FCFE	364.6					
Number of shares	337.6					
Exchange rate	1.00					
Estimated value per share (S$)	**1.08**					

Source: UBS estimates

Table 35: Sensitivity analysis (S$)

		Discount rate				
		9.0%	**9.5%**	**9.8%**	**10.0%**	**10.5%**
	0.5%	1.01	1.00	1.00	1.00	0.99
	1.0%	1.05	1.04	1.04	1.03	1.03
Long-term growth	**1.5%**	1.09	1.09	**1.08**	1.08	1.08
	2.0%	1.14	1.13	1.13	1.13	1.12
	2.5%	1.19	1.19	1.18	1.18	1.18

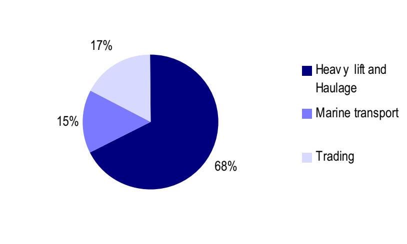
Source: UBS estimates

Appendix: Company background

Tiong Woon is a heavy lift and installation specialist for the oil and gas, and infrastructure sectors. The group holds about 25% of the domestic crane rental market. Geographically, it also has a presence in Malaysia, China, Thailand, Indonesia, the Philippines, and the Middle East.

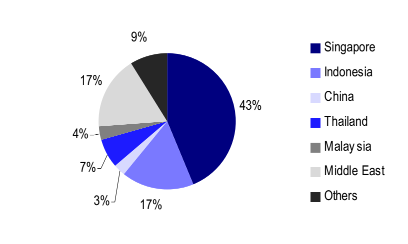
Holds about 25% of the domestic crane rental market

Chart 35: Segment sales (FY07)



Source: Company data

Chart 36: Geographical sales (FY07)



Source: Company data

Heavy lift and haulage

This segment provides heavy lift and haulage services to a wide range of local/ international contractors in the infrastructure, petrochemical, pharmaceutical and construction sectors. Tiong Woon's competitive positioning, in our view, is its ability to offer integrated logistical support to transport and install equipment onsite. The duration of its rental services could span from a single lift to a maintenance contract of two years.

The company has a global network, which facilitates the mobilisation of its fleet to take advantage of emerging cross-border opportunities and pricing differentials.

A global network to facilitate the mobilisation of its fleet

Table 36: Tiong Woon's fleet

Fleet size	Jun-07
<49MT	59
50-99MT	83
100-149MT	22
150- 249MT	32
>249MT	28
Others	-
Total cranes	224
Tower cranes	49
Hydraulic multi wheeler transporters	9
Low bed	28
Tugs	10
Barges	10

Source: Company data

Marine transportation

The marine operation is based on the Pandan Crescent premises in Singapore and it has its private waterfront along Sungei Pandan. The waterfront is equipped with a concrete ramp and berthing jetty, enabling the group to carry out its loading and unloading operations there. The barges and tugs are typically utilised within the oil & gas, marine infrastructure and construction industries to transport process equipment or for installation.

Equipment sales and trading

Exclusive distributor for Ishikawajima Construction Machinery of Japan

Tiong Woon is the exclusive distributor for Ishikawajima Construction Machinery of Japan in Singapore, Malaysia, Brunei, Vietnam, Thailand, Philippines, Cambodia, Laos and Myanmar. The agreement is renewable on a yearly basis and can be terminated by written notice of at least six months.

The group also engages in trading of heavy equipment and spare parts to complement its heavy lift and haulage activity.

Bintan yard business

Fabrication yard in Bintan was acquired in November 2006

Tiong Woon acquired the 64.3ha fabrication yard in Bintan for S$4m in November 2006. It has a 372m-long wharf with a natural water depth of 12 metres that can accommodate vessels of up to 120,000MT. The yard was acquired to support Tiong Woon's current fleet of heavy lift equipment, tugs and barges and eventually to grow a new income stream from fabrication and engineering projects. To date the company has invested S$9m for the land, plant and equipment.

The group is undertaking its maiden contract for the construction of a derrick pipelay barge in its Bintan yard. Work for customer NorCE Offshore commenced in September 2007 and is expected to last 16 months. Tiong Woon is responsible for fabricating the hull and major sections of the vessel as well as installation of the owner's supplied equipment.

Figure 1: Bintan fabrication yard

Source: UBS

Figure 2: Constructing the pipelay barge

Source: UBS

Tiong Woon Corporation

Income statement (S$m)	06/05	06/06	06/07	06/08E	% ch	06/09E	% ch	06/10E	% ch
Revenues	**70.5**	**69.2**	**99.8**	**147.0**	*47.3*	**202.8**	*37.9*	**224.9**	*10.9*
Operating expenses (ex depn)	(49.1)	(45.2)	(66.7)	(103.3)	*55.0*	(148.2)	*43.5*	(164.4)	*10.9*
EBITDA (UBS)	**24.3**	**25.3**	**40.4**	**47.7**	*18.1*	**58.6**	*22.7*	**64.5**	*10.2*
Depreciation	(9.7)	(11.7)	(13.8)	(15.5)	*12.7*	(17.1)	*9.7*	(18.8)	*10.1*
Operating income (EBIT, UBS)	**14.6**	**13.6**	**26.6**	**32.2**	*20.9*	**41.5**	*29.0*	**45.7**	*10.2*
Other income & associates	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Net interest	(1.6)	(1.2)	(1.8)	(2.4)	*31.9*	(2.4)	*0.9*	(2.7)	*11.4*
Abnormal items (pre-tax)	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Profit before tax	**13.1**	**12.4**	**24.8**	**29.8**	*20.2*	**39.1**	*31.2*	**43.1**	*10.1*
Tax	(3.0)	(3.4)	(2.1)	(5.4)	*158.6*	(7.0)	*31.2*	(7.8)	*10.1*
Profit after tax	**10.0**	**9.0**	**22.7**	**24.5**	*7.5*	**32.1**	*31.2*	**35.3**	*10.1*
Abnormal items (post-tax)	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Minorities / pref dividends	(1.5)	(0.2)	(0.2)	(0.3)	*12.4*	(0.4)	*31.2*	(0.4)	*10.1*
Net income (local GAAP)	**8.5**	**8.8**	**22.5**	**24.2**	*7.5*	**31.7**	*31.2*	**34.9**	*10.1*
Net Income (UBS)	**8.5**	**8.8**	**22.5**	**24.2**	*7.5*	**31.7**	*31.2*	**34.9**	*10.1*
Tax rate (%)	*23.1*	*27.2*	*8.4*	*18.0*	*115.2*	*18.0*	*0.0*	*18.0*	*0.0*
Pre-abnormal tax rate (%)	*23.1*	*27.2*	*8.4*	*18.0*	*115.2*	*18.0*	*0.0*	*18.0*	*0.0*

Per share (S$)	06/05	06/06	06/07	06/08E	% ch	06/09E	% ch	06/10E	% ch
EPS (local GAAP)	0.04	0.03	0.07	0.07	*7.5*	0.09	*31.2*	0.10	*10.1*
EPS (UBS)	0.04	0.03	0.07	0.07	*7.5*	0.09	*31.2*	0.10	*10.1*
Net DPS	0.00	0.00	0.00	0.01	*25.4*	0.01	*31.2*	0.01	*10.1*
Cash EPS	0.08	0.06	0.11	0.12	*9.5*	0.14	*22.8*	0.16	*10.1*
BVPS	0.23	0.25	0.32	0.39	*20.8*	0.47	*22.6*	0.57	*20.3*

Balance sheet (S$m)	06/05	06/06	06/07	06/08E	% ch	06/09E	% ch	06/10E	% ch
Net tangible fixed assets	86.6	109.0	154.9	174.4	*12.6*	187.6	*7.6*	203.3	*8.4*
Net intangible fixed assets	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Net working capital (incl. other assets)	10.3	15.6	19.7	31.8	*61.5*	52.0	*63.8*	56.9	*9.3*
Other liabilities	(7.2)	(9.1)	(10.6)	(10.6)	*0.0*	(10.6)	*0.0*	(10.6)	*0.0*
Operating invested capital	**89.6**	**115.5**	**164.0**	**195.6**	*19.2*	**229.0**	*17.1*	**249.6**	*9.0*
Investments	0.5	0.0	0.0	0.0	-	0.0	-	0.0	-
Total capital employed	**90.2**	**115.5**	**164.0**	**195.6**	*19.2*	**229.0**	*17.1*	**249.6**	*9.0*
Shareholders' equity	55.6	85.9	108.0	130.5	*20.8*	160.0	*22.6*	192.5	*20.3*
Minority interests	5.3	3.9	3.7	4.0	*7.3*	4.3	*8.9*	4.7	*9.0*
Total equity	**60.9**	**89.8**	**111.7**	**134.5**	*20.4*	**164.4**	*22.2*	**197.2**	*20.0*
Net debt / (cash)	29.2	25.8	52.3	61.1	*16.8*	64.7	*5.9*	52.3	*-19.0*
Debt deemed provisions	0.0	0.0	0.0	0.0	-	0.0	-	0.0	-
Total capital employed	**90.2**	**115.5**	**164.0**	**195.6**	*19.2*	**229.0**	*17.1*	**249.6**	*9.0*

Cash flow (S$m)	06/05	06/06	06/07	06/08E	% ch	06/09E	% ch	06/10E	% ch
Operating income (EBIT, UBS)	14.6	13.6	26.6	32.2	*20.9*	41.5	*29.0*	45.7	*10.2*
Depreciation	9.7	11.7	13.8	15.5	*12.7*	17.1	*9.7*	18.8	*10.1*
Net change in working capital	(0.1)	(6.7)	(1.8)	(12.1)	*576.3*	(20.3)	*67.5*	(4.8)	*-76.2*
Other (operating)	3.3	3.1	(3.9)	2.6	-	2.7	*4.0*	3.0	*11.2*
Operating cash flow	**27.5**	**21.7**	**34.7**	**38.3**	*10.3*	**41.1**	*7.3*	**62.7**	*52.8*
Net interest received / (paid)	(1.6)	(1.2)	(1.8)	(2.4)	*31.9*	(2.4)	*0.9*	(2.7)	*11.4*
Dividends paid	(0.7)	(1.0)	(1.0)	(1.7)	*67.2*	(2.2)	*31.2*	(2.4)	*10.1*
Tax paid	(0.8)	(0.3)	(0.9)	(5.4)	*466.1*	(7.0)	*31.2*	(7.8)	*10.1*
Capital expenditure	(3.1)	(24.0)	(33.0)	(24.5)	*-25.7*	(21.2)	*-13.6*	(24.2)	*14.1*
Net (acquisitions) / disposals	0.0	(1.6)	(5.7)	0.0	-	0.0	-	0.0	-
Other	(9.8)	(7.8)	(4.8)	(5.6)	*17.7*	(7.7)	*37.4*	(8.0)	*4.0*
Share issues	0.0	22.9	0.0	0.0	-	0.0	-	0.0	-
Cash flow (inc)/dec in net debt	**11.6**	**8.7**	**(12.6)**	**(1.3)**	*-89.7*	**0.5**	-	**17.7**	*3517.7*
FX / non cash items	(5.2)	(5.3)	(13.9)	(7.5)	*-46.1*	(4.1)	*-45.7*	(5.4)	*31.5*
Balance sheet (inc)/dec in net debt	**6.4**	**3.4**	**(26.5)**	**(8.8)**	*-66.8*	**(3.6)**	*-59.2*	**12.3**	-
Core EBITDA	24.3	25.3	37.0	47.7	*29.2*	58.6	*22.7*	64.5	*10.2*
Maintenance capital expenditure	(8.7)	(10.9)	(15.5)	(17.4)	*12.6*	(18.8)	*7.6*	(20.3)	*8.4*
Maintenance net working capital	(7.1)	(6.9)	(10.0)	(14.7)	*47.3*	(20.3)	*37.9*	(22.5)	*10.9*
Operating free cash flow, pre-tax (OpFCF)	**8.6**	**7.4**	**11.5**	**15.6**	*35.8*	**19.5**	*25.3*	**21.7**	*11.1*

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Singapore

Heavy Construction

12-month rating **Buy**

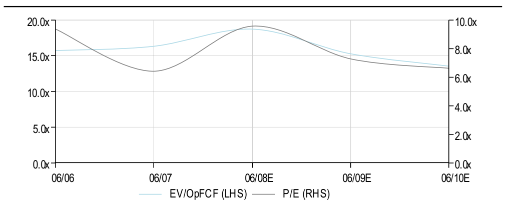
12m price target **S$1.08**

Tiong Woon Corporation

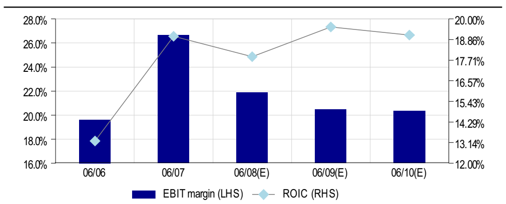
Company profile

Tiong Woon Corp is a specialist and integrated services provider in heavy lift, haulage and marine transport, serving the oil & gas, petrochemical and power industries. The rental fleet comprises 224 cranes with capacities ranging from 20MT to 1,250MT; this is complemented by prime movers, and tugs and barges to handle the land and marine aspects of transport. As of FY07, heavy lift and haulage accounted for 67% of sales, marine transport 15%, and trading 17%. To drive the next growth phase, the group is using its newly acquired 65ha Bintan yard to expand into fabrication and project engineering.

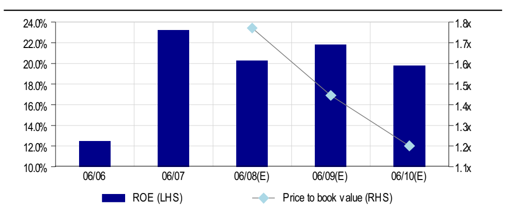
Value (EV/OpFCF & P/E)



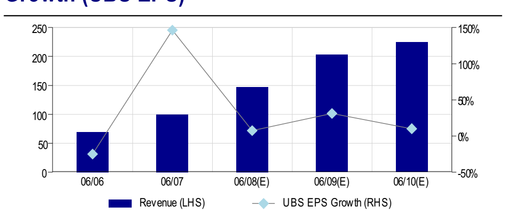
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
P/E (local GAAP)	8.3	9.4	6.4	9.6	7.3	6.6
P/E (UBS)	8.3	9.4	6.4	9.6	7.3	6.6
P/CEPS	3.5	4.0	4.0	5.8	4.7	4.3
Net dividend yield (%)	1.6	1.2	0.9	0.7	1.0	1.1
P/BV	1.2	1.0	1.3	1.8	1.4	1.2
EV/revenue (core)	-	1.7	1.9	2.0	1.5	1.3
EV/EBITDA (core)	-	4.6	5.1	6.1	5.1	4.6
EV/EBIT (core)	-	8.6	8.1	9.1	7.2	6.4
EV/OpFCF (core)	-	15.7	16.3	18.7	15.3	13.6
EV/op. invested capital	-	1.1	1.3	1.6	1.4	1.2

Enterprise value (S$m)	06/06	06/07	06/08E	06/09E	06/10E
Average market cap	84.9	144.5	231.2	231.2	231.2
+ minority interests	4.6	3.8	3.8	4.1	4.5
+ average net debt (cash)	27.5	39.0	56.7	62.9	58.5
+ pension obligations and other	0.0	0.0	0.0	0.0	0.0
- non-core asset value	0.0	0.0	0.0	0.0	0.0
Core enterprise value	117.0	187.4	291.8	298.3	294.3

Growth (%)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
Revenue	12.6	-1.9	44.3	47.3	37.9	10.9
EBITDA (UBS)	13.3	4.0	59.9	18.1	22.7	10.2
EBIT (UBS)	18.6	-6.9	96.1	20.9	29.0	10.2
EPS (UBS)	7.0	-24.9	146.4	7.5	31.2	10.1
Cash EPS	1.9	-18.4	70.9	9.5	22.8	10.1
Net DPS	-1.0	0.0	33.3	25.4	31.2	10.1
BVPS	15.3	11.8	25.8	20.8	22.6	20.3

Margins (%)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
EBITDA / revenue	36.5	36.5	40.5	32.5	28.9	28.7
EBIT / revenue	18.7	19.6	26.7	21.9	20.5	20.3
Net profit (UBS) / revenue	12.4	12.8	22.5	16.5	15.6	15.5

Return on capital (%)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
EBIT ROIC (UBS)	-	13.2	19.0	17.9	19.6	19.1
ROIC post tax	-	9.6	17.4	14.7	16.0	15.7
Net ROE	-	12.5	23.2	20.3	21.8	19.8

Coverage ratios (x)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
EBIT / net interest	7.5	11.4	14.8	13.6	17.4	17.2
Dividend cover (UBS EPS)	9.1	9.0	16.7	14.3	14.3	14.3
Div. payout ratio (%, UBS EPS)	13.0	11.1	6.0	7.0	7.0	7.0
Net debt / EBITDA	1.4	1.0	1.3	1.3	1.1	0.8

Efficiency ratios (x)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
Revenue / op. invested capital	-	0.7	0.7	0.8	1.0	0.9
Revenue / fixed assets	-	0.7	0.8	0.9	1.1	1.2
Revenue / net working capital	-	5.4	5.7	5.7	4.9	4.1

Investment ratios (x)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
OpFCF / EBIT	0.6	0.5	0.4	0.5	0.5	0.5
Capex / revenue (%)	14.5	NM	NM	16.7	10.4	10.7
Capex / depreciation	0.9	2.1	2.4	1.6	1.2	1.3

Capital structure (%)	5Yr Avg	06/06	06/07	06/08E	06/09E	06/10E
Net debt / total equity	53.6	30.0	48.4	46.8	40.4	27.2
Net debt / (net debt + equity)	34.9	23.1	32.6	31.9	28.8	21.4
Net debt (core) / EV	-	23.5	20.8	19.4	21.1	19.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of S$0.69 on 24 Jan 2008 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

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