

Singapore Equity Explorer

Tiong Woon Corporation

Bloomberg: TWC SP | Reuters: TION.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Mar 2013

NOT RATED S\$0.345 STI : 3,298.54

Return *: 1

Risk: Moderate

Potential Target * : 12-Month S\$ 0.45 (30% upside)

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FY Jun (\$ m)	2012A	2013F	2014F	2015F
Turnover	151	208	244	278
EBITDA	27	65	76	86
Pre-tax Profit	(4)	23	27	31
Net Profit	(6)	19	23	26
Net Pft (Pre Ex.)	(6)	19	23	26
EPS (\$ cts)	(1.3)	4.2	5.0	5.6
EPS Pre Ex. (\$ cts)	(1.2)	4.2	5.0	5.6
EPS Gth (%)	N/A	N/A	18	14
EPS Gth Pre Ex (%)	N/A	N/A	18	14
Diluted EPS (\$ cts)	(1.3)	4.2	5.0	5.6
Net DPS (\$ cts)	0.4	0.0	0.0	0.0
BV Per Share (\$ cts)	47.8	52.0	57.0	62.7
PE (X)	nm	8.2	6.9	6.1
PE Pre Ex. (X)	nm	8.2	6.9	6.1
P/Cash Flow (X)	4.7	5.2	2.6	2.2
EV/EBITDA (X)	8.4	3.5	2.8	2.1
Net Div Yield (%)	1.2	0.0	0.0	0.0
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	0.3	0.3	0.2	0.1
ROAE (%)	(2.8)	8.4	9.1	9.4

Consensus EPS (\$ cts): -
Other Broker Recs: B: 0 S: 0 H: 0

ICB Industry : Industrials

ICB Sector: Industrial Engineering

Principal Business: Leading one-stop, integrated services specialist and provider of cranes and other heavy lifting equipment.

Source of all data: Company, DBS Vickers, Bloomberg

Turnaround crane operator

- One-stop, integrated services provider of cranes and heavy lifting equipment
- Leveraging on buoyant offshore market
- Population White Paper to spur infrastructure spending in Singapore
- Turnaround play with fair value of S\$0.45

The Business

One-stop, integrated services provider to the infrastructure sector. Tiong Woon supports mainly the oil and gas, as well as petrochemical, power and construction sectors. 76% of FY12 revenue was from Heavy Lift and Haulage segment, with the balance from Marine Transportation, Fabrication and Engineering, and Trading units.

Leveraging on the buoyant offshore market. Tiong Woon is targeting more refinery projects as oil majors increase their exploration and production (E&P) spending. There is also an abundant opportunities overseas.

Population White Paper to spur infrastructure spending in Singapore. About 10% to 20% of Tiong Woon's revenue comes from the construction sector in Singapore. The construction sector will benefit from continued infrastructure spending as the population of Singapore is set to grow to 6.9m by 2030.

The Stock

Turnaround play, fair value S\$0.45. Sector re-rating and increasing risk appetite for smaller cap stocks have led Tiong Woon's valuations to rise but it is still trading at about 45% discount to its peers. The valuation gap should narrow as Tiong Woon is expected to turnaround this year on the back of improving industry backdrop. The last two quarterly results have also shown significant improvement. We believe a 9x FY14F PE is fair, vs target multiples of 12x for Tat Hong and 11x for Sin Heng. Fair value works out to S\$0.45 per share.

Key risks for Tiong Woon are mainly related to macro risks, continued losses at its Marine Transportation and Fabrication and Engineering segments, and cost overruns.

At A Glance

Issued Capital (m shrs)	464
Mkt. Cap (\$m/US\$m)	160 / 129
Major Shareholders	
Ang Choo Kim & Sons (%)	39.0
Free Float (%)	61.0
Avg. Daily Vol. ('000)	2,466

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

Tiong Woon Corporation

REVENUE DRIVERS

One-stop, integrated services provider to the infrastructure sector.

Founded in 1978 and listed on SGX in 1999, Tiong Woon is a leading one-stop, integrated services specialist and provider to the infrastructure sector, supporting mainly the oil and gas, as well as petrochemical, power and construction sectors. The Group has four core businesses: Heavy Lift and Haulage, Marine Transportation, Fabrication and Engineering, and Trading. Tiong Woon is headquartered in Singapore with offices in China, Indonesia, India, Malaysia, Philippines, Saudi Arabia, Thailand and Vietnam. Singapore is the main revenue contributor.

Heavy Lift & Haulage main contributor to revenue. This division supplies specialised heavy lift and haulage equipment, and provides planning, engineering, erection and installation services for heavy lift and equipment installation work. It is the main contributor to Group revenue at 76% in FY12, as Tiong Woon continues to win bigger integrated projects in the Asia Pacific region.

Marine Transportation and Fabrication & Engineering services add to services offerings. The Marine Transportation division works with the Group's other business divisions to bid for contracts, thus acting as a one-stop integrated services specialist and provider of infrastructure services. The Fabrication segment offers ship repair and fabrication services for oil and gas as well as offshore marine industries. This unit is still loss-making due mainly to subcontractor and equipment rental costs. Its Engineering business involves marine construction such as berths, jetties and power plants, and registered a small profit in FY12.

Trading of cranes compliments equipment supply business. The Trading division involves the distribution and trading of both new and used cranes, and also undertakes storage and distribution of spare parts. Tiong Woon is a distributor for IHI crawler cranes, authorised dealer for Jaso tower cranes and sole distributor for Fuwa crawler cranes.

COST STRUCTURE

Wages is main cost component. Employee compensation accounts for the bulk, at about 20% to 30% of total cost of sales and other expenses. Wages cost component is expected to remain high on the back of rising wages. Depreciation charge is next in line, and accounts for c.20% of total costs.

KEY OPERATING ASSETS

Ranked 14th largest crane-owning company worldwide. TWC owns 395 cranes as at Dec 2012 and is ranked as the 14th largest crane-owning company worldwide and top 10 in terms of crawler crane ownership by International Crane and Specialised magazine in 2012. The average age of its cranes is about 10 years old. Tiong Woon also owns a total of 236 haulage and marine assets.

Table 1 : FY12 Revenue Breakdown - By business segment

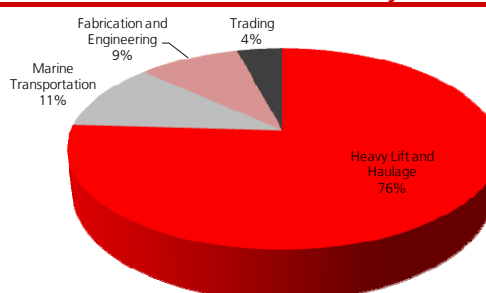


Table 2: FY12 Revenue Breakdown – By country segment

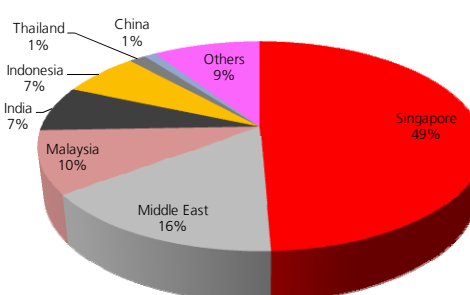


Table 3: Operating fleet

Lifting Assets

Crawler, Mobile Tower Cranes	31-Dec-12
Hydraulic Truck Cranes (50T to 500T)	115
Crawler Cranes (50T to 1,600T)	154
Rough Terrain Cranes (20T to 80T)	38
Lorry Cranes (10T to 45T)	9
Tower Cranes (8T to 12T)	79
Total	395

Haulage Assets

Haulage	31-Dec-12
Prime Movers	40
Low-Beds	38
Specialised Trailers (Combined 158 axle lines, Cometto trailers + SPMT with max. 4500 T transport load capacity)	34
Trailers	102
Tow Trucks	2
Total	216

Marine Assets

Tugs and Barges	31-Dec-12
Tugboats (500HP – 3,200HP)	10
Barges (120FT – 300FT)	10
Total	20

Source: Company, DBS Vickers

GROWTH PROSPECTS

Leveraging on buoyant offshore market. Tiong Woon is targeting more refinery projects as oil majors increase their exploration and production (E&P) spending. There is also an abundance of opportunities overseas, like Vietnam, Indonesia, Malaysia and Philippines. The Group expects a constant flow of contracts from the Offshore & Marine (O&M) segment, including new projects and maintenance contracts.

Our O&M analyst believes 2013 could be another strong year for the O&M sector as sustained high oil prices continue to underpin investment into the sector. Despite ongoing macro uncertainties, our checks with offshore contractors indicate no apparent impact on offshore activity levels as oil companies continue to focus on executing existing projects and bringing new reserves into production. Taking the cue once again from oil majors, we note stable to increasing capex budgets for 2013, as they face an urgent need to reverse declining production volumes.

Population White Paper to spur infrastructure spending. About 10% to 20% of Tiong Woon's revenue comes from the construction sector in Singapore. The construction sector will benefit from the continued infrastructure spending as the population of Singapore is set to grow to 6.9m by 2030. Key areas of development will be in rail network, public housing, road infrastructure and healthcare.

We estimate the housing market would require additional 367,000 housing units by 2030 (31% increase from 2012). Based on a population of 7m, there should be 12,500 hospital beds, an increase of c.50% in acute hospital bed capacity. Similarly, Singapore would also require a more extensive transportation network to facilitate a smooth commute. LTA has recently announced that the rail network will be doubled to 360km, from 178km currently, which could see total rail investment above S\$100bn.

Healthy flow of projects. Tiong Woon is currently working on projects in Singapore, Malaysia, China, Philippines, Vietnam, Thailand and even the Middle East.

MANAGEMENT & STRATEGY

Experienced management team. Mr Ang Kah Hong, Chairman & MD, has more than 30 years of experience in the management of heavy lift and heavy haulage operations. Mr Ang Kha King, Exec. Director and one of the founding members, is also a veteran in this area.

Pursue business opportunities in emerging markets. Tiong Woon is actively exploring business opportunities in markets like India, Vietnam, Indonesia, Malaysia and Philippines, especially in the O&M space.

Invest in higher capacity and specialised equipment. Tiong Woon is one of the 10 companies in the world to have a single largest crane of 1,600 ton lift. It will continue to invest in higher capacity and specialised equipment as the margins are generally higher.

Table 4: Key Competitors

	Tiong Woon	Tat Hong	Sin Heng
Crane fleet	395	1,600	159
Crane utilisation rates	c.75%	c.70%-75%	>80%
Crane rental revenue contribution	76%	45%	31%
Geographical revenue mix	49% Spore, 16% Middle East, 10% Msia.	50% Australia (oil and gas resources), 20% Asean, 10% Spore	49% Spore, 33% Indo, 10% Msia
Current valuation (FY13F)	8x PE	9x PE	11x PE
TP valuation peg (FY14F)	9x PE	12x PE	11x PE

Table 5: Key Management Team

Ang Kah Hong, Chairman & MD	Mr Ang has more than 30 years of experience in the management of heavy lift and heavy haulage operations. His key responsibilities include identifying, formulating, developing and implementing corporate objectives and business strategies for the Group.
Ang Kha King, Exec. Director	Mr Ang is one of the founding members. His key responsibilities include reviewing the internal decision-making processes of the Group's existing businesses and overseeing its external operations.
Tan Swee Khim, Exec. Director	Mr Tan is responsible for managing and overseeing the Group's heavy lift and haulage activities in marketing, operations, maintenance and project engineering. He is also responsible for spearheading the Group's marketing activities and identifying business opportunities for the Group.
Wong King Kheng, Independent Director	Mr Wong is presently the Managing Partner of K K Wong and Associates, and MD cum substantial shareholder of Soh & Wong Management Consultants. He also sits on the boards of a number of other listed companies as an Independent Director.
Carrie Cheong, Independent Director	Mrs Cheong is the Chairperson of both the Nominating and Remuneration Committees and a member of the Audit Committee.

Table 6: Management Remuneration Structure

Remuneration Bands	Salary %	Bonus %	Fringe Benefit %	Directors' Fees %
Directors (S\$250,000 to below S\$500,000)				
Ang Kah Hong, Chairman & MD	84%	-	16%	-
Tan Swee Khim, Exec. Director	82%	-	18%	-
(Below S\$250,000)				
Ang Kha King, Exec. Director	75%	-	25%	-
Wong King Kheng, Independent Director	-	-	-	100%
Luk Ka Lai Carrie (Mrs. Carrie Cheong), Independent Director	-	-	-	100%
Key Executives (below S\$250,000)				
Toh Chiew Khim, Chief Financial Officer	87%	6%	7%	-
Ang Guan Hwa, Group COO	98%	-	2%	-

Source: Company, DBS Vickers

Key Assumptions

FY Jun	2010A	2011A	2012A	2013F	2014F	2015F
Crane fleet size			376.0	405.0	410.0	415.0
Utilization rate (%)			72.7	76.0	77.0	78.0

Sensitivity Analysis

Utilization rate +5%	2014 Net Profit +1.6%
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Segmental Breakdown

FY Jun	2010A	2011A	2012A	2013F	2014F	2015F
Revenues (\$S m)						
Heavy Lift and Haulage	105	86	115	163	204	238
Marine Transportation	14	10	16	9	8	8
Fabrication and Engineering	18	5	14	18	12	12
Trading	11	7	6	18	20	20
Others	N/A	N/A	N/A	N/A	N/A	N/A
Total	148	107	151	208	244	278
Pretax profit (\$S m)						
Heavy Lift and Haulage	24	5	0	20	25	29
Marine Transportation	(1)	0	2	0	0	0
Fabrication and Engineering	(7)	(4)	(6)	1	1	1
Trading	1	0	0	1	2	2
Others	11	N/A	N/A	N/A	N/A	N/A
Total	28	1	(4)	23	27	31
Pretax profit Margins (%)						
Heavy Lift and Haulage	22.7	5.9	0.2	12.5	12.2	12.0
Marine Transportation	(4.9)	(2.3)	10.3	5.0	5.0	5.0
Fabrication and Engineering	(38.2)	(75.0)	(43.1)	5.0	5.0	5.0
Trading	9.3	3.2	2.3	8.0	8.0	8.0
Others	N/A	N/A	N/A	N/A	N/A	N/A
Total	19.0	1.2	(2.6)	11.1	11.3	11.2

Higher utilisation rate, driven by new projects, especially in the LNG segment

Lower gain on disposal of fixed assets and higher provision for impairment loss

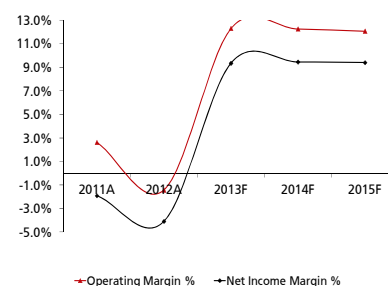
Hit by higher subcontractor and equipment rental costs

Margins decline due to higher labour costs

Income Statement (\$S m)

FY Jun	2010A	2011A	2012A	2013F	2014F	2015F
Revenue	148	107	151	208	244	278
Cost of Goods Sold	(105)	(82)	(119)	(155)	(178)	(201)
Gross Profit	43	25	32	54	66	78
Other Opng (Exp)/Inc	(13)	(22)	(34)	(28)	(36)	(44)
Operating Profit	30	3	(2)	26	30	34
Other Non Opng (Exp)/Inc	1	(3)	0	0	0	0
Associates & JV Inc	0	0	1	0	0	0
Net Interest (Exp)/Inc	(2)	(1)	(3)	(3)	(3)	(3)
Exceptional Gain/(Loss)	0	0	(1)	0	0	0
Pre-tax Profit	30	(2)	(4)	23	27	31
Tax	(4)	0	(2)	(4)	(4)	(5)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
Net Profit	25	(2)	(6)	19	23	26
Net Profit before Except.	25	(2)	(6)	19	23	26
EBITDA	56	26	27	65	76	86
Growth						
Revenue Gth (%)	(26.6)	(27.9)	41.4	37.9	16.9	14.3
EBITDA Gth (%)	(26.8)	(53.5)	5.5	138.8	16.7	13.6
Opg Profit Gth (%)	(43.6)	(90.7)	N/A	N/A	16.5	12.6
Net Profit Gth (%)	(40.3)	N/A	N/A	N/A	18.2	13.7
Margins & Ratio						
Gross Margins (%)	29.3	23.7	21.4	25.9	27.1	27.9
Opg Profit Margin (%)	20.5	2.6	(1.4)	12.3	12.3	12.1
Net Profit Margin (%)	17.0	(1.9)	(4.1)	9.4	9.5	9.4
ROAE (%)	12.7	(0.9)	(2.8)	8.4	9.1	9.4
ROA (%)	6.4	(0.5)	(1.6)	5.1	5.8	6.3
ROCE (%)	7.1	0.8	(0.6)	6.2	7.0	7.6
Div Payout Ratio (%)	51.2	N/A	N/A	0.0	0.0	0.0
Net Interest Cover (x)	13.3	1.9	(0.8)	9.9	11.6	13.0

Margins Trend



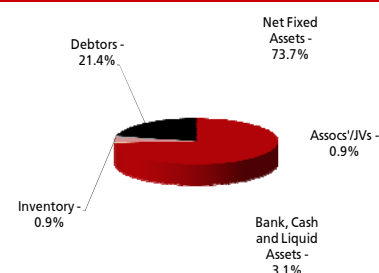
Expect gross margins to improve as rental rates improve but net margins may be affected by higher labour costs

Source: Company, DBS Vickers

Balance Sheet (\$S m)

FY Jun	2010A	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	256	284	291	282	276	263
Invt in Associates & JVs	0	1	4	4	4	4
Other LT Assets	0	0	1	1	1	1
Cash & ST Invt	39	36	23	12	22	42
Inventory	3	3	3	3	4	4
Debtors	119	49	60	82	95	109
Other Current Assets	3	3	3	3	3	3
Total Assets	420	377	384	386	404	426
ST Debt	70	57	36	36	36	36
Other Current Liab	27	20	43	35	40	45
LT Debt	68	50	53	43	33	23
Other LT Liabilities	25	26	27	27	27	27
Shareholder's Equity	225	219	222	242	265	291
Minority Interests	5	5	4	4	4	4
Total Cap. & Liab.	420	377	384	386	404	426
Non-Cash Wkg. Capital	98	35	23	53	62	71
Net Cash/(Debt)	(99)	(71)	(65)	(66)	(46)	(17)
Debtors Turn (avg days)	291.8	287.3	132.1	124.0	132.7	134.1
Creditors Turn (avg days)	119.1	140.6	119.6	113.0	91.7	92.4
Inventory Turn (avg days)	10.3	22.1	13.4	10.6	10.3	10.4
Asset Turnover (x)	0.4	0.3	0.4	0.5	0.6	0.7
Current Ratio (x)	1.7	1.2	1.1	1.4	1.6	2.0
Quick Ratio (x)	1.6	1.1	1.1	1.3	1.6	1.9
Net Debt/Equity (X)	0.4	0.3	0.3	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.2	0.1
Capex to Debt (%)	(4.8)	7.2	11.7	38.3	58.5	68.6

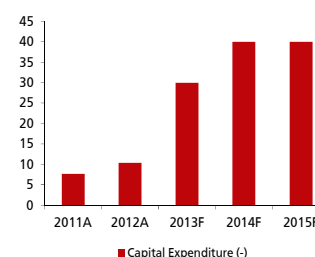
Asset Breakdown (2013)



Cash Flow Statement (\$S m)

FY Jun	2010A	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	30	(2)	(4)	23	27	31
Dep. & Amort.	24	27	30	41	48	54
Tax Paid	(1)	(1)	(1)	(2)	(4)	(4)
Assoc. & JV Inc/(loss)	0	0	(1)	0	0	0
Chg in Wkg.Cap.	(2)	63	10	(32)	(10)	(10)
Other Operating CF	0	0	0	0	0	0
Net Operating CF	51	88	34	31	62	71
Capital Exp.(net)	7	(8)	(10)	(30)	(40)	(40)
Other Invt.(net)	0	0	0	0	0	0
Invt in Assoc. & JV	0	(3)	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	0	0	0	0	0
Net Investing CF	7	(11)	(10)	(30)	(40)	(40)
Div Paid	(1)	(1)	(1)	0	0	0
Chg in Gross Debt	(44)	(75)	(43)	(10)	(10)	(10)
Capital Issues	27	0	10	0	0	0
Other Financing CF	(5)	(3)	(4)	0	0	0
Net Financing CF	(23)	(80)	(38)	(10)	(10)	(10)
Currency Adjustments	0	0	0	0	0	0
Chg in Cash	34	(3)	(14)	(9)	12	21
Opg CFPS (\$ cts)	14.1	6.6	5.2	13.5	15.4	17.5
Free CFPS (\$ cts)	15.4	21.5	5.1	0.2	4.7	6.8

Capital Expenditure



Expect capex to increase, leveraging on the buoyant offshore market and increase in infrastructure spending

Source: Company, DBS Vickers

Tiong Woon Corporation

Quarterly / Interim Income Statement (\$S m)

FY Jun	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013
Revenue	36	39	35	42	44	56
Cost of Goods Sold	(26)	(31)	(29)	(34)	(33)	(40)
Gross Profit	10	8	7	8	11	16
Other Oper. (Exp)/Inc	(7)	(7)	(8)	(12)	(6)	(10)
Operating Profit	3	1	(1)	(5)	6	6
Other Non Opg (Exp)/Inc	1	(1)	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	(1)	0	0	(1)	(1)	(1)
Exceptional Gain/(Loss)	2	0	(1)	(1)	(1)	0
Pre-tax Profit	4	(1)	(2)	(5)	4	6
Tax	(1)	0	0	(1)	(2)	(2)
Minority Interest	0	0	0	0	0	0
Net Profit	3	0	(3)	(6)	3	4
Net profit bef Except.	1	0	(1)	(6)	4	4
EBITDA	11	7	6	3	13	14

Growth

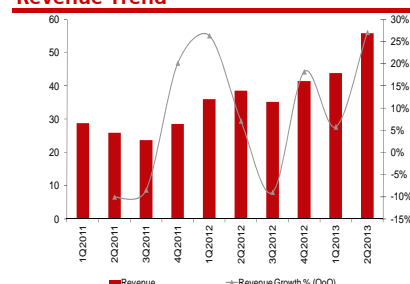
Revenue Gth (%)	26.3	7.1	(9.0)	18.2	5.8	27.1
EBITDA Gth (%)	293.8	(39.5)	(3.9)	(49.7)	303.2	7.0
Opg Profit Gth (%)	N/A	(83.3)	N/A	N/A	N/A	13.1
Net Profit Gth (%)	N/A	N/A	N/A	N/A	N/A	55.6

Margins

Gross Margins (%)	28.4	19.5	18.8	19.2	25.5	29.2
Opg Profit Margins (%)	8.8	1.4	(3.8)	(10.9)	12.7	11.3
Net Profit Margins (%)	8.5	(1.0)	(7.1)	(15.3)	6.4	7.8

Source: Company, DBS Vickers

Revenue Trend



Quarterly results improving, especially in the last two quarters

VALUATIONS

Turnaround play, fair value S\$0.45. Sector re-rating and increasing risk appetite for smaller cap stocks have led Tiong Woon's valuations to rise from average PE to +2 std dev of the last two years' forward average PE. Tiong Woon is currently trading at about 45% discount to its peers. The valuation gap should narrow as Tiong Woon is expected to turnaround this year, after staying in the red for the last two years, on the back of improving industry backdrop. The last two quarterly results have also shown significant improvement. We believe a 9x FY14F PE is fair, vs target multiples of 12x for Tat Hong and 11x for Sin Heng. Fair value works out to S\$0.45 per share, which translates to an upside of 30% from the current price.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	2	20%	0.4
Shareholdings	2	40%	0.8
Overall			2.0

Past problems. Tiong Woon was loss-making in FY11 and FY12, mainly due to losses from the Fabrication and Engineering segment, as a result of higher subcontractor and equipment rental costs. The core Heavy Lift and Haulage was hit by a decline in integrated projects undertaken by the Group and delay in the commencement of new projects. This segment was also hit by significant impairment loss on trade receivables in FY12.

Chart 2: 12 month forward PE ratio (x)



Table 6: Peers' Comparisons

Name	FYE	Market Cap (\$m)	Price	PE FY1	PE FY2	Act. Net Profit (\$m)	Net Profit Margin (%)	Div Yld (%)
Sin Heng	Jun-12	119.4	S\$0.25	11.4	9.6	9.3	7.2	4.0
Tat Hong	Mar-12	899.7	S\$1.49	12.4	10.4	719.8	5.9	1.7
Hiap Tong	Mar-12	46.5	S\$0.18	n.a.	n.a.	27.1	10.1	2.8
Average				11.9	10.0			
Tiong Woon	Jun-12	160.2	S\$0.345	8.2	6.9	(6.2)	n.m.	0.0

Source: DBS Vickers, Bloomberg

DBSV Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

- | | |
|---|---|
| 1 | (>20% potential returns over the next 12 months) |
| 2 | (0 - 20% potential returns over the next 12 months) |
| 3 | (negative potential return over the next 12 months) |

The risk assessment is qualitative in nature and is rated as either high, low or moderate risk. (see section on risk assessment)

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