

**Buy S\$0.215 STI : 3,312.88**

Price Target : 12-Month S\$ 0.35 (Prev S\$ 0.28)

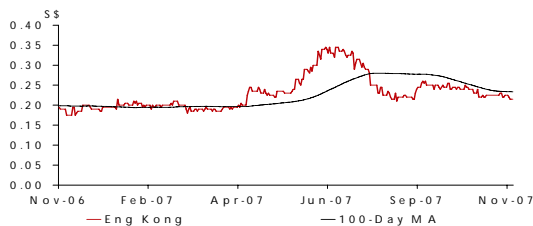
Reason for Report : Company Update

Potential Catalyst: Further expansion and acquisitions

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research@dbsvickers.com**FORECASTS AND VALUATION**

FY Jun (\$\$ m)	2005A	2006A*	2007F	2008F
Turnover	49.4	94.9	75.6	77.7
EBITDA	7.2	13.9	10.8	13.9
Pre-tax Profit	4.7	8.5	6.5	9.5
Net Profit	0.9	5.6	4.6	7.3
Net Pft (Pre Ex.)	0.1	5.5	4.6	7.3
EPS (\$ cts)	0.4	2.7	2.2	3.5
EPS Gth (%)	(85)	501	(17)	57
Diluted EPS (\$ cts)	0.4	2.3	1.8	2.8
Net DPS (\$ cts)	2.6	0.6	0.5	0.7
BVPer Share (\$ cts)	20.2	21.8	20.7	23.3
PE (X)	48.3	8.0	9.7	6.1
P/Cash Flow (X)	10.3	3.9	4.9	5.1
EV/EBITDA (X)	4.2	2.5	3.7	2.6
Net Div Yield (%)	12.2	2.9	2.2	3.4
P/Book Value (X)	1.1	1.0	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.1	12.7	9.8	14.0

\* 2006A numbers are for 18 months ended Dec 06, due to a change in FYE from June to December in 2006.

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

Issued Capital (m shrs)	239
Mkt. Cap (\$m/US\$m)	51.3 / 35.4
Major Shareholders	
Li Hung (%)	31.9
Ng Kam Ming (%)	27.3
KingAsia Holdings (%)	6.3
Free Float (%)	34.5
Avg. Daily Vol. ('000)	127

Earnings Rev (%)	2007: (35.8)	2008: (10.2)
Consensus EPS (\$ cts)	2007: -	2008: -
Variance vs Cons (%)	2007: -	2008: -

Sector : Industrials

Bloomberg/Reuters Code: ENKG SP/ENKG.SI

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

**SGX MAS Research Incentive scheme****Eng Kong Holdings****Container depot King Kong**

➤ **Story:** In two separate JVs announced in October, Eng Kong (EK) expanded its container depot operations in Malaysia and Xiamen spanning an additional c. 50,000 sqm of land, bringing its total land area for container depot operations to around 500,000 sqm.

➤ **Point:** Following the acquisition of the Ming Fung Group in September 2006, these latest expansions are in line with the group's overall strategy to achieve growth organically as well as through acquisitions. The management continues to be on the lookout for such opportunities to enhance the group's business network in Asia.

➤ **Relevance:** We remain positive on this counter due to its growing presence in major Asian ports such as Singapore, Hong Kong and Shanghai. Therefore, we are maintaining our BUY recommendation, with fully-diluted TP raised to S\$0.35 as we roll over our valuation to FY08 and continue to peg it to a PER multiple of 10x.

**Expanding depot operations.** Last month, EK announced the expansion of its container depot operations in Xiamen, PRC, and Malaysia via two separate JVs, resulting in the group's container depot operations covering a total land area of c. 500,000 sqm, up by 50,000 sqm. The Xiamen JV Company provides services such as storage and repair of damaged containers, container stuffing and packing among others, and is expected to provide a one-stop value-added supply chain services for importers and exporters in Southern China. The Malaysian JV Company provides inland container depot with rail terminal facilities and other related services in Westport Malaysia. The group believes that this JV will enhance its business presence in Malaysia, and further strengthen its depot network within Asia.

**Acquisition of 30% of Keyun to be completed by early FY08.** In our latest interview with the management, they believe that the acquisition of a 30% stake in Keyun should be completed by early next year. Consequently, we only expect to see Keyun's contribution to the group's associates' income from next year onwards, and not in FY07 as we have previously assumed.

**Maintain BUY, rolling over valuation to FY08.** We have lowered our earnings estimates for FY07 and FY08 as we have removed the contribution from Keyun in FY07, and lowered our growth assumptions for their container depot operations due to slightly lower utilization rates experienced currently. We continue to use a multiple of 10x as we roll over our valuation to FY08F earnings, giving us a 12-month price target of S\$0.35, representing an upside of around 60% at current prices. Our fair value is based on a fully-diluted basis, given that there are currently c. 23.7m in-the-money warrants on the group's stock outstanding.

**Income Statement (\$\$ m)**

FY Jun	2005A	2006A	2007F	2008F
Turnover	49.4	94.9	75.6	77.7
Cost of Goods Sold	(35.6)	(70.5)	(55.3)	(56.9)
<b>Gross Profit</b>	<b>13.8</b>	<b>24.4</b>	<b>20.3</b>	<b>20.8</b>
Other Opg (Exp)/Inc	(10.0)	(16.2)	(13.9)	(14.3)
<b>EBIT</b>	<b>3.9</b>	<b>8.1</b>	<b>6.3</b>	<b>6.5</b>
Other Non Opg (Exp)/Inc	0.1	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.0	3.0
Net Interest (Exp)/Inc	0.0	0.3	0.1	0.0
Exceptional Gain/(Loss)	0.8	0.1	0.0	0.0
<b>Pre-tax Profit</b>	<b>4.7</b>	<b>8.5</b>	<b>6.5</b>	<b>9.5</b>
Tax	(3.6)	(3.0)	(1.6)	(2.0)
Minority Interest	(0.2)	0.1	(0.2)	(0.2)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>0.9</b>	<b>5.6</b>	<b>4.6</b>	<b>7.3</b>
Net profit before Except.	0.1	5.5	4.6	7.3
EBITDA	7.2	13.9	10.8	13.9
Sales Gth (%)	7.3	92.1	(20.3)	2.8
EBITDA Gth (%)	(2.4)	93.1	(22.3)	29.2
EBIT Gth (%)	(4.2)	110.2	(21.9)	2.4
Effective Tax Rate (%)	76.2	35.2	25.0	21.0

**Cash Flow Statement (\$\$ m)**

FY Jun	2005A	2006A	2007F	2008F
Pre-Tax Profit	4.7	8.5	6.5	9.5
Dep. & Amort.	3.3	5.8	4.4	4.4
Tax Paid	(0.3)	(3.0)	(1.0)	(1.6)
Assoc. & JV Inc/(loss)	0.1	0.0	0.0	(3.0)
Chg in Wkg.Cap.	(2.4)	(5.7)	3.5	(0.4)
Other Operating CF	(0.2)	2.5	0.0	0.0
<b>Net Operating CF</b>	<b>5.1</b>	<b>8.1</b>	<b>13.4</b>	<b>8.9</b>
Capital Exp.(net)	(3.6)	(4.9)	(4.6)	(4.6)
Other Invts.(net)	0.5	1.9	0.0	0.0
Invts in Assoc. & JV	0.8	(2.7)	(12.6)	0.0
Div from Assoc & JV	0.0	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>(5.7)</b>	<b>(17.2)</b>	<b>(4.6)</b>
Div Paid	(5.5)	(1.9)	(1.3)	(1.1)
Chg in Gross Debt	(0.9)	(1.0)	0.0	0.0
Capital Issues	0.1	0.1	0.0	0.0
Other Financing CF	0.7	1.1	0.0	0.0
<b>Net Financing CF</b>	<b>(5.6)</b>	<b>(1.7)</b>	<b>(1.3)</b>	<b>(1.1)</b>
Net Cashflow	(3.5)	0.7	(5.2)	3.2

**Quarterly / Interim Income Statement (\$\$ m)**

FY Jun	2H2005	1H2006	2H2006	1H2007
Turnover	29.6	31.5	33.8	34.6
Cost of Goods Sold	(21.5)	(23.7)	(25.3)	(26.1)
<b>Gross Profit</b>	<b>8.1</b>	<b>7.8</b>	<b>8.5</b>	<b>8.5</b>
Other Oper. (Exp)/Inc	(5.2)	(5.2)	(5.8)	(6.2)
<b>EBIT</b>	<b>2.9</b>	<b>2.5</b>	<b>2.7</b>	<b>2.3</b>
Other Non Opg (Exp)/Inc				
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.2	0.0	0.1	0.4
Exceptional Gain/(Loss)	(0.3)	0.3	0.0	0.0
<b>Pre-tax Profit</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>
Tax	(0.9)	(1.7)	(0.4)	(0.8)
Minority Interest	0.0	0.0	0.1	0.3
<b>Net Profit</b>	<b>2.0</b>	<b>1.1</b>	<b>2.5</b>	<b>2.2</b>
Net profit bef Except.	2.3	0.8	2.5	2.1
EBITDA	2.9	2.5	2.7	2.3
Sales Gth (%)	13.0	6.4	7.4	2.3
EBITDA Gth (%)	9.4	(12.7)	7.1	(14.7)
EBIT Gth (%)	6.5	(12.3)	5.6	(14.0)
Gross Margins (%)	27.4	24.6	25.1	24.7
EBIT Margins (%)	9.8	8.1	7.9	6.7

Source: Company, DBS Vickers

**Balance Sheet (\$\$ m)**

FY Jun	2005A	2006A	2007F	2008F
Net Fixed Assets	25.4	28.1	28.5	28.8
Invts in Assocs & JVs	0.1	0.1	12.7	15.7
Other LT Assets	2.5	7.3	7.1	6.9
Cash & ST Invts	18.8	17.6	12.5	15.7
Other Current Assets	14.7	23.0	18.6	19.1
<b>Total Assets</b>	<b>61.5</b>	<b>76.2</b>	<b>79.3</b>	<b>86.2</b>
ST Debt	0.6	0.8	0.8	0.8
Other Current Liab	11.7	15.0	14.6	15.1
LT Debt	1.5	3.8	3.8	3.8
Other LT Liabilities	3.6	8.4	8.4	8.4
Shareholder's Equity	42.2	45.6	48.9	55.1
Minority Interests	1.9	2.5	2.7	2.9
<b>Total Cap. &amp; Liab.</b>	<b>61.5</b>	<b>76.2</b>	<b>79.3</b>	<b>86.2</b>
Non-Cash Wkg. Cap	3.0	8.0	4.0	4.0
Net Cash/(Debt)	16.7	13.0	7.8	11.0

**Rates & Ratios**

FY Jun	2005A	2006A	2007F	2008F
Gross Margin (%)	28.0	25.7	26.8	26.8
EBITDA Margin (%)	14.5	14.6	14.3	17.9
EBIT Margin (%)	7.8	8.5	8.4	8.3
Net Profit Margin (%)	1.9	5.9	6.1	9.4
ROAE (%)	2.1	12.7	9.8	14.0
ROA (%)	1.5	8.1	6.0	8.8
ROCE (%)	2.0	11.4	9.5	9.3
Div Payout Ratio (%)	591.7	23.7	24.0	24.0
Interest Cover (x)	NM	NM	NM	NM
Debtors Turn (avg days)	76.6	57.8	83.4	73.0
Creditors Turn (avg days)	36.1	21.4	24.0	20.9
Inventory Turn (avg days)	16.8	12.5	16.3	14.3
Current Ratio (x)	2.7	2.6	2.0	2.2
Quick Ratio (x)	2.6	2.4	1.9	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	173.9	106.0	98.6	98.6
N.Cash/(Debt)PS (S cts)	8.0	6.2	3.3	4.7
Opg CFPS (S cts)	3.6	6.6	4.7	4.5
Free CFPS (S cts)	0.7	1.5	4.2	2.1

**PE Chart (x)**


DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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