

Tiong Woon Corporation

Disappointed yet again

UNDERPERFORM	Downgraded
S\$0.52	Target: S\$0.56
Mkt.Cap: S\$191m/US\$135m	
Construction	

TWC SP / TION.SI

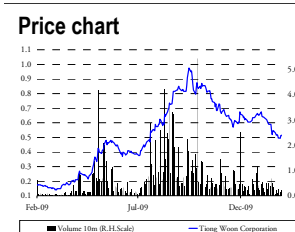
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- **Downgrade to UNDERPERFORM from Neutral; target price reduced to S\$0.56 (from S\$0.73).** 2Q10 core net profit of S\$5.4m (-55% yoy) was 27% below our estimate and 43% below consensus due to lower-than-expected revenue and gross margins. Weak demand for lower-tonnage cranes resulted in lower fleet utilisation and hence revenue. 1H10 earnings of S\$11.6m (-50% yoy) form 37.4% of our full-year estimate. We cut our FY10-12 EPS estimates by 23-30%, adjusting for lower sales and gross-margin expectations. Following our EPS reductions, our target price drops to S\$0.56 from S\$0.73, still based on 7.2x CY11 P/E, at a 10% discount to its mid-cycle multiple of 8x. We downgrade TWC to Underperform as a weak demand outlook weighs down the stock. We see de-rating catalysts from further sets of weak results.
- **Revenue continued its downtrend.** Yet again, revenue fell across the board with the exception of fabrication, as utilisation rate slipped from 72% to 65%. Turnover from heavy lift & haulage, marine transportation and trading fell 18.8%, 40% and 65.4% yoy to S\$26.8m, S\$2.2m and S\$3m respectively. Fabrication revenue was up 14% yoy to S\$5.5m as TWC completed all recognition of its significant project, a derrick pipelay barge.
- **Weakness in demand spilt over to margins.** Gross margins fell from 43% in 1Q10 to 26.6% in 2Q10 as idle cranes brought in less revenue while continuing to incur depreciation charges. Higher administrative and other expenses lowered operating margins as an incorporation of foreign subsidiaries raised overheads.
- **Gearing did improve.** Reduced borrowings and higher debt repayment helped to reduce TWC's net gearing to 47% in 2Q10 from 71% in 1Q10.
- **No recovery in sight.** There appears to have been some oversupply of lower-tonnage cranes since the second half of 2009, with Singapore's two integrated resorts near their completion. Management guides that strengthening demand from the oil & gas sector can lift overall demand for the group's cranes in 2H10. However, in view of recent disappointments, we expect no real recovery in the company's earnings in the near future.

Results comparison

FYE Jun (\$m)	2QFY10	2QFY09	yoy % chg	1QFY10	qoq % chg	1HFY10 Cum	1HFY09 Cum	yoy % chg	Prev. FY10F	Comments
Revenue	37.5	50.1	(25.2)	44.8	(16.4)	82.3	95.5	(13.9)	185.2	Below due to weakness across all segments
Operating costs	(28.6)	(30.8)	(7.2)	(30.1)	(5.2)	(58.7)	(59.8)	(1.8)	(127.5)	Below due to lower revenue
EBITDA	8.9	19.3	(53.9)	14.7	(39.4)	23.6	35.7	(34.0)	57.7	Below due to weaker gross margin
EBITDA margin (%)	23.7	38.5		32.8		28.6	37.4	(23.4)	31.2	Below
Depn & amort.	(5.6)	(5.3)	5.2	(5.9)	(4.4)	(11.5)	(10.5)	8.7	(22.5)	In line
EBIT	3.3	14.0	(76.4)	8.8	(62.7)	12.1	25.2	(51.9)	35.2	Below
Interest expense	(0.6)	(0.8)	(27.4)	(0.5)	31.7	(1.1)	(1.7)	(36.4)	(2.2)	In line
Interest & invt inc	4.1	1.6	154.5	(0.5)	997.0	3.7	4.9	(25.1)	5.0	Above due to higher gain on disposal
Associates' contrib	-	-	-	-	-	-	-	-	-	
Exceptionals	-	-	-	-	-	-	-	-	10.5	Below; exceptional item not recognised.
Pretax profit	6.8	14.8	(53.7)	7.9	(13.6)	14.7	28.4	(48.1)	48.5	Below
Tax	(1.4)	(2.7)	(46.3)	(1.7)	(17.2)	(3.2)	(5.3)	(40.2)	(8.7)	Below
Tax rate (%)	21.0	18.1		21.9		21.5	18.6	15.4	18.0	
Minority interests	0.0	(0.0)	180.6	(0.0)	220.8	0.0	(0.0)	115.2	(0.1)	
Net profit	5.4	12.0	(55.0)	6.1	(11.8)	11.6	23.1	(49.9)	39.6	Below
Core net profit	5.4	12.0	(55.0)	6.1	(11.8)	11.6	23.1	(49.9)	31.0	Below
EPS (cts)	1.6	3.6	(55.0)	1.8	(11.8)	3.4	6.8	(49.9)	10.7	Below
Core EPS (cts)	1.6	3.6	(55.0)	1.8	(11.8)	3.4	6.8	(49.9)	8.4	Below

Source: Company, CIMB-GK Research



Source: Bloomberg

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	157.8	202.3	164.5	184.6	207.7
EBITDA (S\$ m)	56.9	75.9	51.1	56.5	61.5
EBITDA margins (%)	36.0%	37.5%	31.1%	30.6%	29.6%
Pretax profit (S\$ m)	33.9	50.8	37.2	32.3	37.4
Net profit (S\$ m)	28.0	42.3	30.4	26.8	31.1
EPS (S cts)	8.3	12.5	8.2	7.2	8.4
EPS growth (%)	21.7%	51.4%	(34.8%)	(11.8%)	16.1%
P/E (x)	6.2	4.1	6.3	7.1	6.2
Core EPS (S cts)	8.3	12.5	5.9	7.2	8.4
Core EPS growth (%)	58.5%	51.4%	(53.2%)	22.8%	16.1%
Core P/E (x)	6.2	4.1	8.8	7.1	6.2
FD core EPS (S cts)	8.3	12.5	5.9	7.2	8.4
FD core P/E (x)	6.2	4.1	8.8	7.1	6.2
Gross DPS (S cts)	0.4	0.4	0.6	0.6	0.6
Dividend yield (%)	0.8%	0.8%	1.2%	1.2%	1.2%
P/BV (x)	1.3	1.0	0.9	0.8	0.7
ROE (%)	23.2%	27.7%	16.1%	12.4%	12.9%
Net gearing (%)	75.3%	69.6%	16.3%	3.9%	N/A
Net cash per share (S\$)	N/A	N/A	N/A	N/A	0.05
P/FCFE (x)	213.1	(10.3)	2.1	6.7	5.9
EV/EBITDA (x)	4.9	4.0	4.5	3.6	2.9
% change in EPS estimates			-29.7%	-23.5%	-23.3%
CIMB/Consensus (x)			0.79	0.69	0.74

Source: Company, CIMB-GK Research, Bloomberg

Figure 1: Pretax profit

PBT (S\$ m)	2Q10	2Q09	yoy %
Heavy Lift & Haulage	8.1	13.8	-41%
Marine Transportation	(0.2)	0.7	-128%
Trading	0.6	1.5	-60%
Fabrication & Engineering	(1.7)	(1.2)	42%
Total	6.8	14.8	-54%

Source: Company

Figure 2: 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)	CY2010	CY2011	(%)	CY2010	CY2010
Tiong Woon	TWC SP	U	0.52	0.56	135	7.9	6.6	(12.6)	0.9	14.2
Hong Leong Asia	HLA SP	O	3.45	6.33	930	9.4	7.5	61.2	1.7	19.5
Tat Hong	TAT SP	U	0.93	0.92	324	10.4	8.1	(3.9)	1.1	11.1
United Engineers	UEM SP	O	1.88	2.83	339	7.5	4.4	42.9	0.5	6.7
Yongnam	YNH SP	O	0.23	0.47	196	5.6	4.8	18.9	1.2	23.8
Simple average						8.2	6.3	21.4	1.1	15.1

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.

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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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