

Singapore Company Focus

Eng Kong

Bloomberg: ENGK SP | Reuters: ENGK.SI

DBS Group Research . Equity

14 Feb 2008

HOLD S\$0.19 FSSTI : 2,949.54

(Downgrade)

Price Target : 12-Month S\$ 0.23 (Prev S\$0.35)

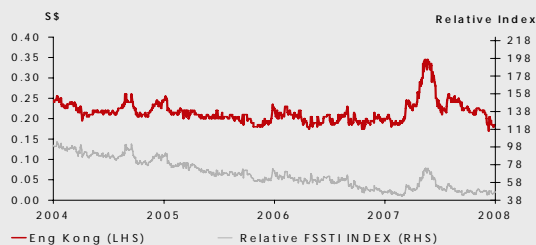
Reason for Report : Company update

Potential Catalyst: Further expansion and acquisitions

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2006A*	2007F	2008F	2009F
Turnover	94.9	75.6	81.5	83.3
EBITDA	13.9	10.8	12.2	13.1
Pre-tax Profit	8.5	6.5	7.8	8.7
Net Profit	5.6	4.6	6.0	6.7
Net Pft (Pre Ex.)	5.5	4.6	6.0	6.7
EPS (S cts)	2.7	1.9	2.5	2.8
EPS Pre Ex. (S cts)	2.6	1.9	2.5	2.8
EPS Gth Pre Ex (%)	>100	(26)	28	12
Diluted EPS (S cts)	2.3	1.8	2.3	2.5
Net DPS (S cts)	0.6	0.5	0.6	0.7
BVPer Share (S cts)	21.8	20.5	22.5	24.7
PE (X)	6.9	9.5	7.4	6.6
PE Pre Ex. (X)	7.0	9.5	7.4	6.6
P/Cash Flow (X)	3.4	4.9	4.6	4.7
EV/EBITDA (X)	2.0	3.6	3.0	2.5
Net Div Yield (%)	3.4	2.5	3.2	3.6
P/Book Value (X)	0.8	0.9	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.7	9.8	11.6	11.8

Earnings Rev (%):

Consensus EPS (S cts):

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

Sector : Industrials

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

SGX MAS Research Incentive scheme

Outlook looks cloudy

Story: Singapore retained its position as the world's top container port in 2007, handling a total of 27.9 million TEUs (twenty-foot equivalent unit), up 13% from a year ago. Shanghai, meanwhile, leapfrogged Hong Kong to come in second place in terms of container volume handled, posting a 20% y-o-y growth in container volume.

Point: While this bodes well for Eng Kong given its presence in these three major Asian ports, turbulence in financial markets has clouded world growth prospects. However, we believe that the impact of any slowdown in the US would be partially mitigated by sustained intra-Asia trade and higher utilization rates of their container depot. Therefore, we do not see a need to revise our top line forecasts at this juncture. With regards to the Keyun acquisition, we have assumed completion to be completed by end June, instead of end February as expected previously. Consequently, we have adjusted our FY08F earnings to S\$6.0m to reflect this.

Relevance: We continue to peg our valuation to 10x FY08F earnings, which gives us a fair value of S\$0.23. Our fair value is based on a fully diluted basis, with c. 23.6m in-the-money warrants on the stock still outstanding. As we foresee any earnings catalysts to be fairly muted in the near term, we are downgrading our recommendation to a HOLD.

At A Glance

Issued Capital (m shrs)	239
Mkt. Cap (S\$m/US\$m)	44 / 31
Major Shareholders	
Li Hung (%)	31.9
Ng Kam Ming (%)	27.3
KingAsia Holdings (%)	6.3
Free Float (%)	34.5
Avg. Daily Vol. ('000)	88

Income Statement (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	94.9	75.6	81.5	83.3
Cost of Goods Sold	(70.5)	(55.3)	(59.6)	(61.1)
Gross Profit	24.4	20.3	21.9	22.2
Other Opg (Exp)/Inc	(16.2)	(13.9)	(15.0)	(15.4)
Operating Profit	8.1	6.3	6.9	6.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.9	1.8
Net Interest (Exp)/Inc	0.3	0.1	0.0	0.0
Exceptional Gain/(Loss)	0.1	0.0	0.0	0.0
Pre-tax Profit	8.5	6.5	7.8	8.7
Tax	(3.0)	(1.6)	(1.6)	(1.8)
Minority Interest	0.1	(0.2)	(0.2)	(0.2)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	5.6	4.6	6.0	6.7
Net profit before Except.	5.5	4.6	6.0	6.7
EBITDA	13.9	10.8	12.2	13.1
Sales Gth (%)	92.1	(20.3)	7.9	2.2
EBITDA Gth (%)	93.1	(22.3)	13.6	7.1
Opg Profit Gth (%)	110.2	(21.9)	8.9	(0.4)
Net Profit Gth (%)	501.3	(16.7)	28.2	12.1
Effective Tax Rate (%)	35.2	25.0	21.0	21.0

Cash Flow Statement (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	8.5	6.5	7.8	8.7
Dep. & Amort.	5.8	4.4	4.4	4.4
Tax Paid	(3.0)	(1.0)	(1.6)	(1.6)
Assoc. & JV Inc/(loss)	0.0	0.0	(0.9)	(1.8)
Non-Cash Wkg.Cap.	(5.7)	3.5	(1.1)	(0.3)
Other Operating CF	2.5	0.0	0.0	0.0
Net Operating CF	8.1	13.4	8.6	9.4
Capital Exp.(net)	(4.9)	(4.6)	(4.6)	(4.6)
Other Invts.(net)	1.9	0.0	0.0	0.0
Invts in Assoc. & JV	(2.7)	(12.6)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	(5.7)	(17.2)	(4.6)	(4.6)
Div Paid	(1.9)	(1.3)	(1.1)	(1.4)
Chg in Gross Debt	(1.0)	0.0	0.0	0.0
Capital Issues	0.1	0.0	0.0	0.0
Other Financing CF	1.1	0.0	0.0	0.0
Net Financing CF	(1.7)	(1.3)	(1.1)	(1.4)
Net Cashflow	0.7	(5.2)	2.9	3.4

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

FY Dec	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)
Gross Profit	8.1	7.8	8.5	8.5
Other Oper. (Exp)/Inc	(5.2)	(5.2)	(5.8)	(6.2)
EBIT	2.9	2.5	2.7	2.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
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
Pre-tax Profit	2.8	2.8	2.8	2.7
Tax	(0.9)	(1.7)	(0.4)	(0.8)
Minority Interest	0.0	0.0	0.1	0.3
Net Profit	2.0	1.1	2.5	2.2
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)
Opg Profit Gth (%)	6.5	(12.3)	5.6	(14.0)
Net Profit Gth (%)	73.4	(595.1)	22.9	94.0
Gross Margins (%)	27.4	24.6	25.1	24.7
Opg Profit Margins (%)	9.8	8.1	7.9	6.7

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	28.1	28.5	28.8	29.1
Invts in Assocs & JVs	0.1	12.7	13.6	15.4
Other LT Assets	7.3	7.1	6.9	6.8
Cash & ST Invts	18	12	15	19
Other Current Assets	23	19	20	20
Total Assets	76.2	79.3	84.7	90.4
ST Debt	0.8	0.8	0.8	0.8
Other Current Liab	15.0	14.6	14.9	15.2
LT Debt	3.8	3.8	3.8	3.8
Other LT Liabilities	8.4	8.4	8.4	8.4
Shareholder's Equity	45.6	48.9	53.8	59.0
Minority Interests	2.5	2.7	2.9	3.1
Total Cap. & Liab.	76.2	79.3	84.7	90.4
Non-Cash Wkg. Cap	8.0	4.0	5.0	5.2
Net Cash/(Debt)	13.0	7.8	10.7	14.1

Rates & Ratio

FY Dec	2006A	2007F	2008F	2009F
Gross Margins (%)	25.7	26.8	26.9	26.7
Opg Profit Margin (%)	8.5	8.4	8.5	8.2
Net Profit Margin (%)	5.9	6.1	7.3	8.0
ROAE (%)	12.7	9.8	11.6	11.8
ROA (%)	8.1	6.0	7.3	7.6
ROCE (%)	11.4	9.5	10.1	9.1
Div Payout Ratio (%)	23.7	24.0	24.0	24.0
Net Interest Cover (x)	NM	NM	NM	NM
Asset Turnover (x)	1.4	1.0	1.0	1.0
Debtors Turn (avg days)	57.8	83.4	71.3	73.2
Creditors Turn (avg days)	21.4	24.0	20.4	20.9
Inventory Turn (avg days)	12.5	16.3	14.0	14.3
Current Ratio (x)	2.6	2.0	2.2	2.4
Quick Ratio (x)	2.4	1.9	2.1	2.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	106.0	98.6	98.6	98.6
N. Cash/(Debt)PS (S cts)	6.2	3.3	4.5	5.9
Opg CFPS (S cts)	6.6	4.1	4.1	4.1
Free CFPS (S cts)	1.5	3.7	1.7	2.0

Segmental Breakdown

FY Dec	2006A	2007F	2008F	2009F
Revenues				
Container Depot	76.3	63.0	68.5	69.9
Warehousing and	9.8	6.5	6.7	6.9
Container Sales, agencies	8.7	6.1	6.3	6.5
Others	0.1	0.0	0.0	0.0
Total	94.9	75.6	81.5	83.3
EBIT				
Container Depot	8.1	6.6	7.3	7.5
Warehousing and	2.1	1.4	1.4	1.4
Container Sales, agencies	0.8	0.6	0.6	0.6
Others	(0.1)	0.0	0.0	0.0
Unallocated expenses	(2.8)	(2.3)	(2.5)	(2.7)
Total	8.1	6.3	6.9	6.9
EBIT Margins				
Container Depot	10.7	10.5	10.7	10.7
Warehousing and	21.0	21.0	21.0	21.0
Container Sales, agencies	9.1	10.0	10.0	10.0
Others	(117.4)	10.0	10.0	10.0
Total	8.5	8.4	8.5	8.2

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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