

Singapore Company Focus

Eng Kong

Bloomberg: ENKG SP | Reuters: ENKG.SI

DBS Group Research . Equity

3 Mar 2009

HOLD S\$0.11 STI : 1,533.40

Price Target : 12-Month S\$ 0.12 (Prev S\$ 0.21)

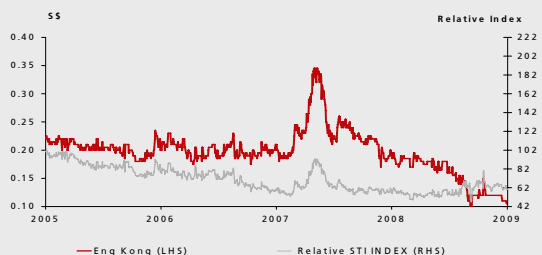
Reason for Report : FY08 Results

Potential Catalyst: Further expansion and acquisitions

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2007A	2008A	2009F	2010F
Turnover	71.1	81.7	84.7	85.7
EBITDA	10.6	9.7	10.3	10.1
Pre-tax Profit	7.1	9.4	5.9	5.4
Net Profit	6.2	9.4	5.2	4.8
Net Pft (Pre Ex.)	6.2	5.7	5.2	4.8
EPS (S cts)	2.6	3.7	2.1	1.9
EPS Pre Ex. (S cts)	2.6	2.2	2.1	1.9
EPS Gth Pre Ex (%)	(2.6)	(13.3)	(7.3)	(8.2)
Diluted EPS (S cts)	2.3	3.5	2.0	1.8
Net DPS (S cts)	0.5	1.2	0.7	0.6
BVPer Share (S cts)	21.5	23.8	24.6	25.9
PE (X)	4.3	3.0	5.3	5.8
PE Pre Ex. (X)	4.3	4.9	5.3	5.8
P/Cash Flow (X)	2.7	2.3	3.6	3.8
EV/EBITDA (X)	1.8	1.8	2.5	2.5
Net Div Yield (%)	4.4	10.9	6.1	5.6
P/Book Value (X)	0.5	0.5	0.4	0.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.7	16.8	8.6	7.5

Earnings Rev (%) : (35.6) (40.9)
Consensus EPS (S cts): 3.5 -

ICB Industry : Industrials

ICB Sector: Industrial Transportation

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

SGX MAS Research Incentive scheme

Solid cash position

Eng Kong's good FY08 net profit of S\$9.4m (+52% y-o-y) was buoyed by large disposal gains and contributions from new associate. Recurring organic earnings growth, however, is estimated to be -18% y-o-y. We continue to like Eng Kong for its strong balance sheet (net cash per share of 4.8 Scts) and experienced management team. Maintain Hold, with lowered TP of S\$0.12.

Good FY08 results helped by disposal gain. Eng Kong's FY08 headline net profit of S\$9.4m (+52% y-o-y) was ahead of our expectation of S\$6.2m, on revenue for the year of S\$81.7m (+15% y-o-y). The good results were mainly due to contribution from its new associate, Gold Prime Holdings (Keyun), whose acquisition was completed in mid 2008, as well as a large S\$3.7m gain from the disposal of Eng Kong Tech Park. Excluding these items, organic recurring net profit is estimated to be c. S\$5m, -18% y-o-y. This was mainly due to poorer margins resulting from more intensive competition, higher operating expenses and allowance for doubtful debts. The group has declared a final and special dividend of 0.3 and 0.6 Scts respectively, bringing total FY08 DPS to 1.2 Scts, a 10.9% yield.

Expanding capacity. With international trade expected to remain subdued on the back of a slowing global economy, Eng Kong, with its experienced management team, is positioned to benefit from an expected increase in demand for container storage services. This will be further enhanced by its plans to increase capacity in the region. We believe financing such a strategy should not pose much of a problem given its solid balance sheet and strong operating cash flows.

Maintain Hold. Our FY09/10 net profit forecasts have been lowered by 35-40% as we factor in lower margins on the back of higher provision for doubtful debts and increased competition. We continue to like Eng Kong for its experienced management team, strong balance sheet and high dividend yield. We believe downside to current share price is limited, given its net cash per share of 4.8 Scts. However, given limited catalysts and lowered risk appetite of investors, we cut our TP to S\$0.12, based on 4x blended FY08/09 PE, and maintain our Hold rating.

At A Glance

Issued Capital (m shrs)	253
Mkt. Cap (S\$m/US\$m)	27.8 / 17.9
Major Shareholders	
Li Hung (%)	32.9
Ng Kam Ming (%)	28.8
Wai Kuen Leung (%)	6.0
Free Float (%)	32.4
Avg. Daily Vol. ('000)	53

Results Summary and Comments

FYE Dec (m)	FY07	FY08	% y-o-y chg	Comments
Sales	71.1	81.7	15%	Growth driven mainly by higher storage, handling, and sale of parts, transportation sales, and more used containers sold
Cost of Goods Sold	(52.2)	(60.9)	17%	Due to more intensive competition, higher allowance for doubtful debts
Gross Profit	18.9	20.8	10%	
Other Operating Income	1.8	0.8	-54%	
Other Operating Expenses	(13.9)	(16.7)	20%	Due to more intensive competition, higher allowance for doubtful debts
EBIT	6.8	4.9	-28%	
Net interest income / (expense)	0.1	(0.3)	-317%	
Share of Associates' or JV Income	0.1	1.1	>100%	Due to share of results from Gold Prime Holdings (Keyun) following the successful completion of acquisition in mid 2008
Exceptional Gains/(Losses)	0.0	3.7	nm	Gains from disposal of Eng Kong Tech Park
Pretax Profit	7.1	9.4	33%	
Tax	(1.2)	(0.3)	-76%	Lower tax expense due to the over provision of tax in previous years
Minority Interests	0.2	0.2	-8%	
Net Profit	6.2	9.4	52%	
Margins	FY07	FY08	y-o-y chg	
Gross Margin	26.6%	25.5%	-1.1 ppt	Due to more intensive competition, higher allowance for doubtful debts
EBIT Margin	9.6%	6.1%	-3.5 ppt	Due to more intensive competition, higher allowance for doubtful debts
Net Margin	8.7%	11.5%	2.8 ppt	Buoyed by contributions from new associate, disposal gains, and lower tax expense

Source: Company, DBS Vickers

Income Statement (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Turnover	71.1	81.7	84.7	85.7
Cost of Goods Sold	(52.2)	(60.9)	(64.5)	(65.5)
Gross Profit	18.9	20.8	20.2	20.2
Other Opg (Exp)/Inc	(12.0)	(15.9)	(16.3)	(16.5)
Operating Profit	6.8	4.9	3.9	3.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.1	1.1	2.0	2.0
Net Interest (Exp)/Inc	0.1	(0.3)	0.0	(0.3)
Exceptional Gain/(Loss)	0.0	3.7	0.0	0.0
Pre-tax Profit	7.1	9.4	5.9	5.4
Tax	(1.2)	(0.3)	(0.9)	(0.8)
Minority Interest	0.2	0.2	0.2	0.2
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	6.2	9.4	5.2	4.8
Net profit before Except.	6.2	5.7	5.2	4.8
EBITDA	10.6	9.7	10.3	10.1
Sales Gth (%)	(25.1)	14.9	3.7	1.2
EBITDA Gth (%)	(23.7)	(8.2)	6.4	(2.1)
Opg Profit Gth (%)	(15.7)	(27.7)	(21.2)	(5.7)
Net Profit Gth (%)	10.2	52.3	(44.0)	(8.2)
Effective Tax Rate (%)	16.7	3.0	15.0	15.0

Cash Flow Statement (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Pre-Tax Profit	7.1	9.4	5.9	5.4
Dep. & Amort.	3.6	3.7	4.4	4.4
Tax Paid	(0.8)	(2.2)	(1.2)	(0.9)
Assoc. & JV Inc/(loss)	(0.1)	(1.1)	(2.0)	(2.0)
Non-Cash Wkg.Cap.	(0.5)	(1.0)	(8.9)	(0.2)
Other Operating CF	(1.5)	(0.8)	0.0	0.0
Net Operating CF	7.8	8.1	(1.8)	6.8
Capital Exp.(net)	(3.8)	6.5	(4.0)	(4.0)
Other Invts.(net)	0.3	0.3	0.0	0.0
Invts in Assoc. & JV	(2.0)	(8.8)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(4.8)	(1.3)	0.0	0.0
Net Investing CF	(10.4)	(3.3)	(4.0)	(4.0)
Div Paid	(1.2)	(1.5)	(3.0)	(1.7)
Chg in Gross Debt	(0.7)	7.2	0.0	0.0
Capital Issues	1.5	0.6	0.0	0.0
Other Financing CF	(0.9)	(0.6)	0.0	0.0
Net Financing CF	(1.3)	5.7	(3.0)	(1.7)
Net Cashflow	(3.8)	10.5	(8.8)	1.1

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

FY Dec	1H2007	2H2007	1H2008	2H2008
Turnover	34.6	36.5	40.0	41.7
Cost of Goods Sold	(26.1)	(26.1)	(29.2)	(31.7)
Gross Profit	8.5	10.3	10.7	10.1
Other Oper. (Exp)/Inc	(6.2)	(5.8)	(7.7)	(8.1)
EBIT	2.3	4.5	3.0	1.9
Other Non Opg (Exp)/Inc	0.0	0.0	0.2	(0.2)
Associates & JV Inc	0.0	0.1	0.0	1.1
Net Interest (Exp)/Inc	0.4	(0.2)	0.3	(0.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	3.7
Pre-tax Profit	2.7	4.4	3.6	5.9
Tax	(0.8)	(0.4)	(0.5)	0.2
Minority Interest	0.3	0.0	0.0	0.2
Net Profit	2.2	4.0	3.1	6.2
Net profit bef Except.	2.1	4.0	3.1	2.5
EBITDA	4.6	5.5	6.6	4.6
Sales Gth (%)	2.3	5.5	9.5	4.3
EBITDA Gth (%)	(6.5)	19.7	19.7	(30.2)
Opg Profit Gth (%)	(14.0)	96.5	(33.2)	(36.6)
Net Profit Gth (%)	(11.7)	83.3	(21.0)	98.1
Gross Margins (%)	24.7	28.4	26.9	24.1
Opg Profit Margins (%)	6.7	12.4	7.6	4.6
Net Profit Margins (%)	6.3	10.9	7.9	14.9

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Net Fixed Assets	29.3	21.7	21.4	21.2
Invts in Assocs & JVs	2.3	14.7	16.7	18.7
Other LT Assets	10.1	7.5	7.3	7.1
Cash & ST Invts	13.8	24.3	15.5	16.6
Inventory	2.7	3.6	4.6	4.7
Debtors	13.7	19.9	25.8	26.1
Other Current Assets	7.1	1.8	1.8	1.8
Total Assets	79.0	93.5	93.1	96.1
ST Debt	1.1	5.7	5.7	5.7
Other Current Liab	16.0	15.9	13.6	13.7
LT Debt	3.5	6.5	6.5	6.5
Other LT Liabilities	4.8	3.3	3.3	3.3
Shareholder's Equity	51.3	60.1	62.3	65.4
Minority Interests	2.3	2.0	1.8	1.6
Total Cap. & Liab.	79.0	93.5	93.1	96.1
Non-Cash Wkg. Cap	7.5	9.3	18.6	18.9
Net Cash/(Debt)	9.2	12.1	3.3	4.4

Rates & Ratio

FY Dec	2007A	2008A	2009F	2010F
Gross Margins (%)	26.6	25.5	23.9	23.6
Opg Profit Margin (%)	9.6	6.1	4.6	4.3
Net Profit Margin (%)	8.7	11.5	6.2	5.6
ROAE (%)	12.7	16.8	8.6	7.5
ROA (%)	7.9	10.9	5.6	5.1
ROCE (%)	9.2	6.8	4.2	3.9
Div Payout Ratio (%)	18.9	32.4	32.4	32.4
Net Interest Cover (x)	NM	15.7	NM	14.4
Asset Turnover (x)	0.9	0.9	0.9	0.9
Debtors Turn (avg days)	76.9	75.1	98.4	110.5
Creditors Turn (avg days)	70.2	91.5	83.5	76.6
Inventory Turn (avg days)	20.6	20.1	24.8	27.7
Current Ratio (x)	2.2	2.3	2.5	2.5
Quick Ratio (x)	1.6	2.0	2.1	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	83.8	(53.6)	32.8	32.8
N. Cash/(Debt)PS (S cts)	3.9	4.8	1.3	1.7
Opg CFPS (S cts)	3.5	3.6	2.8	2.8
Free CFPS (S cts)	1.7	5.8	(2.3)	1.1

Segmental Breakdown

FY Dec	2007A	2008A	2009F	2010F
Revenues (\$\$ m)				
Container Depot	56.3	62.6	69.5	70.2
Warehousing and	6.9	7.0	7.1	7.2
Container Sales, agencies	7.8	12.1	8.0	8.2
Others	0.0	0.0	0.0	0.0
Total	71.1	81.7	84.7	85.7
Operating Profit (\$\$ m)				
Container Depot	5.7	4.9	4.9	4.9
Warehousing and	1.5	1.3	1.1	1.2
Container Sales, agencies	1.2	1.6	1.0	1.1
Others	(1.6)	(2.9)	(3.1)	(3.5)
Total	6.8	4.9	3.9	3.7
Operating Profit Margins				
Container Depot	10.1	7.8	7.0	7.0
Warehousing and	22.0	18.0	16.0	16.0
Container Sales, agencies	15.9	13.6	13.0	13.0
Others	Nm	Nm	Nm	Nm
Total	9.6	6.1	4.6	4.3

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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