

Tiong Woon Corporation

Heading for stronger earnings
OUTPERFORM

Maintained

S\$0.70

Target: S\$1.24

Mkt.Cap: S\$236m/US\$164m

Construction

TWC SP / TION.SI

Lawrence Lye +65 6210 8994 – lawrence.lye@cimb.com

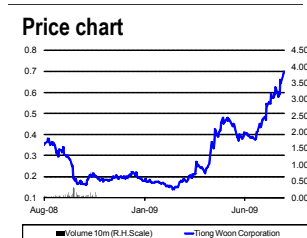
- **Above expectations.** 4Q09 net profit of S\$12.2m (+71% yoy) was above expectations. FY09 net profit of S\$42.3m was 10% above our forecast and 17% above consensus. The outperformance was led by continued strong demand for heavy lift & haulage services from oil & gas customers as well as improved gross margins. FY09 revenue rose 28.2% yoy to S\$202.3m, an all-time high for TWC. A final dividend of S\$0.004 was declared.
- **Operational review.** Heavy lift & haulage remained the best performer, with FY09 revenue up 32% yoy to S\$130.6m, boosted by steady rental rates, a larger crane fleet and strong utilisation of 80%. Marine transportation and trading posted a small pretax profit while fabrication turned in a pretax loss of S\$6.1m. The Bintan yard will be focusing on ship repairs once the Norce pipelay barge contract is completed. There were no used-crane sales in 4Q09. Overall gross margins improved to 37.3% from 35.4% in FY08 on improved operational efficiencies.
- **Financials.** Trade receivables rose to S\$118.4m, partially due to unbilled receivables from the Norce contract. Operating cash flow was strong at S\$30.5m vs. S\$5.8m a year before. Net gearing moderated to 79% from 87% in FY08. This should fall significantly by 2Q-3Q10 after TWC has been paid by Norce.
- **Positive outlook.** With crude oil prices above US\$70/bbl, activities in the oil & gas sector should be brisk as projects are revived. Management indicated that demand has been very strong from oil & gas customers, and that TWC does not have sufficient machines to meet all customers' needs and may have to procure new machines. Share-price catalysts are expected to include new contract wins for oil & gas projects.
- **Maintain Outperform.** We raise our FY10-11 forecasts by 63-66% on continued strong demand and steady margins from oil & gas and petrochemical customers for its heavy lift & haulage segment. We also introduce FY12 forecasts. Still using an unchanged 8x CY10 P/E, its mid-cycle valuation multiple, our target price is now S\$1.24 (previously S\$0.75), following our earnings upgrade.

Results comparison

FYE Jun (\$ m)	4QFY09	4QFY08	yoy %	qoq %	4QFY09	4QFY08	yoy %	Prev.	
			chg	chg	Cum	Cum	chg	FY09F	Comments
Revenue	54.0	49.9	8.2	2.1	202.3	157.8	28.2	199.6	Above on stronger heavy lift business
Operating costs	(34.1)	(29.6)	15.5	(8.6)	(126.4)	(101.3)	24.8	(126.3)	In line
EBITDA	19.8	20.3	(2.4)	28.1	75.9	56.5	34.3	73.3	Above on stronger heavy lift business
EBITDA margin (%)	36.7	40.7			37.5	35.8	4.7	36.7	Above
Depn & amort.	(5.8)	(5.7)	2.7	5.3	(21.9)	(19.9)	9.8	(22.3)	In line
EBIT	14.0	14.6	(4.4)	40.7	54.0	36.9	46.2	51.0	Above on better margins
Interest expense	(0.7)	(0.6)	26.1	(17.1)	(3.2)	(3.1)	4.3	(3.2)	In line
Interest & invt inc	-	-	nm	nm	-	0.0	nm	-	
Associates' contrib	-	-	nm	nm	-	-	nm	-	
Exceptionals	-	-	nm	nm	-	-	nm	-	
Pretax profit	13.3	14.1	(5.6)	46.0	50.8	33.9	49.9	47.8	Above on better margins, strong revenue
Tax	(1.2)	(2.3)	(50.4)	(40.7)	(8.4)	(5.6)	49.7	(9.1)	
Tax rate (%)	8.7	16.5			16.5	16.5	(0.1)	19.0	
Minority interests	0.0	(0.6)	100.5	105.6	(0.1)	(0.3)	(74.6)	(0.4)	
Net profit	12.2	11.8	3.3	70.9	42.3	28.0	51.4	38.4	Above our forecast by 10%, above consensus
Core net profit	12.2	11.8	3.3	70.9	42.3	28.0	51.4	38.4	by 17%
EPS (cts)	3.6	3.6	3.3	70.9	12.5	8.3	51.4	11.4	
Core EPS (cts)	3.6	3.6	3.3	70.9	12.5	8.3	51.4	11.4	

Source: Company, CIMB-GK Research

Please read carefully the important disclosures at the end of this publication.



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (\$\$ m)	157.8	202.3	209.0	232.4	253.5
EBITDA (\$\$ m)	56.5	75.9	85.6	93.1	100.2
EBITDA margins (%)	35.8%	37.5%	41.0%	40.1%	39.5%
Pretax profit (\$\$ m)	33.9	50.8	60.5	68.2	75.5
Net profit (\$\$ m)	28.0	42.3	49.2	55.5	61.5
EPS (\$ cts)	8.2	12.5	14.6	16.4	18.2
EPS growth (%)	21.5%	53.2%	16.3%	12.7%	10.8%
P/E (x)	8.6	5.6	4.8	4.3	3.8
Gross DPS (\$ cts)	0.4	0.4	0.6	0.6	0.6
Dividend yield (%)	0.6%	0.6%	0.9%	0.9%	0.9%
P/BV (x)	1.8	1.4	1.1	0.9	0.7
ROE (%)	23.0%	27.7%	24.9%	22.3%	20.2%
Net gearing (%)	75.3%	69.6%	11.0%	N/A	N/A
Net cash per share (\$\$)	N/A	N/A	N/A	0.08	0.26
P/FCFE (x)	289.6	(14.1)	2.4	4.2	3.7
EV/EBITDA (x)	6.1	4.8	3.1	2.3	1.5
% change in EPS estimates			62.8%	66.3%	
CIMB/Consensus (x)			1.68	1.87	2.07

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)
				(Local)	(US\$ m)	CY2009	CY2010	(%)	CY2009	CY2009
Tiong Woon	TWC SP	O	0.70	1.24	164	5.2	4.5	13.3	1.2	26.1
CSC	CSC SP	N	0.21	0.22	174	7.9	7.5	(3.0)	1.4	18.8
Hong Leong Asia	HLA SP	O	1.66	2.89	439	6.1	4.6	62.3	1.0	16.7
Tat Hong	TAT SP	U	1.11	0.97	382	10.0	9.2	2.8	1.3	13.8
United Engineers	UEM SP	O	1.69	2.03	284	12.7	6.7	28.5	0.5	4.3
Yongnam	YNH SP	O	0.32	0.37	268	9.4	8.4	13.9	2.1	24.7
Simple average						8.6	6.9	19.5	1.3	17.3

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

Figure 2: Revenue & pretax mix

Revenue (\$\$m)	FY09	FY08	% chg
Heavy Lift & Haulage	130.6	99.2	31.6
Maine Transportation	10.9	12.6	(13.3)
Fabrication & Engineering	47.0	26.4	78.1
Trading	13.8	19.6	(29.6)
Total	202.3	157.8	28.2
Pretax Profit (\$\$m)	FY09	FY08	% chg
Heavy Lift & Haulage	52.2	29.4	77.9
Maine Transportation	2.7	3.8	(28.9)
Fabrication & Engineering	(6.1)	(3.4)	79.4
Trading	2.0	4.2	(51.6)
Total	50.8	33.9	49.9

Source: Company, CIMB-GK Research

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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.

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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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