

Tiong Woon Corporation

Gloomy start to 2010

NEUTRAL

Downgraded

S\$0.64

@02/01/10

Target: S\$0.73

Construction

TWC SP / TION.SI

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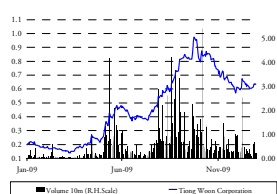
- **Downgraded to Neutral from Outperform; target price reduced to S\$0.73.** We downgrade TWC from Outperform to Neutral and cut our core EPS estimates for FY10-12 by 27%-30% as the company struggles with the lack of ship building contracts while its crane utilisation rate remains weak. Our target price has been reduced from S\$1.06 to S\$0.73, now based on 7.2x CY11 P/E. We expect weak 2QFY10 results to be the key de-rating catalyst for this stock.
- **Demand for cranes in key sectors show signs of weakening.** Growth in the Singapore construction sector has started to decelerate, growing only 13% yoy in 3Q09. The lack of sizeable projects in the Singapore oil and gas sector has resulted in a dip in crane utilisation rates across the industry.
- **Revenue and core net profit to be lower yoy.** The Group's FY10 revenue is expected to decline from FY09' record level as a result of the waning crane demand and as its fabrication and engineering division struggle with the lack of ship building orders. Core net profit is also expected to ease, in line with the declining revenue and as its gross margin come under pressure amid the weakening environment.

Financial summary

FYE Jun	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	157.8	202.3	185.2	213.0	244.9
EBITDA (S\$ m)	56.5	75.9	62.7	67.6	74.4
EBITDA margins (%)	35.8%	37.5%	33.9%	31.7%	30.4%
Pretax profit (S\$ m)	33.6	50.8	48.5	42.8	49.6
Net profit (S\$ m)	27.6	42.3	39.6	35.0	40.5
EPS (S cts)	8.2	12.5	10.7	9.4	10.9
EPS growth (%)	21.5%	53.2%	(14.9%)	(11.7%)	15.8%
P/E (x)	7.8	5.1	6.0	6.7	5.8
Core EPS (S cts)	8.2	12.5	8.4	9.4	10.9
Core EPS growth (%)	58.9%	53.2%	(33.4%)	12.8%	15.8%
Core P/E (x)	7.8	5.1	7.6	6.7	5.8
FD core EPS (S cts)	8.2	12.5	8.4	9.4	10.9
FD core P/E (x)	7.8	5.1	7.6	6.7	5.8
Gross DPS (S cts)	0.4	0.4	0.6	0.6	0.6
Dividend yield (%)	0.6%	0.6%	0.9%	0.9%	0.9%
P/BV (x)	1.6	1.2	1.1	1.0	0.8
ROE (%)	23.0%	27.7%	20.6%	15.3%	15.4%
Net gearing (%)	75.3%	69.6%	13.5%	N/A	N/A
Net cash per share (S\$)	N/A	N/A	N/A	0.01	0.10
P/FCFE (x)	262.7	(12.8)	2.4	6.8	5.9
EV/EBITDA (x)	5.7	4.5	4.3	3.5	2.7
% change in Core EPS estimates			(26.7%)	(29.2%)	(29.9%)
CIMB/Consensus (x)			0.76	0.82	0.86

Source: Company, CIMB-GK Research, Bloomberg

Price chart



Source: Bloomberg

Market capitalisation & share price info

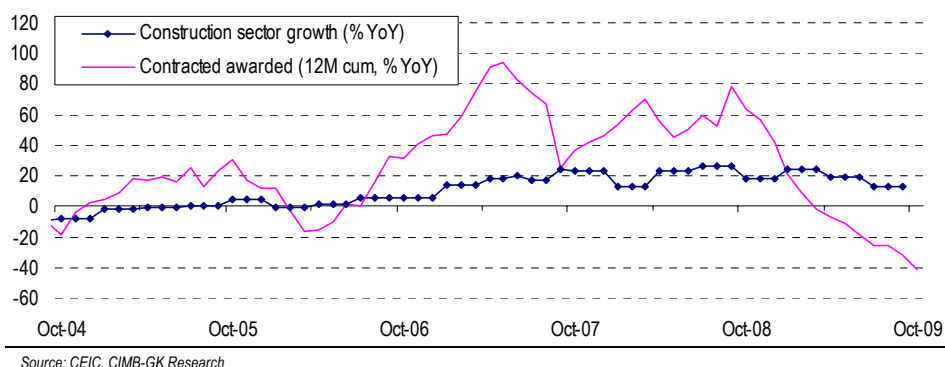
Market cap	S\$236m/US\$168m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.98/S\$0.14	Relative	(0.4)	(30.8)	98.0
3-mth avg daily volume	5.5m	Absolute	3.3	(23.0)	225.6
# of shares (m)	372	Major shareholders	% held		
Est. free float (%)	54.2	Ang Choo Kim & Sons	40.0		
Conv. secs (m)			N/A		
Conv. price ()			N/A		

Source: Company, CIMB-GK Research, Bloomberg

Industry outlook

Construction sector. Construction projects account for about 30% of TWC's revenue. 2008-09 were good years for the Singapore construction sector, thanks to S\$24bn and S\$35bn worth of contracts dished out in 2007 and 2008. Growth in this sector has started to decelerate, growing only 13% yoy in 3Q09. This is down from 24% and 19% in the first two quarters. This downshift is expected to continue into 2010. Year to Oct 09, only S\$17bn of contracts had been awarded, while expectations for the full year were S\$18bn-20bn. The projection for 2010 is S\$15bn-17bn. Lower construction awards is likely to put pressure on crane utilisation and rental rates in 2010.

Figure 1: Construction sector growth tapering off



Oil & gas sector. Projects in the oil and gas, petrochemical and power industries make up the remaining 70% of TWC's revenue. Projects in the oil & gas and petrochemical industries can be broadly classified as regular maintenance work or special projects. An example of special projects is plant expansion work, and such projects tend to be more sizable and lucrative than regular maintenance work. TWC enjoyed a robust FY09 thanks to a high volume of special projects in Singapore that lifted its crane utilisation rates to an optimal 80%. This is now unravelling. Industry sources point to a lack of special projects in 2H09, which resulted in a dip in crane utilisation rates across the industry. The shortage of such projects should sustain into 2010, depressing utilisation and rental rates. With mainly regular maintenance contracts left in the oil and gas sector, the environment is likely to become more challenging for the crane industry.

Business segment review

Heavy lift and haulage

Little joy now at main earning contributor, no signs of crane utilisation rates recovery. TWC's crane utilisation rate dipped from 80% in FY09 to 70-75% in 1QFY10 due to weakness in the operating environment. The bad news is that utilisation rates may not recover to the optimal level of 80% in 2010, given a lack of sizeable projects in the oil & gas sector. This has resulted in weak demand for smaller-tonnage cranes (<300 tonnes) in 2QFY10. TWC has guided that its utilisation rates are likely to remain stable at 70-75%, supported by steady demand for high-tonnage cranes for its ongoing projects. TWC's ongoing projects in India, China, Thailand and Vietnam have helped to maintain the demand for cranes with lifting capacity of more than 300 tonnes.

Significant contracts and collaborations could be drivers for 2HFY10. TWC was awarded three 5-year contracts by Shell Petroleum in Sep 09 to provide mobile cranes and lifting services for maintenance work in Shell's mono-ethylene glycol (MEG) and Seraya plants on Jurong Island. Significant contributions from these three contracts will only start from CY10. There are two reasons to be positive about these contracts: 1) they drive up crane demand and thus crane utilisation rates; and 2) other contractors serving clients in both plants are likely to use TWC's services too. The company has recently set up a wholly-owned subsidiary in Vietnam, and is positive about its prospects in the country. TWC had sold some cranes to Vietnam in 1HFY10 and is continuing to see more demand for its integrated services. With the ASB joint venture and incorporation of subsidiary in Vietnam, we expect to see better performance for its heavy lift and haulage division in 2HFY10.

Potential overseas projects. TWC is bidding for a few major projects in India and the Middle East. While details have been kept confidential, we believe that an award or awards of these projects can have a positive impact on its FY10 results.

Fabrication and Engineering

Repair jobs ongoing but newbuilds lacking. Not only is the main Heavy Lift division lackluster, the smaller Fabrication & Engineering is meeting some headwinds as well. TWC has recently completed a ship repair project in its Bintan yard and is expecting to commence work on another four repair projects in CY10. The negative is that since the completion of its maiden ship building contract in Sep 09, TWC has yet to secure any newbuild contracts. TWC's maiden ship building contract contributed 78% of its FY08-1QFY10 fabrication engineering revenue. The lack of newbuild contracts is a precursor to weaker contributions from this segment for FY10. Being the second largest revenue generator for the group in FY08 and FY09, weakness in this segment is certain to weigh down on profitability as well.

Marine transportation

JV with Asian Supply Base may contribute positively. TWC's marine transport division had a bad FY09 due to fewer integrated haulage and marine projects yoy. Although this trend has continued into 1Q10, the company is hopeful of reviving fortunes in this division with a recently announced joint venture with Asian Supply Base Sdn Bhd, a Malaysian state-owned agency, which operates a logistics support centre in Malaysia for the oil & gas industry. TWC will be able to supplement ASB's marine transportation capacity while adding value by providing heavy lifting and haulage expertise. The joint venture is likely to bring about opportunities for integrated haulage and marine projects within and outside Malaysia, benefiting both TWC's marine transport and heavy lift and haulage divisions.

Trading

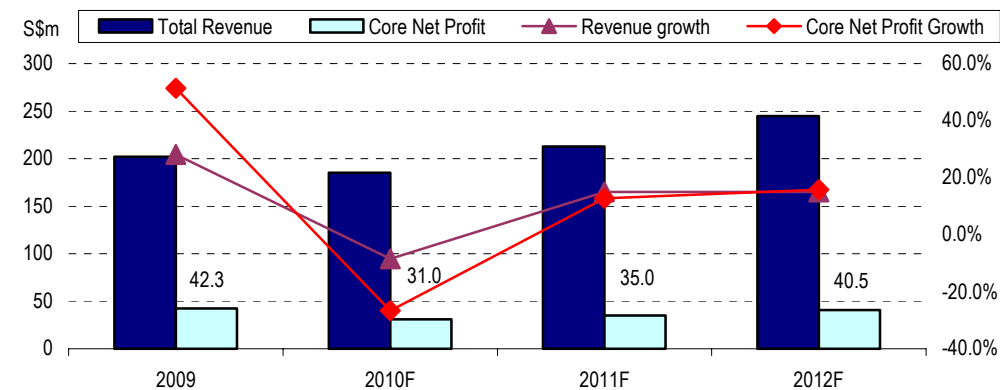
Trading opportunities exist. With almost 85% of TWC's lifting fleet consisting of small cranes, TWC is almost certain of slack capacity heading into 2010. We expect the company to sell some of its small cranes opportunistically to reduce the spare capacity. Reacting to weak demand for small cranes in Singapore's oil & gas sector, TWC is shifting its Trading focus to overseas markets instead. Opportunities for trading in emerging markets are surfacing. Since the start of FY10, TWC has sold a couple of cranes to clients in Vietnam and Africa.

New CAPEX mostly on large cranes. TWC still sees demand for its high-lifting-capacity cranes in overseas markets. It has set aside S\$30m in FY10 to expand its fleet despite lower-than-optimal utilisation rates. The funds are mainly targeted at the procurement of cranes with lifting capacity of above 300 tonnes as the company anticipates higher demand for these big cranes in overseas markets.

Financials

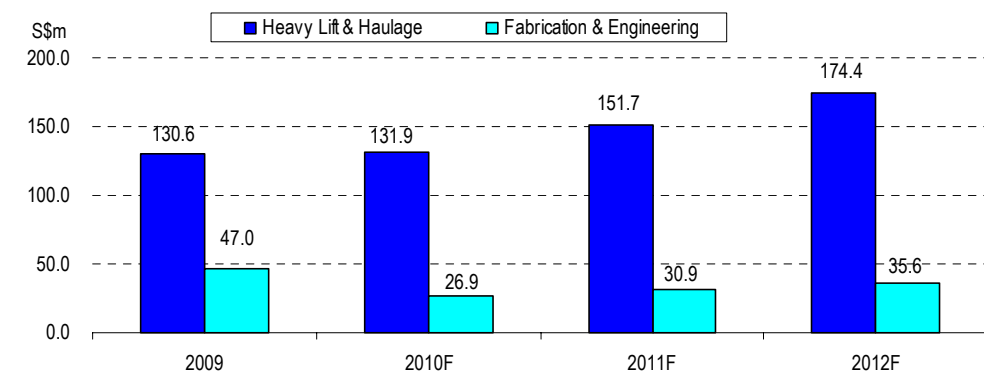
Revenue and core net profit to ease. With the lack of sizable projects in the Singapore oil and gas sector, we expect TWC's 2Q10 results to be as weak as 1Q10. We have thus cut our core EPS estimates for FY10-12 by 27%-30% as the company struggles with the lack of ship building contracts while its crane utilisation rate remains weak. The upside to our estimates is that 2H10 could be better than 1H10 if contributions from significant contracts kick in and as potential overseas projects materialise. Overall, we expect the Group's revenue for FY10 to decline from FY09' record level, in view of the weak operating environment and as its fabrication and engineering division struggle with the lack of ship building orders. Core net profit is also expected to ease, in line with the declining revenue and as its gross margin come under pressure amid the weakening environment.

Figure 2: Total revenue and core net profit growth



Source: Company, CIMB-GK Research

Figure 3: Segmental revenue breakdown



Source: Company, CIMB-GK Research

Valuation

Downgraded from Outperform to Neutral; target price reduced to S\$0.73. Our lowered earnings estimates is the main basis of our target price reduction. We apply a 10% discount to its mid-cycle multiple of 8x to reflect the deteriorating prospects of the company as its key markets show signs of weakness. Our target price is reduced from S\$1.06 (8x P/E) to S\$0.73, now based on 7.2x CY11 P/E. We downgrade TWC from Outperform to Neutral. We expect weak 2QFY10 results to be the key de-rating catalyst for this stock.

Figure 4: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x) CY2010	Core P/E (x) CY2011	3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
Tiong Woon	TWC SP	N	0.64	0.73	168	7.1	6.2	(4.5)	1.0	17.7	0.9
Tat Hong	TAT SP	U	1.05	0.92	372	11.8	9.2	(3.9)	1.3	11.1	5.1
Hong Leong Asia	HLA SP	O	2.90	3.98	789	7.8	5.8	65.2	1.5	20.1	3.4
Yongnam	YNH SP	O	0.28	0.47	241	6.8	5.9	18.9	1.5	23.8	1.1
United Engineers	UEM SP	O	1.81	2.15	330	7.3	6.6	23.7	0.5	6.7	3.4
Simple average						8.1	6.7	20.3	1.2	16.0	2.8

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB-GK Research

Financial tables

PROFIT & LOSS

(S\$ m, FYE Jun)	2008	2009	2010F	2011F	2012F
Revenue	158	202	185	213	245
Operating expenses	(101)	(126)	(122)	(145)	(171)
EBITDA	57	76	63	68	74
Depreciation & amortisation	(20)	(22)	(23)	(22)	(22)
EBIT	37	54	40	45	53
Net interest & invt income	(3)	(3)	(2)	(3)	(3)
Associates' contribution	0	0	0	0	0
Exceptional items	0	0	11	0	0
Others	0	0	0	0	0
Pretax profit	34	51	48	43	50
Tax	(6)	(8)	(9)	(8)	(9)
Minority interests	0	0	0	0	0
Net profit	28	42	40	35	41
Adj. wt. shares (m)	338	338	372	372	372
Unadj. year-end shares (m)	338	338	372	372	372

BALANCE SHEET

(S\$ m, end Jun)	2008	2009	2010F	2011F	2012F
Fixed assets	196	226	229	227	225
Intangible assets	0	0	0	0	0
Other long-term assets	2	0	2	2	2
Total non-current assets	198	227	231	229	227
Cash and equivalents	17	17	108	138	173
Stocks	1	1	2	2	2
Trade debtors	65	118	61	70	81
Other current assets	19	9	8	9	11
Total current assets	102	145	179	219	266
Trade creditors	25	29	28	32	37
Short-term borrowings	51	75	74	73	72
Other current liabilities	2	4	4	4	4
Total current liabilities	77	108	106	109	113
Long-term borrowings	69	65	64	63	62
Other long-term liabilities	17	21	23	26	28
Total long-term liabilities	86	87	87	89	91
Shareholders' funds	133	173	212	245	283
Minority interests	4	4	5	5	5
NTA/share (S\$)	0.39	0.51	0.57	0.66	0.76

CASH FLOW

(S\$ m, FYE Jun)	2008	2009	2010F	2011F	2012F
Pretax profit	28	42	48	43	50
Depreciation & non-cash adj.	20	22	23	22	22
Working capital changes	(41)	(40)	57	(6)	(7)
Cash tax paid	(1)	(1)	(1)	(1)	(1)
Others	(8)	(16)	(5)	(7)	(8)
Cash flow from operations	(2)	8	122	51	55
Capex	(53)	(28)	(25)	(20)	(20)
Net investments & sale of FA	13	7	8	8	8
Others	0	0	0	3	3
Cash flow from investing	(40)	(21)	(17)	(9)	(9)
Debt raised/(repaid)	46	(1)	(3)	(2)	(1)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(1)	(1)	(2)	(2)	(2)
Cash interest & others	(7)	(7)	(9)	(9)	(8)
Cash flow from financing	37	(9)	(14)	(12)	(12)
Change in cash	(5)	(22)	91	30	35
Change in net cash/(debt)	(51)	(21)	94	31	36
Ending net cash/(debt)	(103)	(124)	(29)	2	38

KEY RATIOS

(FYE Jun)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	58.1	28.2	(8.4)	15.0	15.0
EBITDA growth (%)	61.8	34.2	(17.3)	7.8	10.1
Pretax margins (%)	21.3	25.1	26.2	20.1	20.2
Net profit margins (%)	17.5	20.9	21.4	16.4	16.6
Interest cover (x)	N/A	N/A	N/A	N/A	N/A
Effective tax rates (%)	16.7	16.5	18.0	18.0	18.0
Net dividend payout (%)	4.9	3.2	5.6	6.4	5.5
Debtors turnover (days)	110.5	165.6	176.7	112.2	112.2
Stock turnover (days)	2.9	2.3	2.8	2.8	2.8
Creditors turnover (days)	48.2	48.5	55.9	51.4	51.4

KEY DRIVERS

(FYE Jun)	2009	2010F	2011F	2012F
Gross Margin (%)	37.3%	35.0%	35.0%	35.5%
Cost - SG&A expenses (S\$m)	30	30	34	39
Fleet utilisation (%)	80.0%	72.0%	75.0%	78.0%
Change in rental rates (%)	0.3%	4.0%	4.3%	3.4%

12M - FORWARD FD CORE P/E (X)



Source: Company, CIMB-GK Research, Bloomberg

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RECOMMENDATION FRAMEWORK #1*

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.

* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

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.

** This framework only applies to stocks listed on the Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.