


DMG & Partners Research
CONSTRUCTION

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Construction

Tiong Woon provides heavy haulage, transportation services, as well as offers crane rental/ trading services.

Stock Profile/Statistics

Bloomberg Ticker	TWC SP
STI	3,001.85
Issued Share Capital (m)	371.6
Market Capitalisation (S\$m)	128.2
52 week H L Price (S\$)	0.595 0.335
Average Volume ('000)	350.4
YTD Returns (%)	-15.9
Net gearing (%)	22.3
Altman Z-Score	1.53
ROCE/WACC	-0.24
Beta (x)	1.62
Book Value/share (S\$)	60.02

Major Shareholders (%)

Ang Choo Kim & Son	38.98%
Amundi	4.48%
Legg Mason International	3.39%

Share Performance (%)

Month	Absolute	Relative
1m	-17.86%	-12.08%
3m	-13.75%	-9.77%
6m	-14.81%	-17.41%
12m	-33.01%	-40.89%

6-month Share Price Performance

2QFY11 Results Review

Private Circulation Only

TIONG WOON

SELL	U
Price	S\$0.345
Previous	S\$0.42
Target	US\$0.30

Still facing pricing competition

We have cut our FY11 earnings forecasts for Tiong Woon (TWC) by 54.4%, on the back of expectations that contribution from previously deferred projects might kick in more substantially in 1HFY12. While TWC's balance sheet remains strong, with a lack of near term catalyst and in the face of intense competition, we are downgrading our NEUTRAL call to SELL. Our lower fair value of S\$0.30 is based on 6.6x FY12 P/E (1.5x standard deviation above TWC's 3.5-year historical average of 5.1x).

A weak 2QFY11. TWC earnings for 2QFY11 came in below our and street's expectations, due to lower turnover achieved from its Heavy Lift and Haulage, Fabrication and Engineering and Trading business segments. Earnings this quarter fell 90.8% YoY to S\$0.5m, attributable to a 30.8% YoY decline in revenue due to reduced business activity, as well as a 75.2% YoY decline in gain on disposal of plant and equipment. In addition, gross profit margin was down 1.7ppt YoY to 24.9% on the back of intense price competition within the industry.

Strong balance sheet. Post receipt of the payment for the pipe-lay barge, net gearing has declined from 0.43x in 4QFY11 to 0.22x currently. TWC's cash balance now stands at a formidable S\$40.0m, thus enabling it to buy more higher tonnage (>500 tonnes) cranes which are still in demand and can fetch higher rental rates. Management intends to spend another S\$20m in 2HFY11 buying cranes.

Pick-up in business activity may reflect in 1HFY12 earnings. With the economic recovery, management is seeing an increased level of project enquiries coming back on stream, particularly from the Middle East, Indonesia and Malaysia. However, impact to the bottom line may emerge only in 1HFY12. Hence, we cut our FY11 earnings estimates by 54.4% to S\$4.1m, on the back of lower gross margin at 23% from 27.5%, with intense competition in the industry. Based on 6.6x FY12 P/E, we derive a new TP of S\$0.30.

FYE Jun (S\$m)	FY08	FY09	FY10	FY11F	FY12F
Turnover	157.8	202.3	148.4	117.3	143.4
Net profit	28.0	42.3	23.9	4.1	16.5
% chg YoY	24.2%	51.4%	-43.5%	-83.0%	304.9%
Consensus net profit	-	-	-	18.5	24.6
EPS (S\$)	8.3	12.5	6.6	1.1	4.4
DPS (S\$)	0.4	0.4	0.4	0.4	0.4
Div Yield (%)	1.2%	1.2%	1.2%	1.2%	1.2%
ROE (%)	23.2%	27.7%	12.0%	1.8%	6.9%
ROA (%)	13.4%	15.1%	7.1%	1.2%	4.8%
P/E (x)	4.2	2.8	5.2	31.4	7.8
P/B (x)	0.9	0.7	0.6	0.6	0.5

Source: Company data and DMG estimates

Results Table (\$m)

Year Ended Jun	2QFY10	2QFY11	% Chge YoY	1QFY11	% Chge QoQ	Comments
Revenue	37.5	25.9	-30.8%	28.8	-10.0%	Decrease from Heavy Lift and Haulage, Fabrication and Engineering and Trading segments.
Cost of Sales	-27.5	-19.5	-29.2%	-21.4	-9.1%	
Gross Profit	10.0	6.4	-35.3%	7.4	-12.7%	
Other income	4.1	1.0	-75.2%	0.6	85.4%	Decrease in gain of disposal of plant and equipment.
Administrative expenses	-0.6	-0.3	-45.4%	-0.2	38.2%	
Other operating expenses	-6.0	-5.8	-4.0%	-6.0	-2.8%	
Finance Costs	-0.6	-0.6	-3.5%	-0.1	481.0%	
Share of profit/(loss) from associate	0.0	0.0	N.M.	0.0	42.9%	
Profit before Taxation	6.8	0.7	-89.4%	1.6	-55.0%	
Taxation	-1.4	-0.4	-73.4%	-0.3	13.1%	
Minority Interests	0.0	-0.2	434.5%	-0.1	115.3%	
Net profit attributable to shareholders	5.4	0.5	-90.8%	1.3	-62.9%	

Source: Company data

FINANCIALS

Year End Jun (\$m)					
Income Statement					
	FY08	FY09	FY10	FY11F	FY12F
Revenue	157.8	202.3	148.4	117.3	143.4
Cost of sales	(102.0)	(126.8)	(104.9)	(90.3)	(100.4)
Other income	7.5	8.2	15.7	7.2	8.5
Operating Expenses	(26.3)	(29.7)	(28.8)	(27.1)	(29.5)
Other credits / (charges)	0.0	0.0	(0.0)	0.0	0.5
Finance costs (net)	(3.1)	(3.2)	(2.3)	(2.1)	(2.6)
Profit before tax	33.9	50.8	28.1	4.9	20.0
Tax	(5.6)	(8.4)	(4.2)	(0.8)	(3.3)
Profit including minority interest	28.3	42.4	23.9	4.1	16.7
Minority interest	0.3	0.1	(0.0)	0.0	0.2
Profit attributable to equity holders	28.0	42.3	23.9	4.1	16.5

Cash Flow					
	FY08	FY09	FY10	FY11F	FY12F
Operating cash flow before working capital changes	47.4	70.7	38.6	28.8	65.5
Working capital changes	(40.9)	(39.7)	(1.7)	68.7	(8.6)
Other operating cashflow	(0.7)	(0.5)	(1.0)	(0.8)	(3.3)
Net cash from operations	5.8	30.5	35.9	96.6	53.5
Net cash from investing activities	(39.9)	(20.8)	6.6	(35.0)	(35.0)
Net change in debt	41.4	(4.9)	(46.1)	(53.0)	0.9
Other financing cashflow	(4.3)	(4.6)	22.7	(3.6)	(4.1)
Net cash from financing activities	37.1	(9.5)	(23.4)	(56.6)	(3.2)
Net incr. in cash/cash equivalents	3.0	0.2	19.2	5.1	15.3
Cash at beginning of year	13.6	16.6	16.8	36.0	41.0
Cash at end of year	16.6	16.8	36.0	41.0	56.4

Balance Sheet					
	FY08	FY09	FY10	FY11F	FY12F
Cash	16.6	16.8	38.3	41.0	56.4
Other current assets	85.3	128.4	125.5	53.5	64.4
Fixed assets	196.3	226.4	255.6	288.6	321.4
Non-current assets	2.0	0.3	0.3	0.4	0.4
Total assets	300.2	371.9	419.7	383.5	442.5
Current liabilities (excl. debt)	26.7	32.5	27.2	25.6	30.1
Debt	119.5	140.5	138.0	85.0	85.9
Other long term liabilities	17.3	21.3	25.0	39.7	73.2
Total liabilities	163.5	194.3	190.2	150.3	189.1
Shareholders equity	132.7	173.4	224.5	228.2	248.2
Minority interest	(4.0)	(4.3)	(5.0)	(5.0)	(5.2)
Total equity	136.7	177.7	229.5	233.2	253.4
Total equity and liabilities	300.2	371.9	419.7	383.5	442.5

Margins	FY08	FY09	FY10	FY11F	FY12F
Gross profit	35.4%	37.3%	29.3%	23.0%	30.0%
Pre-Tax	21.5%	25.1%	19.0%	4.2%	13.9%
Net Profit	17.7%	20.9%	16.1%	3.5%	11.5%

Growth	FY08	FY09	FY10	FY11F	FY12F
Revenue	58.1%	28.2%	-26.6%	-20.9%	22.2%
Pre-Tax	36.6%	49.9%	-44.6%	-82.5%	304.9%
Net Profit	24.2%	51.4%	-43.5%	-83.0%	304.9%
Tax rate	16.5%	16.5%	15.1%	16.5%	16.5%

Source: Company data and DMG estimates

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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