

# Tiong Woon Corporation

*Record earnings*

<b>OUTPERFORM</b>	Maintained
<b>S\$0.37</b>	Target: S\$0.75
Mkt.Cap: S\$113m/US\$77m	Construction

TWC SP / TION.SI

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- **Above expectations.** 3Q09 net profit of S\$7.1m (+33% yoy) was above expectations. 9M09 net profit of S\$30.2m forms 82% and 99% of our FY09 estimate and consensus respectively, and already exceeds FY08 net profit. The outperformance was due to stronger-than-expected demand for heavy lift & haulage services from oil & gas customers and a surprise improvement in the trading business. 9M09 revenue rose 37% yoy to S\$148m, constituting 82% of our FY09 revenue estimate.
- **Operations review.** Heavy lift & haulage remained the strong performer, with 3Q09 revenue up 23.9% yoy to S\$29.4m, boosted by steady rental rates, a larger crane fleet and steady utilisation. Pretax margins stayed firm at 36.3% (38.0% in 2Q09 and 31.3% in 1Q09). There were no used-crane sales in 3Q09. Pretax profit was S\$9.1m (+42.1%). Trading revenue jumped 87% yoy to S\$16.8m, with a S\$0.4m pretax profit. Weakness in marine transportation persisted, where revenue fell 21.3% yoy to S\$2.0m on lower utilisation. Fabrication pretax loss was S\$0.8m in 3Q09, mitigated by the delivery of a barge to Straits Asia. Overall gross margins slipped to 30.5% in 3Q09 from 43% in 2Q09 in the absence of used-crane sales and in the presence of marine transportation weakness.
- **Financials.** Trade receivables rose to S\$110.6m, of which S\$47.5m (from S\$31m in 2Q09) was due to unbilled receivables from the Norce pipelay barge contract. Net gearing moderated to 77% from 81% in 2Q09. This should peak by end-4Q09, and fall substantially upon contract completion in Jul-Aug 09. Contract completion should provide a share-price catalyst as well as potential improvements in private residential development. NAV/share was S\$0.48 (S\$0.455 in 2Q09).
- **Maintain Outperform.** We raise our FY09-11 forecasts by 1-10% on continued strong demand and steady margins from oil & gas and petrochemical customers for its heavy lift & haulage segment. With an improved investor risk appetite, we revert to P/E valuations from P/B trough valuations, pegging a CY10 P/E of 8x, the low end of its mid-cycle valuations. This translates to a new target price of S\$0.75 (previously S\$0.44, based on 0.8x CY09 P/BV).

## Results comparison

FY6 Jun (\$m)	3QFY09	3QFY08	yoY %	qoq %	3QFY09	3QFY08	yoY %	Prev.	Comments
Revenue	52.8	42.1	25.5	5.5	148.3	107.9	37.5	180.9	Above: strong growth in heavy lift & haulage
Operating costs	(37.4)	(29.5)	26.5	28.1	(92.3)	(71.9)	28.3	(111.0)	Above: in line with revenue growth
EBITDA	15.5	12.5	23.3	(26.0)	56.1	36.0	55.9	69.9	Above: strong growth in heavy lift & haulage
EBITDA margin (%)	29.3	29.8			37.8	33.3	13.4	38.6	In line
Depn & amort.	(5.5)	(5.1)	7.6	3.4	(16.1)	(14.3)	12.7	(21.3)	In line
EBIT	10.0	7.4	34.1	(36.1)	40.0	21.7	84.2	48.6	Above
Interest expense	(0.8)	(0.9)	(3.5)	1.1	(2.5)	(2.5)	(0.5)	(3.3)	
Interest & invt inc	-	0.0	nm	nm	-	0.0	nm	-	
Associates' contrib	-	-	nm	nm	-	-	nm	-	
Exceptionals	-	-	nm	nm	-	-	nm	-	
<b>Pretax profit</b>	<b>9.1</b>	<b>6.6</b>	<b>38.2</b>	<b>(38.2)</b>	<b>37.5</b>	<b>19.2</b>	<b>95.0</b>	<b>45.3</b>	Above: steady margins for HLH segment
Tax	(2.0)	(1.1)	81.3	(26.9)	(7.2)	(3.3)	120.7	(8.2)	In line
Tax rate (%)	21.4	16.3			19.3	17.1	13.2	18.0	In line
Minority interests	(0.1)	(0.2)	(69.8)	50.0	(0.1)	0.2	(135.5)	(0.4)	
<b>Net profit</b>	<b>7.1</b>	<b>5.3</b>	<b>33.2</b>	<b>(41.0)</b>	<b>30.2</b>	<b>16.2</b>	<b>86.3</b>	<b>36.8</b>	Above: 82% and 99% of our FY09 and consensus
<b>Core net profit</b>	<b>7.1</b>	<b>5.3</b>	<b>33.2</b>	<b>(41.0)</b>	<b>30.2</b>	<b>16.2</b>	<b>86.3</b>	<b>36.8</b>	
EPS (cts)	2.1	1.6	33.2	(41.0)	8.9	4.8	86.3	10.9	Above
Core EPS (cts)	2.1	1.6	33.2	(41.0)	8.9	4.8	86.3	10.9	

Source: Company, CIMB-GK Research

Financial summary					
FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (S\$ m)	99.8	157.8	199.6	173.4	186.2
EBITDA (S\$ m)	35.0	56.5	73.3	62.0	65.6
EBITDA margins (%)	35.0%	35.8%	36.7%	35.8%	35.2%
Pretax profit (S\$ m)	25.1	33.6	47.8	37.4	41.2
Net profit (S\$ m)	22.7	27.6	38.4	30.3	33.4
EPS (S cts)	6.7	8.2	11.4	9.0	9.9
EPS growth (%)	152.5%	21.5%	38.8%	(21.1%)	10.3%
P/E (x)	5.0	4.1	2.9	3.7	3.4
Core EPS (S cts)	5.2	8.2	11.4	9.0	9.9
Core EPS growth (%)	93.1%	58.9%	38.8%	(21.1%)	10.3%
Core P/E (x)	6.5	4.1	2.9	3.7	3.4
FD core EPS (S cts)	5.2	8.2	11.4	9.0	9.9
FD core P/E (x)	6.5	4.1	2.9	3.7	3.4
Gross DPS (S cts)	1.0	0.4	0.5	0.6	0.6
Dividend yield (%)	3.0%	1.2%	1.5%	1.8%	1.8%
P/BV (x)	1.0	0.9	0.7	0.6	0.5
ROE (%)	23.5%	23.0%	25.3%	16.4%	15.6%
Net gearing (%)	46.8%	75.3%	42.7%	2.4%	N/A
Net cash per share (S\$)	N/A	N/A	N/A	N/A	0.09
P/FCFE (x)	(19.4)	138.6	102.7	1.6	3.0
EV/EBITDA (x)	4.8	3.9	2.6	2.0	1.4
% change in EPS estimates			4.1%	1.4%	9.5%
CIMB/Consensus (x)			1.12	1.03	1.19



Source: Bloomberg

Source: Company, CIMB-GK Research, Bloomberg

**Figure 1: Sector comparisons**

	Bloomberg	ticker	Recom.	Target		Core		3-yr EPS CAGR (%)	P/BV (x)	ROE (%)	Div yield (%)	
				Price (Local)	price (Local)	Mkt cap (US\$ m)	P/E (x)	CY2009	CY2010	CY2009	CY2009	
Tiong Woon	TWC SP	O	O	0.37	0.75	77	3.3	3.6	6.5	0.6	20.4	1.6
Tat Hong	TAT SP	N	N	0.96	0.69	312	7.7	7.2	(9.8)	1.1	15.2	5.6
CSC	CSC SP	O	O	0.16	0.13	125	5.4	6.4	(16.5)	1.0	18.7	2.9
United Engineers	UEM SP	O	O	1.55	1.77	232	10.0	7.7	18.3	0.4	4.0	2.5
Yongnam	YNH SP	O	O	0.20	0.12	159	6.0	8.0	(8.2)	1.3	23.5	2.1
<b>Simple average</b>							<b>6.5</b>	<b>6.6</b>	<b>(2.1)</b>	<b>0.9</b>	<b>16.4</b>	<b>3.0</b>

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell

Source: Company, CIMB-GK Research

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### STOCK RECOMMENDATIONS

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**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.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

## RECOMMENDATION FRAMEWORK #2 \*\*

### 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, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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