

Tiong Woon Corporation

Outlook remains challenging

UNDERPERFORM	Maintained
S\$0.36	Target: S\$0.25
Mkt.Cap: S\$134m/US\$109m	
Construction	

TWC SP / TION.SI

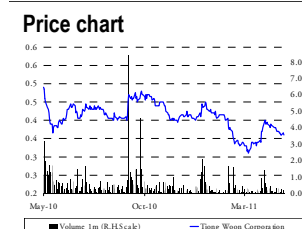
Leong Weihao +65 6210 8685 – weihao.leong@cimb.com

- **Below; maintain Underperform.** 3Q11 core net loss of S\$0.2m (-90% yoy) came in below our estimate and consensus due to weaker-than-expected turnover and higher-than-expected operating expenses. 9M11 core net profit of S\$1.7m (-71% yoy) forms 43% of our FY11 forecast. In view of the continuing weakness in its operating environment, we cut our FY11 net-profit estimate by 37%. Our target price of S\$0.25 is unchanged, 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 a challenging operating environment.
- **Turnover continued its descent,** with revenue from all four businesses falling yoy in 3Q11. Revenue from its heavy lift & haulage segment slipped 9% yoy to S\$20.5m following a drop in rental rates, as well as fewer integrated projects undertaken in the Asia Pacific. Turnover from its marine transportation business dropped 48% yoy to S\$2.3m on lower utilisation rates following fewer integrated haulage and marine projects undertaken. Sales of its fabrication and engineering segment were down the most, by 61% yoy to S\$0.4m as fewer repair jobs were available. The traditionally volatile trading income was least affected, with sales easing only 4% yoy to S\$0.7m.
- **Balance sheet still healthy.** Borrowings fell from S\$91m in 2Q11 to S\$88m in 3Q11. Net gearing rose 3% pts qoq to 25.7% as cash and cash equivalents receded on lower contributions from operating cash flow.
- **Outlook remains challenging.** Its earnings momentum has been weak in the past year, reflecting a persistently challenging environment. We expect business conditions to remain tough in the remaining quarters of FY11.

Results comparison

FYE Jun (\$ m)	3QFY11	3QFY10	yoy % chg	qoq % chg	9MFY11 Cum	9MFY10 Cum	yoy % chg	Prev. FY11F	Comments
Revenue	23.7	28.4	(16.3)	(8.4)	78.4	110.6	(29.1)	111.0	Below: weaker-than-expected turnover
Operating costs	(17.5)	(22.3)	(21.2)	(8.8)	(58.2)	(81.0)	(28.1)	(84.2)	Above: higher-than-expected opex
EBITDA	6.2	6.1	1.7	(7.3)	20.2	29.7	(31.9)	26.8	Below
EBITDA margin (%)	26.1	21.5			25.7	26.8		24.1	Below
Depn & amort.	(6.4)	(6.0)	7.2	0.2	(18.9)	(17.4)	8.5	(22.1)	Above: due to fleet expansion
EBIT	(0.2)	0.1	(255.9)	(164.5)	1.3	12.2	(89.5)	4.7	Below
Interest expense	(0.5)	(0.6)	(19.4)	(20.0)	(1.1)	(1.6)	(30.0)	(1.7)	In line
Interest & invt inc	1.3	0.6	103.0	25.9	2.9	0.3	752.8	2.0	Above
Associates' contrib	(0.0)	-	-	(46.7)	(0.1)	-	-	-	
Exceptionals	-	11.4	(100.0)	-	-	15.4	(100.0)	-	
Pretax profit	0.6	11.6	(94.7)	(15.1)	2.9	26.4	(88.8)	5.0	Below
Tax	(0.9)	(2.0)	(54.4)	144.6	(1.7)	(5.2)	(68.3)	(1.0)	Above
Tax rate (%)	151.8	17.5			56.1	19.8		20.0	Above
Minority interests	0.1	-	-	(11.0)	0.4	0.0	7,200.0	0.0	
Net profit	(0.2)	9.6	(101.9)	(136.2)	1.7	21.2	(92.2)	4.0	Below
Core net profit	(0.2)	(1.9)	(90.3)	(136.2)	1.7	5.7	(71.1)	4.0	Below
EPS (cts)	(0.0)	2.7	(101.8)	(136.2)	0.4	5.8	(92.4)	1.1	Below
Core EPS (cts)	(0.0)	(0.5)	(90.6)	(136.2)	0.4	1.6	(71.9)	1.1	Below

Source: Company, CIMB Research



Financial summary

FYE Jun	2009	2010	2011F	2012F	2013F
Revenue (\$\$ m)	202.3	148.4	106.0	132.7	136.5
EBITDA (\$\$ m)	67.7	38.4	24.9	31.2	14.6
EBITDA margins (%)	33.5%	25.9%	23.5%	23.5%	10.7%
Pretax profit (\$\$ m)	50.8	28.1	3.2	12.9	17.9
Net profit (\$\$ m)	42.3	23.9	2.5	10.7	15.9
EPS (\$ cts)	12.5	6.6	0.7	2.9	4.3
EPS growth (%)	51.4%	(47.2%)	(89.7%)	322.6%	48.3%
P/E (x)	2.9	5.4	52.8	12.5	8.4
Core EPS (\$ cts)	12.5	2.1	0.7	2.9	4.5
Core EPS growth (%)	51.4%	(83.0%)	(67.9%)	322.6%	57.7%
Core P/E (x)	2.9	16.9	52.8	12.5	7.9
Gross DPS (\$ cts)	0.4	0.6	0.6	0.6	0.6
Dividend yield (%)	1.1%	1.7%	1.7%	1.7%	1.7%
P/BV (x)	0.7	0.6	0.6	0.6	0.5
ROE (%)	27.7%	12.0%	1.1%	4.7%	6.6%
Net gearing (%)	77.5%	71.3%	31.4%	30.2%	25.3%
P/FCFE (x)	(7.2)	15.8	3.8	52.8	19.8
EV/EBITDA (x)	3.7	6.1	8.3	6.7	13.9
% change in EPS estimates			-37%	-	-
CIMB/Consensus (x)			0.22	0.57	0.63

Source: Company, CIMB Research, Bloomberg

Figure 1: Segmental revenue

Revenue (\$\$ m)	3Q11	3Q10	yoy %
Heavy Lift & Haulage	20.45	22.41	-9%
Marine Transportation	2.25	4.33	-48%
Trading	0.67	0.70	-4%
Fabrication & Engineering	0.36	0.92	-61%
Total	23.7	28.4	-16%

Source: Company, CIMB Research

Figure 2: Segmental profit before tax

Profit before tax (\$\$ m)	3Q11	3Q10	yoy %
Heavy Lift & Haulage	2.15	2.76	-22%
Marine Transportation	-0.79	-0.88	+10%
Trading	0.03	-0.14	n.m
Fabrication & Engineering	-0.78	-0.66	-18%
Others	-	10.56	-
Total	0.61	11.64	-95%

Source: Company, CIMB Research

Figure 3: Adjustments to revenue and gross-margin estimates

Revenue (\$\$m)	FY11
Previous forecast	111.0
Latest forecast	106.0
Change (%)	-4.5%
Operating expense (\$\$m)	FY11
Previous forecast	23.3
Latest forecast	24.0
Change (%)	+3%

Source: Company, CIMB Research

Figure 4: 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		CY2011	CY2011	CY2011
Tiong Woon	TWC SP	U	0.36	0.25	109	20.1	9.7	-	0.6	2.9	1.7
Tat Hong	TAT SP	N	0.85	1.02	343	9.7	8.3	14.6	0.8	8.6	4.6
Yongnam	YNH SP	O	0.26	0.40	265	5.4	5.2	15.9	1.1	22.9	2.3
Simple average						11.7	7.7	15.3	0.8	11.5	2.9
Indonesia											
Adhi	ADHI IJ	O	820.0	1180.0	172.7	7.9	6.6	29.9	1.5	20.2	3.8
Pembangunan	PTPP IJ	U	690.0	650.0	390.7	11.6	9.1	28.3	2.2	21.0	1.8
Total Bangun Persada	TOTL IJ	O	300.0	380.0	119.6	11.0	8.8	15.0	1.7	15.9	3.9
Wika	WIKI IJ	O	700.0	830.0	491.2	13.3	10.6	29.2	2.0	16.1	2.2
Simple average						10.9	8.8	25.6	1.9	18.3	2.9
Malaysia											
Gamuda	GAM MK	O	3.61	5.60	2,488.9	16.2	12.7	32.0	3.8	24.7	3.4
IJM Corp	IJM MK	O	6.20	8.00	2,804.9	21.6	17.8	21.8	3.5	17.6	1.7
MTD ACPI	ACP MK	U	0.55	0.53	42.7	32.8	12.4	181.4	0.8	2.4	1.7
MRCB	MRC MK	TB	2.16	3.00	1,001.3	38.2	30.1	17.8	3.5	9.6	0.9
WCT	WCT MK	O	2.99	4.15	796.9	16.4	15.7	8.2	1.9	14.8	3.4
Simple average						25.0	17.7	52.3	2.7	13.8	2.2
Thailand											
Italian-Thai	ITD TB	N	4.26	4.75	592.0	34.2	14.8	62.5	1.7	4.9	1.2
Sino-Thai Engineering	STEC TB	O	13.90	19.40	546.3	27.7	26.1	20.5	3.4	12.8	1.3
Simple average						31.0	20.5	41.5	2.6	8.8	1.2
Simple average for ALL countries						19.7	13.7	33.5	2.0	13.1	2.3

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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