

Eng Kong Holdings

14 Mar 2008

Steady FY07 Results

Snapshot		P&L				Key ratios (08F)	
Recommendation	Buy	(Y/E Dec)	FY06*	FY07	FY08F	PER	7.0x
Current Price	S\$0.175	Sales (\$m)	65.3	71.1	73.7	P/BV	0.6x
Target Price	S\$0.24	Gross Profit	16.3	18.9	19.1	Div yield	3.4%
No of Shares	238.98m	Earnings	3.6	6.2	6.5	ROE	11.3%
Market Cap	S\$41.82m	EPS (Scts)	1.5	2.4	2.5	Net gearing	Cash
Year Hi/Lo	S\$0.36/0.165	EPS growth (%)	45.6	80.2	0.2	Current ratio	2.0x

Source: SIAS Research, Bloomberg

Note: The company changed its financial year end from 30 June to 31 Dec in 2006. Hence, FY06 and FY06* are 12 months financial results ended 30 Jun 06 and 31 Dec 2006 respectively.

FY07 Results Update

Revenue (\$m)	FY06*	FY07	% Chg
Container Depot Ops	53.0	56.3	6.4
Warehousing & CFS	6.6	6.9	4.8
Container Sales, agencies & Survey	5.7	7.8	36.5
Total	65.3	71.1	8.9

Source: Company, SIAS Research

- Improved Full Year Results:** Revenue for FY07 increased 9% to \$71.1m with contribution from all three business segments. A 6.4% growth in Container Depot Operation segment (driven by full year contribution from Ming Fung, a 80%-owned subsidiary acquired in Sep 06 that provide reefer repair and maintenance services in Hong Kong) was aided by a 36.5% surge in Container Sales, Agencies and Survey segment and a 4.8% increase from the Warehousing and Container Freight Station segment.

\$m	FY07	FY06*	%Chg	1H07
Revenue	71.08	65.30	8.9	34.59
Gross profit	18.88	16.25	16.2	8.53
Earnings	6.15	3.58	71.8	2.17
Gr Margins	26.6%	24.9%		24.67%
Net Margins	8.65%	5.48%		6.27%
EPS (Cents)	2.40	1.46		0.85

Source: Company, SIAS Research

- Higher revenue and lower depreciation costs (as the estimated useful life of forklifts and stackers were raised from 5 years to 5 to 10 years) caused gross profit to increase 16.2% to \$18.9m. Hence, gross margin improved by 1.7 percentage points from 24.9% to 26.6%.

- An exceptional \$0.5m recovery of accident claim and a \$0.3m exchange gain resulted in an \$0.9m increase in other income from \$1.3m to \$2.2m. In addition, tax expenses reduced by \$0.9m due to the release of deferred tax provision and lower income tax rate in certain countries.
- Hence, earnings jumped 72% to \$6.15m while net margins improved to 8.7% from 5.5% previously.
- Management has proposed a final dividend of 0.3 cent per share payable on 30 May 2008. This is in addition to the 0.3 cent (less tax) interim dividend paid in Sep 07.
- Healthy Balance Sheet:** Following the acquisition of Ming Fung in FY06, new investment in 50% stake of Shanghai Kongyun Warehousing and NEK Infinity Logistics Services Sdn Bhd increased investment in associated and joint venture companies by \$2.1m to \$2.3m.
- Eng Kong has granted convertible loans of RMB23m (or S\$4.7m) to Gold Prime Holdings Limited (GPHL) as partial payment for the proposed 30% acquisition of GPHL. These 2-year 6% loans are convertible at the option of Eng Kong into new preference shares of GPHL. However, GPHL will have to repay the loans (plus all accrued interest) within 7 calendar days from the date of shareholders' meeting should the acquisition be rejected.

- Cash and equivalents thus reduced by \$3.8m to \$13.8m following the investments and loans. As a result, current ratio declined from 2.6 to 2.2 while remained at net cash position.

Recent Developments and Outlook

- **Proposed Acquisition of Keyun:** The Group has proposed a 30% acquisition of GPHL for RMB63m, including RMB34.5m (19%) of ordinary shares and another RMB28.5m (11%) of preference shares which are convertible into ordinary shares. GPHL is an investment holding company with stakes in logistics companies that marketed primarily under the name Keyun (克运).
- Keyun Logistics Group, based in Tianjin, China, is a provider of a wide range of logistics services in China, including international freight forwarding, warehousing and inland transportation, container depot services as well as third-party logistics services. Besides a strong international network, Keyun's domestic network spans its primary market Tianjin, Beijing, Qingdao, Shanghai, Xian, Shijiazhuang, Xiamen, Shenzhen, Dalian, Ningbo, Taiyuan and Zhengzhou.
- Eng Kong will be able to exploit the growth potential in Tianjin and establish more cooperation through this synergistic partnership.

Valuation/Recommendation

- While the slow down in the US economy will reduce demand, trade volume will be moderated by growing trade volume between regional ports in Asia (such as Singapore and China) and other parts of the world. Hence, the container depot utilisation rates will likely to remain healthy in the region.
- The proposed 30% acquisition of Tianjin based logistics service provider (Keyun), and other JV in the region may contribute positively to FY08 results.
- With the policy to turn Singapore into a petrochemical hub and the few development projects for petrochemical and biofuel, management plans to service tank containers like tank cleaning and repairing services.
- For FY08, net profit is expected to increase 5% to \$6.5m, riding on a 3.6% growth in revenue to \$73.7m and positive contribution from Keyun.
- The sector PE for FY08 is 11.3 times. However, in view of volatility in oil price as well as weakening US economy and currency, we suggest a target PE of 9.5 times for Eng Kong and arrive at a fair value of 24 cents. At the current price of 17.5 cents, we maintain BUY recommendation. **(Koh Chin Lek)**

Company	Last Px (S\$)	PER(07)	PER(08)	ROE (%) (07)
COUGAR LOGISTICS CORPORATION	0.395	4.2	14.6	36.6
CWT LTD	0.840	12.6	8.4	20.3
ENG KONG HOLDINGS LTD	0.175	6.5	6.5	5.6
FREIGHT LINKS EXPRESS HLDGS	0.065	9.3	#N/A N.A.	14.9
GOODPACK LTD	1.580	15.0	15.7	22.5
POH TIONG CHOON LOGISTICS	0.215	6.5	#N/A N.A.	5.9
Average		9.0	11.3	17.6

Source: Bloomberg, SIAS Research

Financial Tables and Ratios

Year End Dec	FY06	FY06*	FY07	FY08F
Profit & Loss (\$m)				
Turnover	61.1	65.3	71.1	73.7
Gross Profit	15.9	16.3	18.9	19.1
Pretax	5.7	5.6	7.1	7.6
Earnings	3.1	3.6	6.2	6.5
EPS (weighted average – S cts)	1.5	1.7	2.7	2.7
EPS (fully diluted – S cts)	1.5	1.5	2.4	2.5
Balance Sheet (\$m)				
Long Term Assets	30.9	35.5	41.7	50.1
Current Assets	38.3	40.7	37.3	35.4
Current Liabilities	15.1	15.8	17.1	17.3
Long Term Liabilities	8.2	12.2	8.3	8.3
Total Equity	45.9	48.1	53.6	59.7
Cash Flow (\$m)				
Operating Cash Flow	6.7	5.8	7.8	8.9
Investing Cash Flow	-2.1	-5.3	-10.3	-10.5
Financing Cash Flow	-1.4	-1.2	-1.3	-1.0
Net Cash Increase/(Decrease)	3.2	-0.7	-3.8	-2.6
Cash & Equivalent	20.1	17.6	13.8	11.2
Financial Ratios				
Revenue Growth (%)	23.7	93.1	16.4	3.6
Gross Profit Growth (%)	14.7	91.2	19.1	1.0
Earnings Growth (%)	236.2	45.5	97.1	5.3
EPS Growth (%)	235.8	45.6	80.2	0.2
Gross Margin (%)	26.0	24.9	26.6	25.9
Net Margin (%)	5.1	5.5	8.7	8.8
Current Ratio (x)	2.5	2.6	2.2	2.0
Book value per share (S cts)	20.9	21.8	22.5	23.9
Net Cash/(Debt) per sh (S cts)	7.6	6.2	4.0	2.8
Net Debt / Equity (%)	Cash	Cash	Cash	Cash
Dividend per share (S cts)	0.5	0.2	0.5	0.6
Dividend payout ratio (%)	32.1	14.4	20.3	22.2
Return on Equity (%)	7.2	7.8	12.0	11.3
Return on Asset (%)	4.5	4.7	7.8	7.6
Return on Invested Capital (%)	6.4	7.1	11.1	10.5
Debtor Days	87.9	107.5	101.4	100.1
Creditor Days	106.1	103.8	92.0	94.9
Inventory Days	17.8	20.5	17.7	18.9
Cash Conversion Cycle	-0.4	24.2	27.1	24.1
Valuations				
Price to sales (x)	0.6	0.6	0.6	0.6
PER (x)	11.7	12.0	7.3	7.0
Price to book (x)	0.8	0.8	0.8	0.7
Dividend Yield (%)	2.7	1.4	3.1	3.4

Source: Company, SIASResearch

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About the Company

Eng Kong Holdings Limited is an established player in the region's logistics industry providing integrated container services such as storage, handling, transport, repair and maintenance of containers. The company also trades used containers, as well as surveys newly manufactured containers.

Price-Volume Chart



Source: Bloomberg

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