

**AmFraser****RETAIL RESEARCH**

Tiong Woon Corporation Holdings

Getting used to the 'New Normal'

Small/Mid-Cap | Construction Machinery

MICA (P) 248/07/2008

HOLD (Maintained)

11 Feb 2010

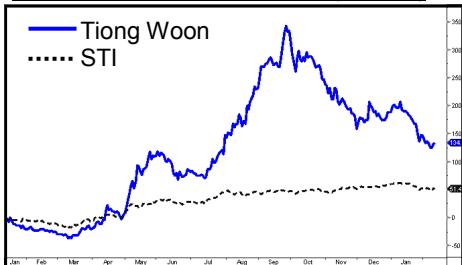
- Results came below our expectation.** Tiong Woon announced FY2010 Q2 revenue and net profits of S\$37.5m and S\$5.4m respectively. On a half-year basis, revenue and net profits came to S\$82.3m and S\$11.6m respectively, a slight stretch from meeting our previous whole year forecast of S\$182.5m revenue and S\$41.8m net profit unless H2 turns out to be exceptionally strong.
- Weak core segment.** Revenue for the Heavy lift and haulage segment fell from S\$29.2m in Q1 to S\$26.8m. Management reported lower crane utilisation (65% in Q2 vs 72% in Q1), although this is expected to improve slightly in H2 as more equipment are moved from maintenance/transportation to actual deployment. Margins for the smaller tonnage cranes are not expected to improve soon while comfort can be taken from the firmer margins that the bigger tonnage (i.e. >500 Ton) cranes can command.
- Light at end of tunnel for pipe-lay barge.** Our channel checks confirmed that the pipe-lay barge which Keppel O&M will complete for NorCE Offshore (announced on 10 Dec 09) started its life on Tiong Woon's yard. With Keppel's involvement, we are confident that the barge will be successfully completed by Q2 2010 as stated in their announcement. This coincides with Management's expectation to receive full payment by Jun 2010. As the last of the revenue from the project is recognised, revenue for the Fabrication & Engineering segment fell QoQ from S\$9.9m to S\$5.5m this quarter. While Management maintains that they are actively soliciting ship repair works for the Bintan yard, we are not too optimistic that they can achieve an economically viable scale. We believe stiff competition from the many more established shipyards in Batam and the lack of a drydock are key factors.
- FV further reduced to S\$0.69, maintain at HOLD.** We lowered our total revenue forecast for FY10 to FY12 by 6.3% to 6.8%. The revenue assumption for Heavy lift and haulage segment had to be cut by ~14% for the forecast period, though we did raise our estimates in the Trading and Fabrication segments slightly. Due to the change in revenue mix, gross margin forecast decreased from ~35.4% to ~33.8%. Our earnings model arrived at a reduced FV of 69 SG cents versus the last close price of 52 cents. As we believe prospects are starting to stabilise for Tiong Woon with new contracts won, we would recommend investors to **HOLD** if they have not sold out already during the descend.

Our Recommendation

Fair Value (SGD)	0.69
Last close price (SGD)	0.52
Holding period	12 months

Company & Stock Data

Market cap (SGD Mil)	191.4
12-mth trailing P/E	5.5x
Price-to-book	0.91x
12-mth Dividend yield	0.78%
52-wk high	0.99
52-wk low	0.14
30D average volume	3.9m
30D average value	2.3m
Free float	54.2%
Beta	1.36

Share Price relative to STI (1-Year)

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	2008	2009	2010F	2011F	2012F
Revenue	157,773	202,280	171,047	179,599	187,964
EBITDA	58,863	74,620	62,273	67,984	73,204
Net Profit	28,295	42,410	36,816	32,174	34,131
Rev Growth	58.1%	28.2%	-15.4%	5.0%	4.7%
Net Profit Growth	24.4%	49.9%	-13.2%	-12.6%	6.1%
EPS (SGD cts)	8.28	12.54	10.06	8.55	9.08
ROE	20.5%	23.8%	15.2%	11.8%	11.2%
EBITDA Margin	37.3%	36.9%	36.4%	37.9%	38.9%
Free Cashflow	(41,368)	(1,445)	81,046	15,921	18,970

Please see important disclosures at the end of this publication

INCOME STATEMENT

In SGD '000	Adjusted 30-Jun-08	Adjusted 30-Jun-09	Forecast 30-Jun-10	Forecast 30-Jun-11	Forecast 30-Jun-12
Revenue	157,773	202,280	171,047	179,599	187,964
Cost of Sales	101,969	126,787	113,195	118,855	124,245
Gross Profit	55,804	75,493	57,851	60,744	63,719
Interest Income	217	75	367	563	591
Other Operating Income	9,261	8,124	6,842	7,184	7,519
Total Operating Income	65,281	83,692	65,060	68,491	71,829
Operating Expenses	26,322	30,935	29,147	29,995	31,398
Operating Profit/(loss)	38,959	52,757	35,913	38,496	40,431
Interest (expense)	(3,068)	(3,199)	(2,675)	(1,528)	(1,189)
Other non-op income/ (exp)	(1,985)	1,249	11,118	1,796	1,880
Profit Before Tax	33,906	50,807	44,356	38,764	41,122
<i>Less: Income tax exp/ (credit)</i>	5,611	8,397	7,541	6,590	6,991
Profit after tax	28,295	42,410	36,816	32,174	34,131
<i>Less: Minority Interest</i>	331	84	442	386	410
Net Profit/(loss) att to ord. S/H	27,963	42,326	36,374	31,788	33,722
EBITDA	58,863	74,620	62,273	67,984	73,204
Free Cashflow	(41,368)	(1,445)	81,046	15,921	18,970
EPS (SGD cts)	8.28	12.54	10.06	8.55	9.08

BALANCE SHEET

In SGD '000	Adjusted 30-Jun-08	Adjusted 30-Jun-09	Forecast 30-Jun-10	Forecast 30-Jun-11	Forecast 30-Jun-12
Cash & cash equivalents	16,579	16,802	54,815	55,982	60,433
Trade and Other Rec	46,521	118,407	51,112	53,397	55,225
Inventory	1,218	1,282	1,240	1,303	1,362
Construct contracts due from cust	18,635	-	-	-	-
Construction contracts WIP	11,885	2,431	-	-	-
Property, plant & equip (net)	196,267	226,430	242,632	257,834	271,992
Other Assets	9,086	6,582	6,582	6,582	6,582
Total Assets	300,190	371,934	356,382	375,098	395,593
Trade Payables	12,297	28,855	13,020	13,684	14,303
Borrowings	119,467	140,473	65,320	52,256	39,192
Other Liabilities	31,732	24,929	38,437	39,292	40,128
Total Common Equity	136,694	177,677	239,605	269,867	301,970
Total Liabilities and Equity	300,190	371,934	356,382	375,098	395,593

CASHFLOW STATEMENT	Adjusted 30-Jun-08	Adjusted 30-Jun-09	Forecast 30-Jun-10	Forecast 30-Jun-11	Forecast 30-Jun-12
In SGD '000					
Profit before Tax	33,906	50,807	44,356	38,764	41,122
Write-back Depreciation	19,905	21,863	26,359	29,488	32,773
Interest income	(217)	(75)	(367)	(563)	(591)
Interest expense	3,068	3,199	2,675	1,528	1,189
Other non-cash adjustments	(9,265)	(5,138)	-	-	-
Change in working capital	(40,862)	(39,676)	67,440	(829)	(431)
Income taxes paid	(730)	(506)	(7,541)	(6,590)	(6,991)
Cashflow from Operations	5,804	30,474	132,923	61,798	67,071
(Purchase) / Disposal of PPE	(52,921)	(27,670)	(44,272)	(46,486)	(48,810)
Interest received	216	75	367	563	591
Debt raised / (repaid)	(102,427)	(99,389)	(75,153)	(13,064)	(13,064)
Equity raised / (bought back)	-	-	27,300	-	-
Interest paid	(2,958)	(3,215)	(2,675)	(1,528)	(1,189)
Beginning Cash	13,565	16,579	16,802	54,815	55,982
Ending Cash	16,579	16,802	54,815	55,982	60,433

FINANCIAL RATIOS	Adjusted 30-Jun-08	Adjusted 30-Jun-09	Forecast 30-Jun-10	Forecast 30-Jun-11	Forecast 30-Jun-12
Profitability					
Gross Profit Margin	35.4%	37.3%	33.8%	33.8%	33.9%
EBITDA Margin	37.3%	36.9%	36.4%	37.9%	38.9%
Pre-tax Income to Op Rev Ratio	20.3%	24.1%	24.9%	20.7%	21.0%
Net Profit Margin	17.9%	21.0%	21.5%	17.9%	18.2%
ROE	20.5%	23.8%	15.2%	11.8%	11.2%
ROA	9.4%	11.4%	10.3%	8.6%	8.6%
Growth (Y-o-Y)					
Revenue	58.1%	28.2%	-15.4%	5.0%	4.7%
EBITDA	53.2%	26.8%	-16.5%	9.2%	7.7%
Pre-tax Income	36.6%	49.8%	-12.7%	-12.6%	6.1%
Net Income	24.4%	49.9%	-13.2%	-12.6%	6.1%
Financial Structure					
Networth Ratio	45.5%	47.8%	67.2%	71.9%	76.3%
Debt-to-equity Ratio	87.4%	79.1%	27.3%	19.4%	13.0%
Operational Efficiency					
Acc Rec T/O (days)	108	94	110	110	110
Acc Payable T/O (days)	44	83	42	42	42
Inv T/O (days)	4	4	4	4	4
Cash Conversion Cycle (days)	68	14	72	72	72

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