

COMPANY RESULTS

Tiong Woon Corporation Holding (TWC SP)

FY22: Healthy Double-digit Earnings Growth; Expect A Better FY23

Tiong Woon's FY22 earnings of S\$11.4m (+15% yoy) is achieved on the back of a 9% yoy growth in revenue and 2.6ppt increase in gross margin due to better demand for crane and higher crane rental rate. However, FY22 earnings fell short of our expectation due to higher-than-expected impairment loss for receivables. We believe Tiong Woon is a beneficiary of the construction industry upcycle in Singapore and expect FY23 EPS to grow by 54% yoy. Maintain BUY with a 3% lower target price of S\$0.85 (0.7x FY22 P/B).

FY22 RESULTS

Year to 30 Jun (S\$m)	FY22	FY21	yoy % chg
Revenue	122.6	112.9	9
Gross profit	49.3	42.4	16
Gross margin (%)	40.2	37.6	2.6ppt
PATMI	11.4	9.9	15
Net margin (%)	9.3	8.1	1.2ppt

Source: Tiong Woon, UOB Kay Hian

RESULTS

- 15% earnings growth from better revenue and gross margin.** Tiong Woon Corporation Holding (Tiong Woon) reported FY22 earnings of S\$11.4m, which grew 15% yoy due to an increase in revenue of 9% yoy from better demand for cranes. In addition, gross margin also improved 2.6ppt to 40.2% as a result of higher crane rental rate. Similar to FY21, close to 80% of Tiong Woon's revenue is still generated from Singapore.
- FY22 results fell short of our expectation due to higher-than-expected provisions.** Despite the commendable growth, FY22 earnings fell short of our expectation due to higher-than-expected impairment loss for receivables made amounting to S\$2.2m (+43% yoy) in FY22 as a result of higher provision made for a few customers amid the uncertain credit environment. In addition, revenue for 2HFY22 was around S\$10m lower than expected, only growing 2% yoy and flat hoh, due to work stoppages by customers in the construction sites because of dengue infections, workplace accidents and heavy rain. Also, Tiong Woon's customers in the oil & gas industries, which typically offer higher margin, have yet to commence their construction activities.
- Expect 54% yoy EPS growth in FY23 as more construction projects in Singapore drive demand for cranes.** We expect Tiong Woon's FY23 earnings to grow by 54% yoy, driven by the improved utilisation rates and higher rental rates of its cranes due to demand from contractors. This will lead to an increase in its gross margin, followed by better earnings. Tiong Woon is in a good position to benefit from the strong resumption of activities in Singapore's construction sector, which will have strong demand for cranes in the coming years driven by accelerating construction of public housing and new mega infrastructure projects.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	113	123	137	152	168
EBITDA	44	48	56	59	62
Operating profit	12	17	22	27	31
Net profit (rep./act.)	10	11	18	22	26
Net profit (adj.)	10	11	18	22	26
EPS (S\$ cent)	4.3	4.9	7.6	9.4	11.3
PE (x)	12.7	11.0	7.1	5.7	4.8
P/B (x)	0.5	0.4	0.4	0.4	0.4
EV/EBITDA (x)	4.2	3.8	3.3	3.2	3.0
Dividend yield (%)	0.7	0.9	1.4	1.7	2.1
Net margin (%)	8.7	9.3	12.8	14.4	15.7
Net debt/(cash) to equity (%)	26.4	21.5	10.3	(1.4)	(12.3)
Interest cover (x)	14.9	17.5	15.0	19.9	28.7
ROE (%)	3.7	4.1	6.1	7.1	8.0

Source: Tiong Woon, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.54
Target Price	S\$0.85
Upside	+57.4%
(Previous TP)	S\$0.88)

COMPANY DESCRIPTION

Tiong Woon Corporation Holding and its subsidiaries provide heavy lift, heavy haulage, transport services and engineering services. The company also offers crane services, and provides wharfing and stevedoring services.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	TWC SP
Shares issued (m):	232.2
Market cap (S\$m):	125.4
Market cap (US\$m):	90.8
3-mth avg daily t'over (US\$m):	0.1

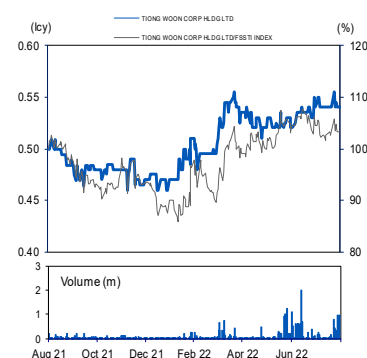
Price Performance (%)

52-week high/low	S\$0.555/S\$0.460			
1mth	3mth	6mth	1yr	YTD
0.9	1.9	10.2	2.1	14.9

Major Shareholders

Ang Family	40.0
FY23 NAV/Share (S\$)	1.28
FY23 Net Cash/Share (S\$)	0.13

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Well-positioned to benefit from construction industry upcycle.** With comprehensive ownership of more than 500 cranes, some of which can have a capacity of up to 1,600 tonnes each, Tiong Woon is in a good position to benefit from the strong resumption of activities in Singapore's construction sector and rising capex in the oil & gas industry. The construction sector will have strong demand for cranes in the coming years driven by accelerating construction of public housing and new mega infrastructure projects including the Cross Island Line, Changi Airport T5, Tuas Mega Port and the North South Corridor. The Housing & Development Board plans to launch up to 23,000 flats a year in 2022-23, a huge jump from the 48,509 flats launched in 2019-21 (16,170 flats per year). In addition, construction of more petrochemical plants could further boost crane demand.

EARNINGS REVISION/RISK

- **Reduce revenue and earnings estimates due to results miss.** We reduce our FY23/24 revenue estimates by 14%/17% as we reduce the utilisation rate of cranes. In addition, we add in additional impairment loss for receivables amounting to S\$2.1m for FY23 and FY24 to reflect a more conservative accounting stance on trade receivables. As a result, our FY23/24 earnings are reduced by 39%/36%.
- **We estimate Tiong Woon's crane rental rates to grow around 10% for FY23-25**, while the rest of the revenue growth will be driven by higher utilisation rates. As a result, Tiong Woon will enjoy positive operating leverage as cost increases will remain largely limited. We expect gross margin to expand to 41.5%/42.0%/42.5% for FY23/24/25 respectively. Combined with revenue growth of 12%/11%/10%, this gross margin expansion will drive earnings growth of 54%/25%/20% for FY23/24/25 respectively.
- **Risks include:** a) Slowdown in the construction industry, b) termination of construction works or major delays due to COVID-19, and c) shortage of labour.

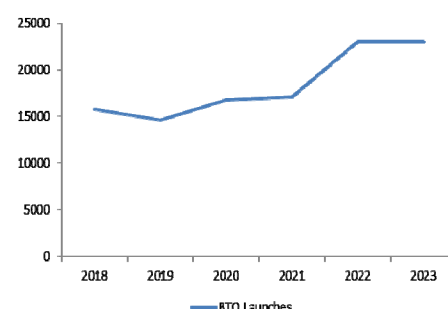
VALUATION/RECOMMENDATION

- **Maintain BUY with a 3% lower target price of S\$0.85**, pegged to an unchanged 0.7x FY22 P/B, 1SD above Tiong Woon's historical 15-year average P/B, to capture the strong earnings growth potential in the industry upcycle.

SHARE PRICE CATALYST

- Better-than-expected earnings from higher crane rental rates and utilisation rate.
- Better-than-expected dividend and share buybacks.
- Potential takeover offer by other larger crane companies given the attractive P/B valuation.

ANNUAL BTO LAUNCHES



Source: HDB, UOB Kay Hian

HISTORICAL P/B BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Net turnover	122.6	137.3	152.4	167.6
EBITDA	48.5	56.2	58.9	61.8
Deprec. & amort.	31.9	33.8	32.1	30.6
EBIT	16.6	22.4	26.8	31.2
Total other non-operating income	2.6	2.6	2.6	2.6
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	(2.8)	(3.8)	(3.0)	(2.2)
Pre-tax profit	16.4	21.2	26.4	31.6
Tax	(5.1)	(3.6)	(4.5)	(5.4)
Minorities	0.1	0.0	0.0	0.0
Net profit	11.4	17.6	21.9	26.3
Net profit (adj.)	11.4	17.6	21.9	26.3

BALANCE SHEET

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Fixed assets	346.7	329.1	313.1	298.6
Other LT assets	17.7	16.4	15.3	14.2
Cash/ST investment	56.0	63.2	78.4	95.8
Other current assets	55.9	59.4	65.8	72.2
Total assets	476.3	468.1	472.6	480.9
ST debt	21.2	20.0	20.0	20.0
Other current liabilities	45.4	43.7	47.6	51.5
LT debt	95.1	73.9	53.9	33.9
Other LT liabilities	33.7	33.2	33.7	34.2
Shareholders' equity	280.9	297.3	317.4	341.3
Minority interest	(0.0)	(0.0)	(0.0)	(0.0)
Total liabilities & equity	476.3	468.1	472.6	480.9

CASH FLOW

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Operating	37.0	49.5	55.0	56.9
Pre-tax profit	11.3	17.6	21.9	26.3
Tax	(5.1)	(3.6)	(4.5)	(5.4)
Deprec. & amort.	31.9	33.8	32.1	30.6
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(13.8)	(5.7)	(2.0)	(2.1)
Non-cash items	(0.3)	0.0	0.0	0.0
Other operating cashflows	13.0	7.4	7.4	7.5
Investing	(9.8)	(15.0)	(15.0)	(15.0)
Capex (growth)	(13.2)	(15.0)	(15.0)	(15.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	4.5	0.0	0.0	0.0
Others	(1.1)	0.0	0.0	0.0
Financing	(17.0)	(27.3)	(24.8)	(24.5)
Dividend payments	(0.9)	(1.2)	(1.9)	(2.3)
Proceeds from borrowings	10.1	0.0	0.0	0.0
Loan repayment	(23.4)	(22.4)	(20.0)	(20.0)
Others/interest paid	(2.8)	(3.8)	(3.0)	(2.2)
Net cash inflow (outflow)	10.2	7.2	15.2	17.5
Beginning cash & cash equivalent	45.8	56.0	63.2	78.4
Ending cash & cash equivalent	56.0	63.2	78.4	95.8

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	39.5	40.9	38.7	36.9
Pre-tax margin	13.4	15.4	17.3	18.9
Net margin	9.3	12.8	14.4	15.7
ROA	2.4	3.7	4.7	5.5
ROE	4.1	6.1	7.1	8.0
Growth				
Turnover	8.5	12.0	11.0	10.0
EBITDA	9.5	16.0	4.8	4.9
Pre-tax profit	18.6	29.2	24.7	19.8
Net profit	15.4	54.3	24.7	19.8
Net profit (adj.)	15.4	54.3	24.7	19.8
EPS	15.4	54.3	24.7	19.8
Leverage				
Debt to total capital	29.3	24.0	18.9	13.6
Debt to equity	41.4	31.6	23.3	15.8
Net debt/(cash) to equity	21.5	10.3	(1.4)	(12.3)
Interest cover (x)	17.5	15.0	19.9	28.7

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