

Tiong Woon Corporation

Surprised on the downside

UNDERPERFORM	Maintained
S\$0.49	Target: S\$0.37
Mkt.Cap: S\$182m/US\$132m	Construction

TWC SP / TION.SI

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- **Results below; maintain Underperform.** 3Q10 core net loss of S\$1.9m (-126% yoy) was below our estimate and consensus due to lower-than-expected revenue and higher-than-expected opex. Weak demand across the segments continued to affect utilisation rates and earnings. 9M10 core net profit of S\$5.7m (-81% yoy) forms 26.1% of our full-year estimate. We cut our FY10-12 core net profit estimates by 29-71%, adjusting for lower sales and higher opex. Following our earnings reductions, our target price drops to S\$0.37 from S\$0.56, still based on 7.2x CY11 P/E, at a 10% discount to its mid-cycle multiple of 8x. We see de-rating catalysts from further sets of weak results.
- **Revenue down more than expected.** Though we expected revenue to decline, the rate of retreat came as a surprise. YoY, revenue fell across the board with the exception of marine transport, where sales rose 121% yoy to S\$4.3m as a result of two chartering contracts secured recently. Turnover from heavy lift & haulage, fabrication & engineering and trading fell 24%, 95% and 85% yoy to S\$22.4m, S\$0.9m and S\$0.7m respectively. Group crane utilisation rates slipped further from 65% in 2Q10 to 62% in 3Q10, with a lack of demand for lower-tonnage cranes being the chief culprit.
- **Higher opex and gearing.** Higher operating expense came about because of a S\$0.7m impairment loss on trade receivables relating to two customers for the provision of heavy lift and ship building services. Net gearing increased 5.3% pts qoq to 52.1% with borrowings rising 13% (S\$17m) as TWC expanded its crane fleet.
- **Recovery seems distant.** An oversupply of lower-tonnage cranes in Singapore has persisted since the second half of 2009, with Singapore's two integrated resorts now completed. Though TWC has strived to secure contracts outside Singapore, overseas contributions are not yet significant. With the weak Singapore market (9M10: 63% of group revenue) still expected to account for the lion's share of turnover, we expect no real recovery in TWC's earnings in the near future.

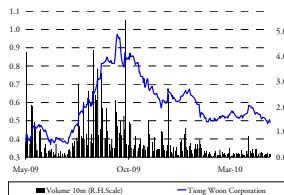
Results comparison

FYE Jun (S\$ m)	3QFY10	3QFY09	yoY %	qoq %	9MFY10	9MFY09	yoY %	Prev.	
								chg	Comments
Revenue	28.4	52.8	(46.3)	(24.3)	110.6	148.3	(25.4)	164.5	Below on weakness across most segments
Operating costs	(22.3)	(38.3)	(41.8)	(22.1)	(81.0)	(98.1)	(17.4)	(121.4)	Above on higher-than-expected opex
EBITDA	6.1	14.5	(58.1)	(31.6)	29.7	50.2	(41.0)	43.1	Below
EBITDA margin (%)	21.5	27.5			26.8	33.9	(20.9)	26.2	Below
Depn & amort.	(6.0)	(5.5)	8.2	6.4	(17.4)	(16.1)	8.5	(22.5)	In line with higher capex
EBIT	0.1	9.0	(98.6)	(96.1)	12.2	34.2	(64.2)	20.6	Below
Interest expense	(0.6)	(0.8)	(31.1)	(4.2)	(1.6)	(2.5)	(34.7)	(1.8)	In line with higher borrowings
Interest & invt inc	0.6	0.9	(30.4)	295.7	0.3	5.8	(94.2)	8.0	Below
Associates' contrib	-	-	-	-	-	-	-	-	-
Exceptionals	11.4	-	-	-	15.4	-	-	10.5	Above on one-off gain on disposal of property
Pretax profit	11.6	9.1	27.7	70.5	26.4	37.5	(29.7)	37.2	Above on higher-than-expected exceptional it
Tax	(2.0)	(2.0)	4.7	42.5	(5.2)	(7.2)	(28.1)	(6.9)	-
Tax rate (%)	17.5	21.4			19.8	19.3	2.3	18.5	
Minority interests	-	(0.1)	(100.0)	(100.0)	0.0	(0.1)	105.7	0.0	-
Net profit	9.6	7.1	35.0	77.0	21.2	30.2	(29.9)	30.4	Above
Core net profit	(1.9)	7.1	(126.1)	(228.3)	5.7	30.2	(81.0)	21.8	Below
EPS (cts)	2.6	2.1	22.6	60.8	6.0	8.9	(32.8)	8.2	Above
Core EPS (cts)	(0.5)	2.1	(123.7)	(216.5)	1.7	8.9	(80.4)	5.9	Below

Source: Company, CIMB Research

Financial summary					
FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	157.8	202.3	140.4	162.6	189.0
EBITDA (S\$ m)	56.9	75.9	36.5	44.7	51.0
EBITDA margins (%)	36.0%	37.5%	26.0%	27.5%	27.0%
Pretax profit (S\$ m)	33.9	50.8	27.2	20.1	26.5
Net profit (S\$ m)	28.0	42.3	21.8	16.7	22.0
EPS (S cts)	8.3	12.5	5.9	4.5	5.9
EPS growth (%)	21.7%	51.4%	(53.2%)	(23.5%)	31.8%
P/E (x)	5.9	3.9	8.4	10.9	8.3
Core EPS (S cts)	8.3	12.5	1.7	4.5	5.9
Core EPS growth (%)	58.5%	51.4%	(86.3%)	161.6%	31.8%
Core P/E (x)	5.9	3.9	28.5	10.9	8.3
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)	1.2	1.0	0.9	0.9	0.8
ROE (%)	23.2%	27.7%	11.9%	8.3%	10.1%
Net gearing (%)	75.3%	69.6%	18.5%	10.6%	1.8%
P/FCFE (x)	202.7	(9.8)	2.0	10.0	8.0
EV/EBITDA (x)	4.8	3.9	6.1	4.7	3.8
% change in EPS estimates			-70.7%	-37.7%	-29.2%
CIMB/Consensus (x)			0.69	0.44	0.70

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Revenue and pretax profit

Revenue (S\$ m)	3Q10	3Q09	yoY %
Heavy Lift & Haulage	22.41	29.39	-23.7%
Marine Transportation	4.33	1.96	120.9%
Trading	0.92	16.77	-94.5%
Fabrication & Engineering	0.70	4.70	85.1%
Total	28.36	52.82	-46.3%
PBT (S\$ m)	3Q10	3Q09	yoY %
Heavy Lift & Haulage	2.76	10.66	-74.1%
Marine Transportation	(0.88)	(1.14)	23.2%
Trading	(0.14)	0.374	-137.4%
Fabrication & Engineering	(0.66)	(0.78)	15.4%
Other*	10.56	-	-
Total	11.64	9.11	27.7%

Source: Company, CIMB-GK Research

* relates to one-off gain from disposal of property

Figure 2: Adjustments to revenue and opex estimates

Revenue (S\$ m)	FY10	FY11	FY12
Previous forecast	164.5	184.6	207.7
Latest forecast	140.4	162.6	189.0
Change (%)	(14.7%)	(11.9%)	(9.0%)
Operating expense (S\$m)	FY10	FY11	FY12
Previous forecast	26.6	27.1	29.5
Latest forecast	27.7	29.4	31.4
Change (%)	4.1%	8.5%	6.4%

Source: CIMB-GK Research

Figure 3: Sector comparisons

	Bloomberg	Price	Target	Core		3-yr EPS	P/BV	ROE	Div					
				ticker	Recom.	price (Local)	Mkt cap (Local)	(US\$ m)	P/E (x)	CAGR (%)	(x)	(%)	yield (%)	
Tiong Woon	TWC SP	U	0.49			0.37	132		15.7	9.4	(22.1)	0.9	10.0	1.2
Hong Leong Asia	HLA SP	O	4.26			6.00	1,181		11.0	9.0	40.8	1.9	18.8	2.6
Tat Hong	TAT SP	O	1.00			1.24	360		10.6	8.0	(1.2)	1.0	10.0	3.6
United Engineers	UEM SP	O	2.28			3.34	427		6.4	6.0	5.7	0.5	9.2	6.3
Yongnam	YNH SP	O	0.25			0.46	225		6.3	5.5	13.8	1.3	23.6	2.2
Simple average									10.0	7.6	7.5	1.1	14.3	3.2

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell

Source: Company, CIMB Research

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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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