

MITA No. 010/06/2008

Tat Hong Holdings Ltd

15 April 2009

Stay on the sidelines ahead of 4Q09 report card

Downgrade to

HOLD

Previous Rating: BUY

S\$0.82

Fair Value: S\$0.72

Stock Code:

TAT.SI

Reuters:

T03

ISIN Code

TAT SP

Bloomberg:

Event:

Update

General Data

| | |
|------------------------|---|
| Issued Capital (m) | 497 |
| Mkt Cap (S\$m/US\$m) | 407/272 |
| Major Shareholder | Chwee Cheng & Sons Pte Ltd (46.87%) |
| Free Float (%) | 42.0 |
| NAV per share (S\$) | 0.72 |
| Daily Vol 3-mth ('000) | 864 |
| 52Wk High (S\$) | 2.340 |
| 52Wk Low (S\$) | 0.365 |

Results preview. Tat Hong Holdings Ltd (Tat Hong) is expected to post its 4Q09 results on 28 May 09. We are anticipating a 28.9% YoY decline in net profit to S\$20.2m on lower revenue, slightly below the street's estimate. Sluggish equipment sales will likely be the group's weakest link, while rental income is expected to provide stability to the group's overall earnings. Key areas worth noting in its 4Q09 results include fleet utilisation and rental rates, where we anticipate signs of softening, as well as the impact of forex on earnings. To recap, Tat Hong suffered forex losses, both realised and unrealised, which amounted to S\$23.4m in 3Q09 as a result of the Yen's sharp appreciation. With the Yen having tapered off since, the group could reverse part of its unrealised losses in the coming quarters. However, we do not expect forex loss reversals to have a significant impact on 4Q09 earnings.

Tapping growth opportunities in China. Pockets of growth opportunities continue to exist in China despite the overall gloom in private spending. This has been reflected in the healthy growth recorded by Tat Hong's new tower crane segment, which posted a 158% YoY surge in 3Q09 revenue despite the overall softening experienced by the other segments. To further strengthen its market share in this resilient segment, Tat Hong has formed a new joint venture (JV) to leverage on growing demand for tower crane rental in the PRC. This JV, which will be funded by internal resources, is in line with its strategy of expanding its presence in China.

Adopt a cautious stance ahead of 4Q09 earnings. Tat Hong has done well since our upgrade, having appreciated 38% to S\$0.82. Sentiment for construction stocks has improved after the sector proved its resilience with a 25.6% YoY growth despite Singapore's 11.6% GDP contraction. However, we caution that while strong demand from Singapore could pick up some of the slack, it will not be able to completely offset the slump in global demand, given Tat Hong's diverse exposure in Australia and the rest of ASEAN. We prefer to adopt a cautious stance ahead of the group's 4Q09 earnings, and are keeping our S\$0.72 fair value estimate intact. In view of the recent rally, we downgrade our rating to **HOLD**.

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| Year to 31 Mar | Turnover (S\$m) | Gross Profit (S\$m) | Net Profit (S\$m) | EPS (cents) | EPS Growth (%) | PER (x) | Div Yield (%) |
|-------------------|--------------------|------------------------|----------------------|----------------|-------------------|------------|------------------|
| FY 07 | 482.5 | 149.2 | 79.0 | 17.1 | 77.0 | 4.8 | 9.8 |
| FY 08 | 639.9 | 249.7 | 89.8 | 17.7 | 3.7 | 4.6 | 8.6 |
| FY 09F | 658.9 | 250.7 | 74.5 | 14.7 | -17.1 | 5.6 | 7.2 |
| FY 10F | 549.2 | 190.9 | 62.9 | 12.4 | -15.5 | 6.6 | 6.1 |

Please refer to the important disclosures at the back of this document.

Tat Hong's Key Financial Data

EARNINGS FORECAST

| Year Ended 31 Mar (S\$ m) | FY07 | FY08 | FY09F | FY10F |
|------------------------------------|--------|--------|--------|--------|
| Revenue | 482.5 | 639.9 | 658.9 | 549.2 |
| Cost of sales | -333.3 | -390.2 | -408.2 | -358.3 |
| Gross Profit | 149.2 | 249.7 | 250.7 | 190.9 |
| Other income | 43.9 | 17.1 | 11.0 | 11.0 |
| Distribution expenses | -11.1 | -13.3 | -14.5 | -12.6 |
| Administrative expenses | -7.9 | -11.1 | -11.9 | -11.0 |
| Other operating expenses | -70.7 | -112.0 | -125.0 | -87.9 |
| EBIT | 103.4 | 130.3 | 110.3 | 90.4 |
| Finance costs | -9.3 | -10.0 | -11.1 | -9.4 |
| Share of profits of associates/JVs | 3.3 | 11.5 | 12.1 | 12.1 |
| Profit before tax | 97.4 | 131.7 | 111.2 | 93.1 |
| Tax | -13.2 | -30.2 | -25.6 | -21.4 |
| Profit after tax | 84.2 | 101.5 | 85.7 | 71.7 |
| Minority interests | -5.2 | -11.8 | -11.2 | -8.8 |
| Net profit | 79.0 | 89.8 | 74.5 | 62.9 |
| Earnings per share (S cents) | 17.1 | 17.7 | 14.7 | 12.4 |

Profitability Ratios

| | | | | |
|-----------------------|------|------|------|------|
| Gross margin (%) | 30.9 | 39.0 | 38.0 | 34.8 |
| PBT margin (%) | 20.2 | 20.6 | 16.9 | 17.0 |
| Net profit margin (%) | 16.4 | 14.0 | 11.3 | 11.5 |

BALANCE SHEET

| As at 31 Mar (S\$ m) | FY07 | FY08 | FY09F | FY10F |
|-----------------------------------|-------|-------|-------|-------|
| Cash and bank balances | 47.6 | 75.4 | 61.9 | 85.8 |
| Other current assets | 237.0 | 320.8 | 344.6 | 299.7 |
| Property, plant, and equipment | 239.0 | 315.7 | 322.8 | 329.2 |
| Other non-current assets | 106.4 | 130.2 | 156.8 | 156.8 |
| Total assets | 630.0 | 842.2 | 886.2 | 871.5 |
| Debt | 52.6 | 148.4 | 148.4 | 124.8 |
| Current liabilities less debt | 193.8 | 234.1 | 223.2 | 186.2 |
| Non-current liabilities less debt | 80.3 | 10.8 | 9.8 | 9.2 |
| Total liabilities | 326.6 | 393.3 | 381.5 | 320.2 |
| Shareholders' equity | 254.5 | 373.1 | 417.8 | 455.5 |
| Minority interest | 48.8 | 75.8 | 87.0 | 95.8 |
| Total equity | 303.4 | 448.9 | 504.8 | 551.3 |
| Total equity and liabilities | 630.0 | 842.2 | 886.2 | 871.5 |
| NAV per share (S\$) | 0.5 | 0.7 | 0.8 | 0.9 |
| NTA per share (S\$) | 0.4 | 0.6 | 0.7 | 0.8 |

CASH FLOW

| Year Ended 31 Mar (S\$ m) | FY07 | FY08 | FY09F | FY10F |
|--|-------------|-------------|--------------|--------------|
| Operating profit before working cap. changes | 86.9 | 153.6 | 145.0 | 125.9 |
| Working capital changes | -40.8 | -64.8 | -27.0 | 7.3 |
| Income taxes / long service / annual leave | -15.9 | -24.1 | -24.5 | -25.6 |
| Net cash from operations | 30.2 | 64.7 | 93.5 | 107.6 |
| Capex | -8.8 | -38.9 | -40.0 | -40.0 |
| Other investing flows | -3.4 | -5.4 | -30.6 | 2.4 |
| Investing cash flow | -12.2 | -44.3 | -70.6 | -37.6 |
| Financing cash flow | -21.9 | 9.1 | -35.9 | -46.2 |
| Net cash flow | -3.9 | 29.5 | -12.9 | 23.8 |
| Cash at beginning of year | 47.1 | 44.8 | 74.9 | 61.9 |
| Forex | 1.6 | 0.6 | 0.0 | 0.0 |
| Cash at end of year | 44.8 | 74.9 | 61.9 | 85.8 |
| Add: Bank overdrafts | 2.8 | 0.6 | 0.0 | 0.0 |
| Cash and cash equivalents at end of year | 47.6 | 75.4 | 61.9 | 85.8 |
| Key Ratios | | | | |
| PER (x) | 4.8 | 4.6 | 5.6 | 6.6 |
| P/NAV (x) | 1.5 | 1.1 | 1.0 | 0.9 |
| P/NTA (x) | 1.8 | 1.3 | 1.1 | 1.0 |
| Dividend yield (%) | 9.8 | 8.6 | 7.2 | 6.1 |
| ROE (%) | 31.0 | 24.1 | 17.8 | 13.8 |
| Net gearing (%) | 2.0 | 19.6 | 20.7 | 8.6 |
| EV/EBIT (x) | 4.1 | 3.7 | 4.5 | 5.0 |
| PE to growth (x) | 0.1 | 1.3 | -0.3 | -0.4 |

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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