

CONSTRUCTION

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2QFY09 Results Review

Private Circulation Only

TIONG WOON

 NEUTRAL
 Price S\$0.17
 Target S\$0.185

Uplifting Results but Cloudy Outlook
Stock Profile/Statistics

Bloomberg Ticker	TWC SP
STI	1,721.97
Issued Share Capital (m)	337.6
Market Cap (S\$m)	57.39
52 week H L Price (S\$)	0.795 0.135
Average Volume (3m) '000	956
YTD Returns (%)	-12.82
Net gearing (x)	0.35
Altman Z-score	2.13
Beta	1.32
ROCE/WACC	1.94
Book Value/share (S\$)	0.45

Major Shareholders

Ang Choo Kim & son	42.9%
JP Morgan Chase & Co	5.92%

Share Performance (%)

Month	Absolute	Relative
1m	-19.05%	-15.99%
3m	-15.00%	-10.30%
6m	-57.50%	-18.45%
12m	-76.71%	-36.75%

6 month Share Price


Stirling results for 6MFY09. Tiong Woon's (TWC) turnover for the six months rose 45% YoY, from S\$65.8m to S\$95.5m, in line with our estimate. This increase in revenue is attributable to an increase in revenue from its Heavy Lift and Haulage, Trading and Fabrication and Engineering segments. In line with the robust turnover achieved, PATMI jumped 119% YoY to \$23.1m, beating market's and our expectations. Gross profit margin, also rose from 37.2% a year ago to 43% for the six-month period, due to the higher revenues and margins enjoyed from its Heavy Lift & Haulage projects. EPS more than doubled, increasing from 3.13S¢ a year ago to 6.83S¢.

Pipe-Lay Barge (PLB)'s construction on schedule. Management reiterated that the PLB's construction (currently approximately 60% completed) is on schedule. The targeted date of completion is in May 09. TWC estimates the delivery of the vessel to be either in Jun or Jul 09. Post delivery of the vessel, we estimate net gearing would decline, back to more normal levels of approximately 40% to 50%.

Cloudy outlook. While we favour TWC's niche position as one of the few specialised contractors supporting the oil and gas and petrochemical industries, we believe TWC's earnings would not be immune to both sectors' downturn (factoring in the drop in BCA's forecasted construction demand for 2009 as well). We have therefore revised our financials to reflect the potential impact of the slow down on TWC's earnings. We have made downward revisions on our turnover for FY09F and FY10F, to S\$175.2m (-5.1% from our previous estimates) and S\$137.7m (-31.6%) respectively. In addition, earnings for FY09 and FY10 have been revised to S\$31.1m (-0.5% from our earlier estimates) and S\$21m (-39.2%) respectively. Hence, we downgrade our buy rating to neutral and derive a new fair value of S\$0.185 (previously S\$0.28), based on 3x FY10F P/E (TWC's peers' average currently).

FYE Jun (S\$m)	FY06	FY07	FY08	FY09F	FY10F
Turnover	69.2	99.8	157.8	175.2	137.7
Net Profit	8.8	22.5	28.0	31.1	21.0
% chg YoY	3.5%	155.0%	24.2%	11.3%	-32.5%
EPS (S¢)	2.71	6.67	8.28	9.22	6.23
DPS (S¢)	0.3	0.4	0.4	0.5	0.5
Div Yield (%)	1.76%	2.35%	2.35%	2.94%	2.94%
ROE (%)	12.5%	23.2%	23.2%	21.1%	12.3%
ROA (%)	9.4%	14.1%	13.4%	12.4%	7.9%
P/E (x)	6.3	2.5	2.1	1.8	2.7
P/B (x)	0.7	0.5	0.4	0.4	0.3

Source: Company and DMG estimates

Details on the various segments:

Turnover (S\$m)	6MFY08	6MFY09	YoY % Chg
Heavy Lift and Haulage	44.2	64.4	45.8%
Marine Transportation	7.4	6.9	-6.9%
Fabrication & Engineering	9.1	15.2	67.0%
Trading	5.2	9.0	74.6%
Total	65.8	95.5	45.1%

Profit before tax (PBT) lifted by Heavy Lift and Haulage segment. 6MFY09 PBT from its Heavy Lift and Haulage segment increased significantly from S\$11.4m to S\$26.2m. This is an increase of S\$14.8m or 130% YoY. This strong growth is fuelled by the higher turnover achieved from its Heavy Lift and Haulage services, together with effective cost controls TWC exercised in relation to these projects.

Marine Transportation boosted by disposal of tugs and barges. PBT from its Marine Transportation segment for 6mFY09 increased by 10% YoY, to S\$3.2m. This was mainly due to a gain of S\$1.6m from the disposal of its smaller tug and barges. Stripping out this gain, PBT would have dipped S\$1.3m or 44.9%.

Higher costs caused Fabrication and Engineering to incur losses. Despite the 67% jump in turnover (reaching S\$15.2m) from this segment for the first 6 months, there was a loss of S\$2.6m due to higher costs incurred for general overheads.

Trading's PBT up 24% YoY. We were pleasantly surprised by TWC's robust Trading segment for the first half – revenue was up 75% YoY at S\$9m and PBT was up 24% at S\$1.6m, due to an increase in the number of cranes sold. We had expected the sales of new cranes to slump or at least show some decline, with weaker construction demand. In response to our query, management indicated that turnover for this segment may slow going forward, in line with the weaker construction sector.

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Results Review

(in S\$m)	2QFY08	2QFY09	YoY % Chg	1QFY09	2QFY09	QoQ % Chg
Revenue	36.3	50.1	37.8%	45.4	50.1	10.2%
Cost of sales	-22.6	-28.5	26.1%	-25.9	-28.5	10.1%
Other income	1.2	1.6	37.4%	3.3	1.6	-50.5%
Operating Expenses	-6.3	-7.6	20.1%	-8.3	-7.6	-8.8%
Other credits / (charges)	0.0	0.0	-	0.0	0.0	-
Finance costs (net)	-0.9	-0.8	-4.6%	-0.8	-0.8	-1.0%
Profit before tax	7.7	14.7	91.4%	13.6	14.7	8.1%
Tax	-0.4	-2.7	651.8%	-2.6	-2.7	1.9%
Profit including minority interest	7.3	12.1	64.4%	11.0	12.1	9.6%
Minority interest	0.04	0.0	-16.3%	0.0	0.0	-1300.0%
Profit attributable to equity holders	7.3	12.0	64.8%	11.0	12.0	9.2%

Income Statement

Year Ended Jun (S\$m)	FY06	FY07	FY08	FY09F	FY10F
Revenue	69.2	99.8	157.8	175.2	137.7
Cost of sales	(43.8)	(60.1)	(102.0)	(110.4)	(86.8)
Other income	1.5	7.4	7.5	6.0	6.5
Operating Expenses	(13.1)	(20.3)	(26.3)	(28.4)	(27.6)
Other credits / (charges)	0.0	0.0	0.0	0.0	0.0
Finance costs (net)	(1.4)	(1.9)	(3.1)	(4.0)	(4.0)
Profit before tax	12.4	24.8	33.9	38.3	25.9
Tax	(3.4)	(2.1)	(5.6)	(6.9)	(4.7)
Profit including minority interest	9.0	22.7	28.3	31.4	21.2
Minority interest	0.2	0.2	0.3	0.3	0.2
Profit attributable to equity holders	8.8	22.5	28.0	31.1	21.0

Source: Company and DMG estimates

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Balance Sheet

Year Ended Jun (S\$m)	FY06	FY07	FY08	FY09F	FY10F
Cash	9.6	13.6	16.6	13.2	16.8
Other current assets	26.4	38.0	85.3	91.1	95.6
Fixed assets	109.0	154.9	196.3	213.1	217.3
Non-current assets	0.1	0.1	2.0	2.1	2.3
Total assets	145.2	206.6	300.2	319.6	332.0
Current liabilities (excl. debt)	10.9	18.5	26.7	30.5	29.0
Debt	35.4	65.8	119.5	101.0	100.0
Other long term liabilities	9.1	10.6	17.3	22.0	17.5
Total liabilities	55.4	94.9	163.5	153.5	146.5
Shareholders equity	85.9	108.0	132.7	161.9	181.2
Minority interest	(3.9)	(3.7)	(4.0)	(4.2)	(4.3)
Total equity	89.8	111.7	136.7	166.1	185.5
Total equity and liabilities	145.2	206.6	300.2	319.6	332.0

Cash Flow Statement

Year Ended Jun (S\$m)	FY06	FY07	FY08	FY09F	FY10F
Operating cash flow before working capital changes	23.9	33.3	47.4	63.8	51.6
Working capital changes	(6.7)	(1.8)	(40.9)	(7.8)	(4.7)
Other operating cashflow	(0.3)	(0.9)	(0.7)	(0.7)	(0.8)
Net cash from operations	16.9	30.6	5.8	55.3	46.1
Net cash from investing activities	(24.9)	(37.2)	(39.9)	(34.8)	(29.8)
Net change in debt	(11.8)	13.8	41.4	(18.5)	(7.0)
Other financing cashflow	20.6	(3.3)	(4.3)	(5.4)	(5.7)
Net cash from financing activities	8.8	10.6	37.1	(23.9)	(12.7)
Net incr. in cash/cash equivalents	0.9	3.9	3.0	(3.4)	3.6
Cash at beginning of year	8.8	9.6	13.6	16.6	13.2
Cash at end of year	9.6	13.6	16.6	13.2	16.8

Source: Company and DMG estimates

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