

**BUY S\$0.19** STI : 2,491.49

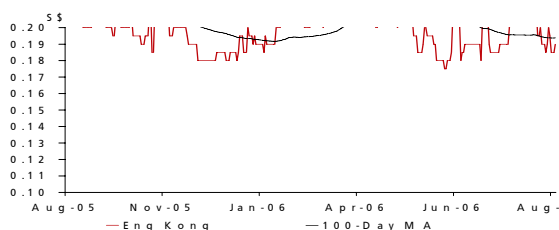
Price Target : 12-Month S\$ 0.24 (Prev S\$ 0.29)

Reason for Report : FY06 Results

Potential Catalyst: Economic trade and acquisition completion.

**ANALYST**Weng Soon Tan +65 7398 7964  
wengsoon@dbsvickers.com**FORECASTS AND VALUATION**

FY Jun (\$\$ m)	2005A	2006A	2007F	2008F
Turnover	49.4	61.1	71.5	83.8
EBITDA	7.9	9.1	10.2	11.8
Pre-tax Profit	4.7	5.7	7.5	9.0
Net Profit	0.9	3.1	4.5	5.4
Net Pft (Pre Ex.)	0.9	3.1	4.5	5.4
EPS (S cts)	0.4	1.5	2.2	2.6
EPS Gth (%)	(85)	236	46	19
Diluted EPS (S cts)	0.4	1.5	2.2	2.6
DPS (S cts)	2.6	0.6	0.9	1.0
BV Per Share (S cts)	20.3	20.9	22.4	24.1
PE (X)	42.7	12.7	8.7	7.3
P/Cash Flow (X)	9.4	5.9	5.3	4.7
EV/EBITDA (X)	3.4	2.8	2.3	1.8
Net Div Yield (%)	13.8	3.3	4.6	5.5
P/Book Value (X)	0.9	0.9	0.8	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.1	7.2	10.0	11.1

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	208.8
Mkt. Cap (\$\$/US\$m)	39.8 / 25.3
Major Shareholders	
Li Hung (%)	32.2
Ng Kam Ming (%)	28.3
Kingasia Holding (%)	5.7
Free Float (%)	33.8
Avg. Daily Vol. ('000)	66

Earnings Rev :	FY07: -13%	FY08: -
Consensus EPS :	FY07: -	FY08: -
Variance vs Cons :	FY07: -	FY08: -

Sector : INDUSTRIALS

Bloomberg/Reuters Code: ENKG SP EQUITY/ENKG.SI

Principal Business: Provide integrated container services such as warehousing and container freight station, container sales and agencies and transportation.

**Eng Kong Holdings****Steady earnings stream**

➤ **Story:** Eng Kong Holding's reported FY06 results that missed our expectations.

➤ **Point:** Top-line grew 24% yoy to S\$61.1m from S\$49.4m in FY05 due largely to a 29% increase in their Container Depot revenues. Gross margins fell slightly due to short-term leases and higher fuel costs. However, net profits grew 236% to S\$3.1m largely due to effective cost controls and smaller associate losses.

➤ **Relevance:** We remain positive about Eng Kong's prospects due to continued economic trade growth and further acquisitions. We have revised our FY07F earnings forecast downwards by 13% to take into account the lower gross profit margins. The Group has proposed a 1 for 4 warrants issue at a price of S\$0.01 per warrant, expiring in 3 years and an exercise price of S\$0.05. Maintain BUY with a revised target price of S\$0.24 based on DCF valuations.

**Top-line grew at 24% yoy but gross margins declined slightly.** Revenues grew 24% yoy to S\$61.1m from S\$49.4m in FY05, due to their core Container Depot Operations business, which grew by 29% yoy and accounted for 80% of FY06 revenues. The Warehousing and Container Freight Station business saw revenue growth of 8%, while the Container Sales, Agencies and Surveys division saw weaker growth of 3% yoy. The decline in Group gross margins to 26% in FY06 from 28% in FY05 stems from the short-term leases undertaken to meet rising demand and higher fuel costs.

**Net margins expand albeit higher admin costs.** Admin costs rose due to an 18% increase in staffing costs and fees incurred as a result of the Ming Fung acquisition. Higher interest income and smaller losses incurred on Associates and JV's resulted in net profit rising 236% to S\$3.1m. Cost controls also saw other operating expenses improving, thus contributing to the margin expansion.

**Maintain Buy; T/P of S\$0.24.** We continue to remain positive on Eng Kong's prospects given continued trade growth in markets such as China, USA and Europe. The expected completion of Ming Fung acquisition in early FY07F should be positive to earnings. As net cash remains strong with 44% of FY06 net assets comprising of cash, we expect further strategic alliances and/or acquisitions to take place in FY07F. This net cash position is expected to be further strengthened by the Group's proposed 1 for 4 warrants issue at a price of S\$0.01, with an exercise price of S\$0.05 and expiring 3 years from listing. It is expected to represent approximately 25% of the Group's issued-capital assuming all warrants are fully exercised. We have taken a more conservative approach and have revised our FY07F earnings downwards by 13% to S\$4.5m from S\$5.2m to take into account lower gross profit margins. Maintain BUY with a revised DCF-based target price of S\$0.24.

**Results Summary and Comments**

FY/June (m)	2H05	1H06	2H06	HoH %	YoY %	05	06	YoY % Comments
Sales	26.2	29.6	31.5	6.4%	20.2%	49.4	61.1	23.7% 29% growth in core Container Depot business.
Cost of Goods Sold	(18.5)	(21.5)	(23.7)	10.4%	28.1%	(35.6)	(45.2)	27.1% Short term lease costs and higher fuel costs.
Gross Profit	7.7	8.1	7.8	-4.3%	1.1%	13.8	15.9	14.7%
Other Operating Income	1.2	(0.2)	0.7	-391.0%	-43.2%	1.1	0.4	-58.8%
Other Operating Expenses	(5.3)	(5.8)	(5.0)	-13.4%	-5.0%	(10.2)	(10.8)	5.8% Higher Admin costs from Ming Fung acquisition.
EBIT	3.6	2.1	3.4	64.3%	-4.8%	4.7	5.5	17.0%
Non-Operating Income	(0.3)	0.5	(0.5)	-200.0%	83.3%	0.0	0.0	na
Interest Income	0.0	0.2	0.1	-69.8%	231.8%	0.1	0.3	133.3%
Interest Expense	(0.1)	(0.1)	(0.1)	37.5%	54.0%	(0.1)	(0.1)	17.7%
Share of Associates' or JV Income	(0.1)	0.0	(0.1)	-375.0%	-35.9%	(0.1)	(0.0)	-40.8%
Exceptional Gains/(Losses)	0.0	0.0	0.0	na	na	0.0	0.0	na
Pretax Profit	3.2	2.8	2.8	0.4%	-11.0%	4.7	5.7	21.3%
Tax	(3.3)	(0.9)	(1.7)	101.8%	-48.0%	(3.6)	(2.6)	-27.5%
Minority Interests	(0.1)	0.0	0.0	-69.7%	-110.3%	(0.2)	0.0	-123.8%
Net Profit	(0.2)	2.0	1.1	-44.1%	-595.1%	0.9	3.1	236.2%
Preference Dividend for the period	0.0	0.0	0.0	na	na	0.0	0.0	na
Net Profit after Preference Div	(0.2)	2.0	1.1	-44.1%	-595.1%	0.9	3.1	236.2%
<b>Margins (%)</b>								
Gross Margin	29.3%	27.4%	24.6%			28.0%	26.0%	
SGA % Sales	20.1%	19.5%	15.9%			20.6%	17.7%	
Pre-tax Margin	12.1%	9.5%	9.0%			9.4%	9.3%	
Net Margin	-0.9%	6.8%	3.6%			1.9%	5.1%	
Effective Tax Rate %	104.1%	30.3%	60.8%			76.2%	45.6%	

**Segmental Results**

FYE June (\$m)	01	02	03	04	05	06	07F	08F
<b>Revenue</b>								
Container Depot Operation	33.9	42.4	31.6	36.0	37.8	48.9	58.7	70.4
Warehousing and Container Freight Station	5.9	5.9	5.9	5.7	5.8	6.3	6.6	6.9
Container Sales, agencies and survey	2.6	2.0	3.7	4.3	5.7	5.8	6.1	6.4
Others	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Total	42.5	50.7	41.3	46.1	49.4	61.1	71.5	83.8
<b>Operating Profit before unallocated Expenses</b>								
Container Depot Operation	4.4	8.1	2.7	3.1	3.3	5.6	7.0	8.5
Warehousing and Container Freight Station	0.5	0.5	1.0	1.1	1.5	1.3	1.3	1.4
Container Sales, agencies and survey	-0.4	0.4	1.4	1.6	1.5	0.4	0.6	0.6
Others	0.1	-0.2	-0.2	2.2	-0.3	-0.3	0.0	0.0
Total	4.7	8.7	4.9	7.9	6.0	7.1	9.0	10.5
Unallocated Expenses	-1.1	-1.0	-1.2	-1.2	-1.2	-1.6	-1.6	-1.7
Operating Profit	3.6	7.8	3.7	6.7	4.8	5.5	7.4	8.8
<b>Margin</b>								
Container Depot Operation	13.1%	19.0%	8.5%	8.5%	8.8%	11.5%	12.0%	12.0%
Warehousing and Container Freight Station	9.1%	8.7%	16.5%	18.8%	25.0%	20.5%	20.0%	20.0%
Container Sales, agencies and survey	-15.8%	20.8%	37.9%	36.1%	26.0%	7.0%	10.0%	10.0%
Others								
<b>Revenue Growth</b>								
Container Depot Operation		25.0%	-25.4%	13.7%	5.2%	29.3%	20.0%	20.0%
Warehousing and Container Freight Station		-0.2%	0.2%	-2.5%	1.9%	7.8%	5.0%	5.0%
Container Sales, agencies and survey		-21.8%	84.5%	15.4%	31.7%	2.6%	5.0%	5.0%
Others		630.2%	-86.0%	-14.8%	0.0%	0.0%	0.0%	0.0%

Source : Company, DBS Vickers

## Company Focus

Eng Kong

### Income Statement (\$S m)

FY Jun	2005A	2006A	2007F	2008F
Turnover	49.4	61.1	71.5	83.8
Cost of Goods Sold	(35.6)	(45.2)	(46.3)	(53.3)
<b>Gross Profit</b>	<b>13.8</b>	<b>15.9</b>	<b>25.1</b>	<b>30.5</b>
Other Opg (Exp)/Inc	(9.1)	(10.3)	(17.8)	(21.7)
<b>EBIT</b>	<b>4.7</b>	<b>5.5</b>	<b>7.4</b>	<b>8.8</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.2	0.2	0.2
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>4.7</b>	<b>5.7</b>	<b>7.5</b>	<b>9.0</b>
Tax	(3.6)	(2.6)	(3.0)	(3.6)
Minority Interest	(0.2)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>0.9</b>	<b>3.1</b>	<b>4.5</b>	<b>5.4</b>
Net profit before Except.	0.9	3.1	4.5	5.4
EBITDA	7.9	9.1	10.2	11.8
Sales Gth (%)	7	24	17	17
EBITDA Gth (%)	(18)	14	13	16
EBIT Gth (%)	(26)	17	34	20
Effective Tax Rate (%)	76.2	45.6	40.0	40.0

### Cash Flow Statement (\$S m)

FY Jun	2005A	2006A	2007F	2008F
Pre-Tax Profit	4.7	5.7	7.5	9.0
Dep. & Amort.	3.2	3.5	2.9	3.0
Tax Paid	(0.3)	(0.6)	(1.2)	(3.0)
Assoc. & JV Inc/(loss)	0.1	0.0	0.0	0.0
Chg in Wkg. Capital	(2.4)	(1.2)	(0.8)	(1.0)
Other Operating CF	(0.1)	(0.8)	0.0	0.0
<b>Net Operating CF</b>	<b>5.1</b>	<b>6.7</b>	<b>8.3</b>	<b>8.0</b>
Capital Exp.(net)	(3.6)	(3.8)	(4.6)	(4.6)
Other Invts.(net)	0.5	1.7	0.0	0.0
Invts in Assoc. & JV	0.8	0.0	0.0	0.0
Div from Assoc & JV	0.1	0.0	0.0	0.0
Other Investing CF	(0.8)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(3.1)</b>	<b>(2.1)</b>	<b>(4.6)</b>	<b>(4.6)</b>
Div Paid	(5.5)	(1.3)	(1.3)	(1.8)
Chg in Gross Debt	(0.9)	(0.7)	0.0	0.0
Capital Issues	0.1	0.0	0.0	0.0
Other Financing CF	0.7	0.6	0.0	0.0
<b>Net Financing CF</b>	<b>(5.6)</b>	<b>(1.4)</b>	<b>(1.3)</b>	<b>(1.8)</b>
Net Cashflow	(3.5)	3.2	2.4	1.6

### Balance Sheet (\$S m)

FY Jun	2005A	2006A	2007F	2008F
Net Fixed Assets	24.8	28.3	30.1	31.7
Invts in Assocs & JVs	0.1	0.1	0.1	0.0
Other LT Assets	2.5	2.4	2.4	2.4
Cash & ST Invts	18.8	20.1	22.6	24.2
Other Current Assets	14.7	18.2	21.3	24.9
<b>Total Assets</b>	<b>60.9</b>	<b>69.2</b>	<b>76.4</b>	<b>83.2</b>
ST Debt	0.6	0.1	0.1	0.1
Other Current Liab	10.9	14.9	18.9	22.2
LT Debt	1.5	3.6	3.6	3.6
Other LT Liabilities	3.6	4.7	4.7	4.7
Shareholder's Equity	42.5	43.6	46.9	50.5
Minority Interests	1.9	2.3	2.2	2.2
<b>Total Cap. &amp; Liab.</b>	<b>60.9</b>	<b>69.2</b>	<b>76.4</b>	<b>83.2</b>
Non-Cash Wkg. Cap	5.7	3.3	2.3	2.7
Net Cash/(Debt)	14.8	16.4	18.8	20.4

### Rates & Ratios

FY Jun	2005A	2006A	2007F	2008F
Gross Margin (%)	28.0	26.0	35.1	36.4
EBITDA Margin (%)	16.1	14.8	14.3	14.1
EBIT Margin (%)	9.5	9.0	10.3	10.5
Net Profit Margin (%)	1.9	5.1	6.4	6.5
ROAE (%)	2.1	7.2	10.0	11.1
ROA (%)	7.9	8.9	10.5	11.4
ROCE (%)	2.6	6.8	9.4	0.0
Div Payout Ratio (%)	591.7	42.4	40.0	40.0
Interest Cover (x)	N/A	N/A	N/A	N/A
Debtors Turn (days)	73.9	76.8	86.7	86.6
Creditors Turn (days)	36.8	62.8	85.0	84.7
Inventory Turn (days)	16.8	17.8	19.9	20.3
Current Ratio (x)	2.9	2.5	2.3	2.2
Quick Ratio (x)	2.7	2.4	2.2	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	173.9	102.5	123.4	123.4
N.Cash/(Debt)PS (\$ cts)	7.1	7.8	9.0	9.8
Opq CFPS (\$ cts)	3.62	3.79	4.40	4.31
Free CFPS (\$ cts)	0.74	1.38	1.80	1.64

Source: Company, DBS Vickers

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