

Money Talk

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Tiong Woon Corporation (TWC SP)

Two Quarters Of Strong Earnings Re-affirm Our Positive View

NOT RATED

Price/Target

S\$0.400/n.a.

Mkt. Cap/F. Float

S\$186m/59%

Fundamental View

Valuation

- Tiong Woon is trading at a 18.7% discount to its book value of 49.2 S cents with a dividend yield of 1%.

Our View

- We highlighted to investors that Tiong Woon's share price may have hit bottom 6 months ago. The counter has since gained 66.7% on improving business outlook. To recap, we shared with investors that margins are expected to improve in 1HFY13 from an increase in both utilisation rate and rental rates. With demand from numerous oil and gas projects rising in the region, rental rates will normalise to 85% and utilisation rate is also expected to improve from 66% in FY12 to 75% for FY13.
- Tiong Woon continues to see opportunities in emerging markets. According to management, Tiong Woon will focus in sectors such as oil and gas, petrochemical, power and construction in Myanmar, Vietnam and India. Tiong Woon remains committed to India despite the fact that they had to make some provisions of S\$3.4m for impairment on trade receivables from a series of oil & gas customers in FY12.
- We reiterate that Tiong Woon is not a pure crane rental operator. Tiong Woon differentiates itself from other crane operators by providing a comprehensive project management service apart from bare crane rental. These service project contracts are longer term in nature (rates are locked in) and therefore, earnings theoretically are more resilient in nature. However, we cautioned that margins from these contracts are lower as Tiong Woon has to incorporate higher staff costs (project managers) and are unable to ride on rising rates on such longer-term contracts.
- We think the book could be undervalued by 15-20%. We observed that Tiong Woon is able to record strong gains from disposal of property, plant and equipment. For example, the group had disposed five large cranes in 2QFY13 and recorded close to S\$1m of gains from S\$4m of proceeds. Thus, based on a back-of-the-napkin calculation, these cranes are worth 10-20% more in the market than book value and thus conservatively the NAV of Tiong Woon is actually undervalued by that amount. That explains why some of their peers are trading above book.

Financials Highlights

- Tiong Woon reported a net profit of S\$9.1m in 1HFY13 driven by a rise in revenues and margins from the Heavy Lift and Haulage and Trading segments. Revenue from Heavy Lift and Haulage grew 38% yoy to S\$74.5m as the group took on larger heavy lift and installation projects in the Asia Pacific region. However, the Fabrication & Engineering business continued to be in the red with profit before tax of S\$3.3m in 1HFY13 from higher subcontractor and equipment rental costs incurred during the quarter.

Peer Comparison

Company	Ticker	Price (\$)	Market Cap (\$m)	PE FY12 (x)	P/B FY12 (x)
YONGNAM HLDGS	YNH SP	0.280	354	6.98	1.13
TAT HONG HLDGS	TAT SP	1.570	904	15.44	1.38
Average				11.21	1.25
TIONG WOON CORP	TWC SP	0.400	186	45.24	0.81

Source: Bloomberg, UOB Kay Hian

Technical View



Source: Nextview

The stock is trending up with near-term support at S\$0.35. We have a technical buy on 7 Feb 13 with a target price of S\$0.485.

Financials

FYE 30 Jun (\$m)	2010	2011	2012	2Q12	2Q13
Net Turnover	148.4	106.9	151.2	38.6	55.8
Gross Profit	43.5	25.3	32.3	7.5	16.3
EBITDA	24.0	24.9	27.0	6.8	13.3
EBIT	0.3	(1.0)	(1.4)	(0.2)	6.3
PATMI	23.9	1.0	(4.8)	0.2	5.0
EPS (cts)	5.77	0.23	-1.11	0.05	1.09
PE (x)	6.9	176.6	n.a.	-	-
P/B (x)	0.8	0.8	0.8	0.8	0.8
Dividend Yield (%)	0.9	0.9	1.0	-	-
PATMI Margin (%)	16.1	0.9	(3.2)	0.6	9.0
Net Gearing (%)	44.4	33.2	30.1	37.6	26.6
Interest cover (x)	0.1	(0.3)	(0.4)	-	-
ROE (%)	12.0	0.4	(2.2)	-	-

Source: Bloomberg

Background

Tiong Woon is an integrated services provider for the oil & gas and petrochemicals industries and specialises in heavy lift and installation of process equipment. It is the 14th largest crane owning company worldwide by International Cranes and Specialised Transport, a reputable trade magazine, in its IC50 2012 survey. It is one of the top 10 companies in the world in terms of crawler crane ownership and also one of the top 10 companies in the world to have a single largest crane of 1,600-tonne lift and above, namely, its Terex Demag CC 8800-1 crane.

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