

Tiong Woon Corporation

Weakness in operations persists

UNDERPERFORM	Maintained
S\$0.41	Target: S\$0.25
Mkt.Cap: S\$150m/US\$117m	
Construction	

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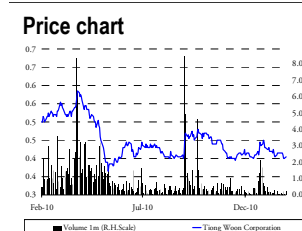
- **Below; maintain Underperform.** 2Q11 net profit of S\$0.5m (-66% yoy) came in below our estimate and consensus, forming 7% of our FY11 forecast. Weaker-than-expected turnover and gross margin were to be blamed for the variance. In view of continuing weakness in its operating environment, we have reduced our FY11-13 net profit estimates by 12-47%. Our target price hence dips to S\$0.25 (from S\$0.32), still based on 7.2x CY12 P/E (10% discount to its mid-cycle multiple of 8x). We continue to see de-rating catalysts from weak Singapore operations.
- **Revenue fall short of estimate,** as turnover from all business segments fell yoy in 2Q11 with the exception of marine transportation which registered a 14% growth to S\$2.5m; a result of a significant charter contract executed in the quarter. The lack of integrated haulage and marine projects, coupled with declining rental rates, resulted in a 16% dip in revenue contribution from its heavy lift & haulage segment to S\$22.5m. Turnover from the fabrication and engineering segment fell 85% yoy to S\$0.8m, while sales from the traditionally volatile trading business plunged 97% yoy to S\$0.1m. Gross margin fell 0.8% pts qoq to 24.9% (-1.7% pts yoy) due to higher depreciation costs from the addition of new equipment and the weak utilisation rate.
- **Healthier balance sheet the positive.** With the full payment for the derrick pipe-lay barge project received in 1Q11, substantial health was restored to its previously debt-laden balance sheet. Total borrowings fell 16% from S\$108.4m (at 30 Sep 10) to S\$90.8m (at 31 Dec 10). Net gearing however rose to 22.7% at the end of 2Q11 (from 18.6% in 1Q11) as cash and cash equivalents receded on the back of fixed asset capex spending and paying down of outstanding loan.
- **Recovery to kick in after FY11?** In our 1QFY11 result note, we mentioned that recovery is likely to kick in earliest in 3QFY11 given the weak earnings momentum in recent quarters and the persistently challenging outlook. In view of the continued weakness in the operating environment, we now believe that any meaningfully profit recovery would likely occur only beyond FY11. Our expectation still hinges upon a pick-up in overseas projects that would make up for the weakness in Singapore.

Results comparison

FYE Jun (\$m)	2QFY11	2QFY10	yoy % chg	qoq % chg	1HFY11 Cum	1HFY10 Cum	yoy % chg	Prev. FY11F	Comments
Revenue	25.9	37.5	(30.8)	(10.0)	54.7	82.3	(33.5)	130.1	Below: weaker-than-expected turnover
Operating costs	(19.2)	(28.6)	(32.7)	(10.5)	(40.7)	(58.7)	(30.7)	(99.9)	Above: on lower-than-expected GPM
EBITDA	6.7	8.9	(24.9)	(8.7)	14.0	23.6	(40.6)	30.2	Below
EBITDA margin (%)	25.8	23.7			25.6	28.6		23.2	Below
Depn & amort.	(6.4)	(5.6)	13.7	3.7	(12.5)	(11.5)	9.2	(22.1)	Above: due to fleet expansion
EBIT	0.3	3.3	(90.7)	(73.8)	1.5	12.1	(87.8)	8.1	Below
Interest expense	(0.6)	(0.6)	(3.5)	481.0	(0.7)	(1.1)	(35.7)	(0.7)	Above
Interest & invt inc	1.0	0.2	537.9	85.4	1.6	(0.3)	627.0	2.0	Above
Associates' contrib	(0.0)	-	-	42.9	(0.1)	-	-	-	
Exceptionals	-	4.0	(100.0)	-	-	4.0	(100.0)	-	
Pretax profit	0.7	6.8	(89.4)	(55.0)	2.3	14.7	(84.2)	9.4	Below
Tax	(0.4)	(1.4)	(73.4)	13.1	(0.7)	(3.2)	(77.3)	(1.9)	Above: on higher effective tax rate
Tax rate (%)	52.7	21.0			30.8	21.5		20.0	Above
Minority interests	0.2	0.0	434.5	115.3	0.2	0.0	4,440.0	0.0	
Net profit	0.5	5.4	(90.8)	(62.9)	1.8	11.6	(84.1)	7.5	Below
Core net profit	0.5	1.4	(65.6)	(62.9)	1.8	7.6	(75.8)	7.5	Below
EPS (cts)	0.1	1.5	(91.1)	(62.9)	0.5	3.2	(84.5)	2.0	Below
Core EPS (cts)	0.1	0.4	(66.5)	(62.9)	0.5	2.1	(76.4)	2.0	Below

Source: Company, CIMB Research

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Financial summary

FYE Jun	2009	2010	2011F	2012F	2013F
Revenue (\$\$ m)	202.3	148.4	111.0	132.7	136.5
EBITDA (\$\$ m)	67.7	38.4	26.8	31.2	14.6
EBITDA margins (%)	33.5%	25.9%	24.1%	23.5%	10.7%
Pretax profit (\$\$ m)	50.8	28.1	5.0	12.9	17.9
Net profit (\$\$ m)	42.3	23.9	4.0	10.7	15.9
EPS (S cts)	12.5	6.6	1.1	2.9	4.3
EPS growth (%)	51.4%	(47.2%)	(83.7%)	167.7%	48.3%
P/E (x)	3.2	6.1	37.6	14.0	9.5
Core EPS (S cts)	12.5	2.1	1.1	2.9	4.5
Core EPS growth (%)	51.4%	(83.0%)	(49.3%)	167.7%	57.7%
Core P/E (x)	3.2	19.1	37.6	14.0	8.9
Gross DPS (S cts)	0.4	0.6	0.6	0.6	0.6
Dividend yield (%)	1.0%	1.5%	1.5%	1.5%	1.5%
P/BV (x)	0.8	0.7	0.7	0.6	0.6
ROE (%)	27.7%	12.0%	1.8%	4.6%	6.6%
Net gearing (%)	77.5%	71.3%	31.4%	30.2%	25.3%
P/FCFE (x)	(8.1)	17.8	4.6	30.1	21.8
EV/EBITDA (x)	3.9	6.5	8.5	7.3	15.0
% change in EPS estimates			-46.5%	-35%	-11.6%
CIMB/Consensus (x)			0.19	0.41	0.57

Source: Company, CIMB Research, Bloomberg

Figure 1: Segmental revenue

Revenue (\$\$ m)	2Q11	2Q10	yoy %
Heavy Lift & Haulage	22.5	26.8	-16%
Marine Transportation	2.5	2.2	+14%
Trading	0.1	3.0	-97%
Fabrication & Engineering	0.8	5.5	-85%
Total	25.9	37.5	-31%

Source: Company, CIMB Research

Figure 2: Adjustments to revenue and gross margin estimates

Revenue (\$\$m)	FY11	FY12	FY13
Previous forecast	130.1	151.3	155.5
Latest forecast	111.0	132.7	136.5
Change (%)	-14.7%	-12.3%	-12.2%
Gross profit margin (%)	FY11	FY12	FY13
Previous forecast	26.0	27.0	27.0
Latest forecast	25.2	26.0	27.0
Change (% pts)	-0.8% pts	-1.0% pt	-

Source: Company, CIMB Research

Figure 3: Sector comparisons

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x)		3-yr EPS CAGR (%)	P/BV (x)	ROE (%)	Div yield (%)
						CY2011	CY2012		CY2010	CY2010	CY2010
Tiong Woon	TWC SP	U	0.41	0.25	117	25.4	20.4	N/A	0.7	6.5	1.5
Tat Hong	TAT SP	N	0.92	1.02	355	15.5	10.4	14.6	0.9	6.3	3.6
Yongnam	YNH SP	O	0.29	0.41	277	6.4	5.8	15.9	1.5	25.9	1.9
Simple average						9.5	7.6	15.3	0.9	12.3	2.6
Indonesia											
Adhi	ADHI IJ	O	760	1,180	153	7.3	6.1	9.7	1.4	20.3	3.9
Pembangunan	PTPP IJ	O	590	740	320	9.8	7.7	21.3	1.9	21.1	2.1
Total Bangun Persada	TOTL IJ	O	250	425	95	9.5	7.4	21.1	1.4	15.8	4.1
Wika	WIKI IJ	O	610	950	410	11.6	9.3	26.8	1.8	16.6	2.2
Simple average						9.6	7.6	19.7	1.6	18.4	3.1
Malaysia											
Gamuda	GAM MK	O	3.78	5.45	2,546	18.5	14.4	28.8	3.6	21.0	3.2
IJM Corp	IJM MK	O	6.47	7.36	2,863	24.2	23.0	12.7	3.7	16.4	1.7
MTD ACPI	ACP MK	U	0.53	0.53	40	31.3	11.8	181.4	0.7	2.4	1.8
MRCB	MRC MK	TB	2.26	3.00	1,024	40.0	31.5	17.8	3.7	9.6	0.9
WCT	WCT MK	O	3.39	4.34	877	15.0	14.2	10.8	2.1	15.0	2.9
Simple average						21.5	15.8	50.3	2.3	10.7	1.7
Thailand											
Italian-Thai	ITD TB	TS	3.62	4.94	493	32.3	13.2	190.8	1.4	4.4	1.4
Sino-Thai Engineering	STEC TB	O	12.90	19.00	497	27.6	25.8	24.8	3.1	11.6	1.4
Simple average						30.0	19.5	107.8	2.2	8.0	1.4
Simple average for ALL countries						15.0	11.0	44.6	1.6	11.3	2.0

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

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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.

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