

Tiong Woon Corporation Holding Ltd

Not Seeing the End of the Tunnel Yet

MICA (P) 248/07/2008

SELL (Downgraded)

12 May 2010

- Q3 results unexpectedly below forecast.** Revenue for Tiong Woon's latest quarter was SGD28.4m, a significant decrease from SGD52.8m YoY and SGD37.5m QoQ. NPAT was a respectable SGD9.6m but it included a one-time non-operating profit of SGD10.6m from sale of property. We are disappointed that all business segments except core 'Heavy Lift and Haulage' suffered net losses.
- Margin-squeeze apparent.** Revenue for the 'Heavy Lift and Haulage' segment fell further to SGD22.4m from SGD29.2m and SGD26.8m in Q1 and Q2 respectively. What surprised us more was the drastic fall in segment net margin to 12.3% compared to about 30% in both Q1 and Q2. Management explained that utilisation and rental rates for the lower-tonnage cranes (defined internally as below 250MT) remain depressed. Concurrently, the Company has been taking delivery of new haulage equipment. While Management indicated those are slated for the new O&G projects secured recently, depreciation will be a strain on the bottomline if good rates cannot be commanded. Anyhow, we do not see over-capacity and margin pressure easing significantly in the near-term.
- Other segments not helping.** Marine transportation segment turned in a bigger net loss of SGD0.88m compared to Q2's loss of SGD0.18m. This is despite securing 2 new charter contracts of significant value that lifted segment revenue to SGD4.3m versus SGD2.1m QoQ. There had been no new addition to marine equipment in the past 6 months. The Company's Bintan shipyard undertook 8 repair jobs in the quarter that commanded better margins. This covered more of the overhead expenses thus reducing segment net loss to SGD0.67m from SGD1.7m in Q2. However, we are not optimistic that this loss, albeit small, can be reversed quickly.
- Not seeing the end of the tunnel yet.** As we approach the 1-year milestone since the global economic recovery started, we were initially hopeful that the Company should be seeing light at the end of the tunnel. From the latest results and management teleconference, we do not get that sense. Furthermore, we feel that Management did not adequately communicate, beyond what had been written in the announcement, the specific steps they intend to take to resolve some of the issues.
- Lower FV to 44 SG cents and downgrade to 'Sell'.** We lower our revenue assumption for FY10 to FY12 by between 15.1% to 18.4%. We arrive at a FV of 44 SG cents and downgrade our recommendation to Sell due to lack of near-term visibility and catalyst.

Our Recommendation

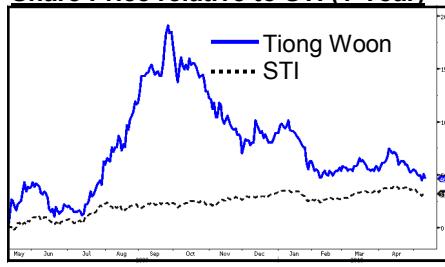
Fair Value (SGD) **0.44**
 Last close price (SGD) 0.49
 Holding period 12 months

Company & Stock Data

Market cap (SGD Mil)	182.1
12-mth trailing P/E	4.9x
Price-to-book	0.82x
12-mth Dividend yield	0.82%
52-wk high	0.99
52-wk low	0.33
30D average volume	2.01m
30D average value	1.07m
Free float	54.2%
Beta	1.3

Source: Bloomberg

Share Price relative to STI (1-Year)



Source: Bloomberg

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	2008	2009	2010F	2011F	2012F
Revenue	157,773	202,280	139,611	151,620	159,635
EBITDA	58,863	74,620	45,644	52,106	55,238
Net Profit	28,295	42,410	22,868	19,860	21,198
Rev Growth	58.1%	28.2%	-31.0%	8.6%	5.3%
Net Profit Growth	24.4%	49.9%	-46.1%	-13.2%	6.7%
EPS (SGD cts)	8.28	12.54	6.31	5.28	5.64
ROE	20.5%	23.8%	10.1%	8.0%	7.9%
EBITDA Margin	37.3%	36.9%	32.7%	34.4%	34.6%
Free Cashflow	(41,368)	(1,445)	89,603	20,385	23,065

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	139,611	151,620	159,635
Cost of Sales	101,969	126,787	97,175	103,089	108,635
Gross Profit	55,804	75,493	42,436	48,530	51,000
Interest Income	217	75	414	682	759
Other Operating Income	9,261	8,124	5,584	6,065	6,385
Total Operating Income	65,281	83,692	48,435	55,277	58,144
Operating Expenses	26,322	30,935	27,817	29,921	31,466
Operating Profit/(loss)	38,959	52,757	20,618	25,356	26,678
Interest (expense)	(3,068)	(3,199)	(2,470)	(1,411)	(1,097)
Other non-op income/ (exp)	(1,985)	1,249	11,169	1,516	1,596
Profit Before Tax	33,906	50,807	29,318	25,461	27,177
<i>Less: Income tax exp/ (credit)</i>	5,611	8,397	6,450	5,602	5,979
Profit after tax	28,295	42,410	22,868	19,860	21,198
<i>Less: Minority Interest</i>	331	84	46	238	254
Net Profit/(loss) att to ord. S/H	27,963	42,326	22,822	19,622	20,944
EBITDA	58,863	74,620	45,644	52,106	55,238
Free Cashflow	(41,368)	(1,445)	89,603	20,385	23,065
EPS (SGD cts)	8.28	12.54	6.31	5.28	5.64

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	64,196	70,419	79,549
Trade and Other Rec	46,521	118,407	41,719	45,079	46,902
Inventory	1,218	1,282	1,065	1,130	1,191
Construct contracts due from cust	18,635	-	-	-	-
Construction contracts WIP	11,885	2,431	-	-	-
Property, plant & equip (net)	196,267	226,430	224,911	222,794	220,093
Other Assets	9,086	6,582	6,582	6,582	6,582
Total Assets	300,190	371,934	338,473	346,003	354,317
Trade Payables	12,297	28,855	11,157	11,870	12,507
Borrowings	119,467	140,473	65,320	52,256	39,192
Other Liabilities	31,732	24,929	35,293	36,494	37,295
Total Common Equity	136,694	177,677	226,703	245,383	265,322
Total Liabilities and Equity	300,190	371,934	338,473	346,003	354,317

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	29,318	25,461	27,177
Write-back Depreciation	19,905	21,863	25,025	26,750	28,560
Interest income	(217)	(75)	(414)	(682)	(759)
Interest expense	3,068	3,199	2,470	1,411	1,097
Other non-cash adjustments	(9,265)	(5,138)	-	-	-
Change in working capital	(40,862)	(39,676)	72,002	(1,511)	(445)
Income taxes paid	(730)	(506)	(6,450)	(5,602)	(5,979)
Cashflow from Operations	5,804	30,474	121,951	45,828	49,652
(Purchase) / Disposal of PPE	(52,921)	(27,670)	(24,903)	(26,148)	(27,456)
Interest received	216	75	414	682	759
Sale of / (invest in) financial assets	(14)	-	-	-	-
Debt raised / (repaid)	45,749	(1,133)	(75,153)	(13,064)	(13,064)
Equity raised / (bought back)	-	-	27,300	-	-
Interest paid	(2,958)	(3,215)	(2,470)	(1,411)	(1,097)
Beginning Cash	13,565	16,579	16,802	64,196	70,419
Ending Cash	16,579	16,802	64,196	70,419	79,549

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%	30.4%	32.0%	31.9%
EBITDA Margin	37.3%	36.9%	32.7%	34.4%	34.6%
Pre-tax Income to Op Rev Ratio	20.3%	24.1%	20.1%	16.1%	16.3%
Net Profit Margin	17.9%	21.0%	16.4%	13.1%	13.3%
ROE	20.5%	23.8%	10.1%	8.0%	7.9%
ROA	9.4%	11.4%	6.8%	5.7%	6.0%
Growth (Y-o-Y)					
Revenue	58.1%	28.2%	-31.0%	8.6%	5.3%
EBITDA	53.2%	26.8%	-38.8%	14.2%	6.0%
Pre-tax Income	36.6%	49.8%	-42.3%	-13.2%	6.7%
Net Income	24.4%	49.9%	-46.1%	-13.2%	6.7%
Financial Structure					
Networth Ratio	45.5%	47.8%	67.0%	70.9%	74.9%
Debt-to-equity Ratio	87.4%	79.1%	28.8%	21.3%	14.8%
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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