

INITIATE COVERAGE

Tiong Woon Corporation Holding (TWC SP)

Market Leader Set To Benefit From Strong Growth In The Construction Sector

Tiong Woon is the second-largest crane operator in Singapore with a strong regional presence. It is well-positioned to benefit from the construction and oil & gas upcycles. We expect EPS to double in FY22 and grow 37% yoy in FY23, driven by higher utilisation rates and double-digit growth in crane rental rates. Initiate coverage with a BUY and a target price of S\$0.88, pegged to 0.7x FY22F P/B (+1SD above the P/B mean). Tiong Woon is trading at an attractive FY23F PE of 4.4x and P/B of 0.4x.

INITIATE COVERAGE

- Second-largest crane operator in Singapore with 78% revenue derived locally.** Tiong Woon Corporation Holding (Tiong Woon) is a leading heavy lift specialist supporting mainly the construction, oil & gas, infrastructure and petrochemical sectors. Tiong Woon has been listed on the SGX since 1999 and has more than 40 years of track record. Headquartered in Singapore, the company has a strong regional presence with establishments in 12 other countries. It is ranked 23rd in the IC50 2021 survey. We expect a strong construction upturn and resumption of more oil & gas capex to be the key growth drivers. For FY22, we expect Tiong Woon's EPS to double yoy.
- 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.
- Expect EPS to double in FY22 followed by 37% yoy growth in FY23.** Tiong Woon's strong earnings growth will be 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. As of FY21, the average utilisation rate of the company's cranes was only 49%. We expect to see a double-digit growth in Tiong Woon's crane rental rates in FY22 and FY23, which will be the key earnings growth driver.
- Initiate coverage with BUY and a target price of S\$0.88,** pegged to 0.7x FY22F P/B, based on +1SD to the long-term historical P/B mean. We think current valuations of FY23F PE of 4.4x and P/B of 0.4x are attractive, given the group's market-leading position and strong EPS growth in an industry upcycle.

[Click here](#) for Blue Top dated 22 Aug 22

KEY FINANCIALS

Year to 30 Jun (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	125	113	133	160	184
EBITDA	48	46	61	68	72
Operating profit	16	14	27	36	42
Net profit (rep./act.)	11	11	21	29	34
Net profit (adj.)	11	11	21	29	34
EPS (S\$ cent)	4.9	4.9	9.0	12.3	14.7
PE (x)	11.1	11.0	6.0	4.4	3.7
P/B (x)	0.5	0.5	0.4	0.4	0.4
EV/EBITDA (x)	3.4	3.5	2.7	2.4	2.3
Dividend yield (%)	0.6	0.7	1.7	2.3	2.7
Net margin (%)	9.1	10.1	15.7	17.9	18.5
Net debt/(cash) to equity (%)	32.9	26.4	12.7	(1.6)	(14.8)
Interest cover (x)	13.5	15.4	17.5	21.5	30.6
ROE (%)	4.4	4.3	7.5	9.4	10.2

Source: Tiong Woon, Bloomberg, UOB Kay Hian

BUY

Share Price	S\$0.54
Target Price	S\$0.88
Upside	+63.0%

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

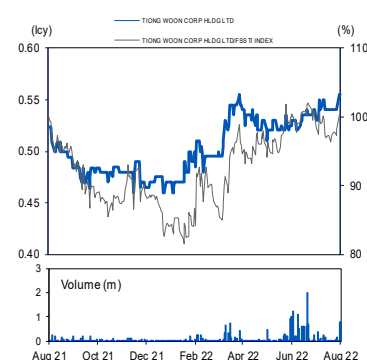
Price Performance (%)

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\$)	1.37
FY23 Net Cash/Share (S\$)	0.02

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Rising number of BTO launches to drive demand for cranes.** As an owner and operator of cranes, Tiong Woon is expected to benefit from the construction of more new Built-To-Order (BTO) flats. As Housing Development Board (HDB) housing forms a significant part of demand for Tiong Woon's crane rental, the increase in BTO supply would help support and boost crane rental's revenue moving forward.

EARNINGS REVISION/RISK

- **Revenue and earnings growth to be driven by increased crane demand from contractors.** For FY22-24, we estimate total revenue at S\$133m-189m (18.0% CAGR) and net profit at S\$21m-34m (12.3% CAGR). This comes on the back of double-digit increases in crane rental rates and higher utilisation of crane operations, driven by demand from more construction activities in the property, infrastructure and oil & gas sectors.
- **We estimate Tiong Woon's crane rental rates to grow around 10% for FY22-24,** 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 42%/42%/41% for FY22/23/24 respectively. Combined with revenue growth of 18%/20%/15%, this gross margin expansion will drive earnings growth of 113%/37%/19% for FY22/23/24 respectively.
- **Risks include:** a) slowdown in construction industry; b) termination of construction works or major delays due to COVID-19, and c) shortage of labour.

VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and a target price of S\$0.88,** pegged to 0.7x FY22F P/B, 1SD above its historical 15-year average P/B, to capture the strong earnings growth potential in the industry upcycle. Our valuation multiple is conservative as it is at a 36% discount compared with peers' average of 1.1x FY22F P/B. We think the current valuations of FY23F PE of 4.4x and P/B of 0.4x for Tiong Woon are appealing, given the company's market-leading position and strong EPS growth profile of 51% CAGR for FY21-24 in an industry upcycle. Compared with its peers, Tiong Woon offers higher growth and ROE.

SHARE PRICE CATALYST

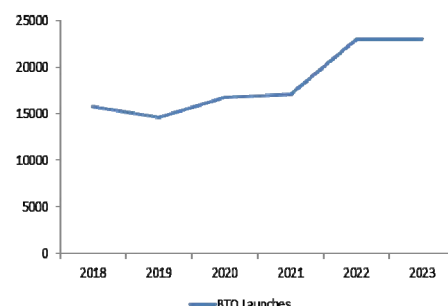
- Better-than-expected earnings from higher crane rental rates and utilisation rate.
- Better-than-expected dividend and share buybacks.
- Potential takeover offer by other larger crane companies given the attractive valuation.

PEER COMPARISON

Company	Ticker	Price @ 19 Aug 22 (1cy)	Market Cap (US\$m)	PE			P/B		ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
				2021 (x)	2022 (x)	2023 (x)	2021 (x)	2022 (x)			
Cranes											
Tiong Woon	TWC SP	0.54	90	12.7	6.0	4.4	0.4	0.4	7.5	1.7	30.8
Hiap Tong	HTONG SP	0.069	15	13.3	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	45.3
Sin Heng	SHHM SP	0.46	38	13.9	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	(12.1)
Construction											
Lum Chang	LCH SP	0.395	107	50.0	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	31.5
Lian Beng	LBG SP	0.525	189	6.0	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	51.2
KSH	KSHH SP	0.345	140	8.0	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	12.0
Tiong Seng	TSNG SP	0.125	40	n.a.	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	14.7
Others											
Pan-United	PAN SP	0.435	219	16.3	10.4	9.5	1.5	1.4	13.4	5.3	37.7
Hong Leong Asia	HLA SP	0.735	396	9.2	8.5	6.7	0.6	0.5	6.5	2.9	(23.8)
Engro	EGCL SP	1.22	104	2.9	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	(14.1)
Brc Asia	BRC SP	1.71	338	8.7	4.5	6.5	1.4	1.3	22.9	8.6	21.5
CSC	CSC SP	0.011	28	55.0	n.a.	n.a.	0.3	n.a.	n.a.	n.a.	41.7
Average				17.8	7.8	7.5	0.6	1.1	14.3	5.6	19.7

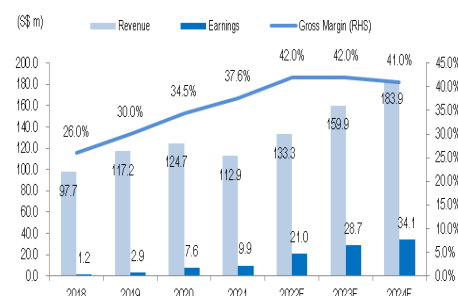
Source: Bloomberg, UOB Kay Hian

ANNUAL BTO LAUNCHES



Source: HDB, UOB Kay Hian

REVENUE, EARNINGS AND GROSS MARGIN



Source: Tiong Woon, UOB Kay Hian

HISTORICAL P/B BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Net turnover	112.9	133.3	159.9	183.9
EBITDA	45.8	60.8	67.9	72.1
Deprec. & amort.	32.1	33.7	32.0	30.5
EBIT	13.8	27.0	35.9	41.6
Total other non-operating income	4.5	1.8	1.8	1.8
Associate contributions	0.1	(0.1)	0.0	0.0
Net interest income/(expense)	(3.0)	(3.5)	(3.2)	(2.4)
Pre-tax profit	15.4	25.3	34.5	41.1
Tax	(4.0)	(4.3)	(5.9)	(7.0)
Minorities	0.1	0.0	0.0	0.0
Net profit	11.4	21.0	28.7	34.1
Net profit (adj.)	11.4	21.0	28.7	34.1

BALANCE SHEET

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Fixed assets	346.9	329.3	313.3	298.8
Other LT assets	15.8	14.6	13.6	12.6
Cash/ST investment	45.5	61.8	83.9	110.9
Other current assets	51.1	57.5	68.7	78.9
Total assets	459.3	463.3	479.5	501.2
ST debt	19.1	20.0	20.0	20.0
Other current liabilities	38.4	40.4	47.9	55.5
LT debt	98.0	78.9	58.9	38.9
Other LT liabilities	33.0	33.0	33.9	34.9
Shareholders' equity	270.9	291.0	318.7	351.9
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	459.3	463.3	479.5	501.2

CASH FLOW

Year to 30 Jun (\$m)	2021	2022F	2023F	2024F
Operating	29.1	53.8	61.1	65.4
Pre-tax profit	9.8	21.0	28.7	34.1
Tax	(4.0)	(4.3)	(5.9)	(7.0)
Deprec. & amort.	32.1	33.7	32.0	30.5
Associates	0.1	(0.1)	0.0	0.0
Working capital changes	(17.6)	(4.3)	(2.7)	(1.6)
Non-cash items	(0.8)	0.0	0.0	0.0
Other operating cashflows	9.5	7.8	9.0	9.3
Investing	(5.1)	(15.0)	(15.0)	(15.0)
Capex (growth)	(8.0)	(15.0)	(15.0)	(15.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	1.8	0.0	0.0	0.0
Others	1.1	0.0	0.0	0.0
Financing	(17.6)	(22.5)	(24.1)	(23.3)
Dividend payments	(0.7)	(0.9)	(0.9)	(0.9)
Proceeds from borrowings	11.4	0.0	0.0	0.0
Loan repayment	(25.3)	(18.1)	(20.0)	(20.0)
Others/interest paid	(3.0)	(3.5)	(3.2)	(2.4)
Net cash inflow (outflow)	6.3	16.3	22.0	27.1
Beginning cash & cash equivalent	39.2	45.5	61.8	83.9
Ending cash & cash equivalent	45.5	61.8	83.9	110.9

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	40.6	45.6	42.5	39.2
Pre-tax margin	13.6	19.0	21.6	22.3
Net margin	10.1	15.7	17.9	18.5
ROA	2.5	4.5	6.1	7.0
ROE	4.3	7.5	9.4	10.2
Growth				
Turnover	(9.4)	18.0	20.0	15.0
EBITDA	(5.5)	32.6	11.8	6.2
Pre-tax profit	(3.6)	64.3	36.7	18.9
Net profit	1.1	83.5	36.7	18.9
Net profit (adj.)	1.1	83.5	36.7	18.9
EPS	1.1	83.5	36.7	18.9
Leverage				
Debt to total capital	30.2	25.4	19.8	14.3
Debt to equity	43.2	34.0	24.8	16.7
Net debt/(cash) to equity	26.4	12.7	(1.6)	(14.8)
Interest cover (x)	15.4	17.5	21.5	30.6

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