

Eng Kong Holdings

29 Aug 2008

Higher Revenue in 2H08

Snapshot		P&L				Key ratios (08F)	
Recommendation	Buy	(Y/E Dec)	FY06*	FY07	FY08F	PER	6.4x
Current Price	S\$0.16	Revenue (S\$m)	65.3	71.1	81.9	P/BV	0.7x
Target Price	S\$0.21	Gross Profit	16.3	18.9	21.8	Div Yield	3.8%
No of Shares	239.27m	Op Income	5.8	7.2	6.6	ROE	11.4%
Market Cap	S\$38.3m	Earnings	3.6	6.2	6.5	Net Gearing	Cash
Year Hi/Lo	S\$0.26/0.16	EPS (S cts)	1.5	2.4	2.5	Current Ratio	2.0x

Source: SIAS Research, Bloomberg

Note: The company changed its financial year end from 30 June to 31 Dec in 2006.

1H08 Results

S\$m	1H08	1H07	%Chg	2H07
Revenue	39.97	34.59	15.5	36.49
Gross profit	10.75	8.53	26.0	10.35
Earnings	3.14	2.17	44.8	3.98
Gr Margin	26.9%	24.7%		28.4%
Net Margin	7.9%	6.3%		10.9%
EPS (Cents)	1.24	0.85		0.85

Source: Company, SIAS Research

- Higher Revenue:** Revenue for 1H08 increased 15.5% (YoY) to \$40m with higher contribution from Container Depot Operation segment (increased by \$2.8m) as well as Container Sales, Agencies and Survey segment (increased by \$2.5m). Meanwhile, revenue from Warehousing and Container Freight Station segment was steady.
- Gross profit rose 26% to \$10.8m and gross margin improved 2.2 percentage-points due to higher revenue and lower depreciation costs (arising from the lengthening of estimated useful life for forklifts and stackers in 2007).
- Higher manpower costs and acquisition expenses for 30% stake in Gold Prime Holdings Limited (GPHL) caused a 34.3% increment in administrative expense to \$6m.
- On the other hand, income tax expense declined by \$0.3m due to over provision of prior years' tax. Hence, earnings rose 44.8% to \$3.1m while net margins improved 1.6 percentage points to 7.9% driven by higher revenue.

- On a QoQ basis, gross margin declined from 28.4% (in 2H07) to 26.9% driven by higher operating costs (due to inflation and fuel costs). In addition, missing of an exceptional \$0.5m recovery of accident claim as in 2H07 also caused net margin to decline by 3 percentage-points.

- Management has proposed an interim dividend of 0.3 cent per share to be paid on Sep 17.

Balance Sheet (S\$m)	Jun08	Dec07
Non-current Assets	52.54	41.67
Current Assets	33.40	37.35
Current Liabilities	19.26	17.10
Non-current Liabilities	12.03	8.34
Total Equity	54.64	53.57
Cash & Equivalent	11.18	13.82

Source: Company

- Higher Gearing:** Following the acquisition of 30% stake in GPHL, investment in associates increased by \$13m to \$13.3m. In addition, property, plant and equipment rose \$0.5m to \$28.2m due to new equipment installation-in-progress at a Singapore depot. As a result, non-current assets increased 26% to \$52.5m.
- The acquisition of GPHL also increased both current and non-current liabilities.
- Cash and equivalents reduced by \$2.6m to \$11.2m following acquisitions and loans. As a result, current ratio declined from 2.2 to 1.7. Gearing increased fairly sharply from 8.5% to 25.3%.

Recent Developments and Outlook

- **Completed Acquisition of Keyun:** Following the completion of the 30% acquisition at the end of June, GPLH has begun its contribution to Eng Kong from July 2008 onwards.
- GPLH is a Hong Kong based investment holding company with stakes in Tianjin based logistics companies that marketed primarily under the name Keyun (克运).
- Keyun Logistics Group provides 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.
- The external environment is expected to continue to be challenging.
- **Expansion Plans:** Despite slow down in the US economy, trading volume in Asia and Asean remain healthy. Eng Kong is expanding its container depot capacity in Malaysia and Thailand (with estimated capex of \$3m) to be operational by 4Q08. The Group will continue to explore opportunities for alliance to capitalise on its core competencies.

Valuation/Recommendation

- Asian economies will continue to grow but at a slower pace driven by strong demand from China and India. With established container depot operations in 14 cities around the Asia Pacific region to provide storage, handling, repairing and transportation services for empty containers, revenue will likely to improve.
- As a result of escalating steel price and thus higher trading activities for used containers, revenue from Container Sales, Agencies and Survey segment is also growing.
- New associate GPLH will contribute positively to FY08 results.
- However, profit margins will be affected by volatility in forex as well as operating costs such as transportation and utilities.
- Considering the first half results, we have raised the earning forecast of FY08 by 8.3% from \$6.0m to \$6.5m on a 15.2% increase in revenue to \$81.9m.
- We value the counter using PE of 8 times (against 10 times previously due to market sentiment) on the average of FY08 and FY09 EPS.
- We arrive at the fair value of 21 cents. At the current price of 16 cents, we recommend BUY. **(Koh Chin Lek)**

Company	Last Px (\$S)	PER(07)	PER(08)	Div Yld (%) (07)	ROE (%) (07)
CWT	0.640	11.2	4.3	3.1	20.3
COUGAR LOGISTICS	0.290	1.3	N.A.	74.1	103.9
ENG KONG	0.160	6.0	5.9	3.8	12.7
FREIGHT LINKS EXPRESS	0.060	6.8	N.A.	4.2	16.2
GOODPACK	1.370	15.0	12.2	2.2	22.5
SKY ONE	0.065	3.6	N.A.	0.0	N.A.
POH TIONG CHOON	0.200	6.0	N.A.	13.8	17.4
Average		7.1	7.5		32.2

Source: Bloomberg, SIAS Research

Financial Tables and Ratios

Year End Dec	FY06*	FY07	FY08F	FY09F
Profit & Loss (\$m)				
Turnover	65.3	71.1	81.9	86.7
Gross Profit	16.3	18.9	21.5	22.5
Op Income	5.8	7.2	6.8	6.7
Pretax	5.6	7.1	7.7	8.2
Earnings	3.6	6.2	6.5	7.0
EPS (weighted average – S cts)	1.7	2.7	2.7	2.7
EPS (fully diluted – S cts)	1.5	2.4	2.5	2.6
Balance Sheet (\$m)				
Long Term Assets	35.5	41.7	49.4	49.7
Current Assets	40.7	37.3	37.2	43.7
Current Liabilities	15.8	17.1	18.9	20.6
Long Term Liabilities	12.2	8.3	8.3	8.3
Total Equity	48.1	53.6	59.4	64.5
Cash Flow (\$m)				
Operating Cash Flow	5.8	7.8	8.6	12.3
Investing Cash Flow	-5.3	-10.3	-11.0	-4.8
Financing Cash Flow	-1.2	-1.3	-0.9	-1.3
Net Cash Increase/(Decrease)	-0.7	-3.8	-3.4	6.2
Cash & Equivalent	17.6	13.8	10.5	16.7
Financial Ratios				
Revenue Growth (%)	93.1	16.4	15.2	5.9
Gross Profit Growth (%)	91.2	19.1	13.9	4.8
Earnings Growth (%)	45.5	97.1	6.5	6.2
EPS Growth (%)	45.6	80.2	1.3	-2.0
Gross Margin (%)	24.9	26.6	26.3	26.0
Net Margin (%)	5.5	8.7	8.0	8.0
Current Ratio (x)	2.6	2.2	2.0	2.1
Book value per share (S cts)	21.8	22.5	23.8	23.9
Net Cash/(Debt) per sh (S cts)	6.2	4.0	2.4	4.6
Net Debt / Equity (%)	Cash	Cash	Cash	Cash
Dividend per share (S cts)	0.2	0.5	0.6	0.6
Dividend payout ratio (%)	14.4	20.3	22.0	22.4
Return on Equity (%)	7.8	12.0	11.5	11.2
Return on Asset (%)	4.7	7.8	7.6	7.4
Return on Invested Capital (%)	7.1	11.1	10.7	10.5
Debtor Days	107.5	101.4	100.1	94.6
Creditor Days	103.8	92.0	94.9	98.5
Inventory Days	20.5	17.7	18.0	19.0
Cash Conversion Cycle	24.2	27.1	23.2	15.0
Valuations				
Price to sales (x)	0.5	0.5	0.5	0.5
PER (x)	11.0	6.7	6.4	6.1
Price to book (x)	0.7	0.7	0.7	0.7
Dividend Yield (%)	1.5	3.4	3.8	3.8

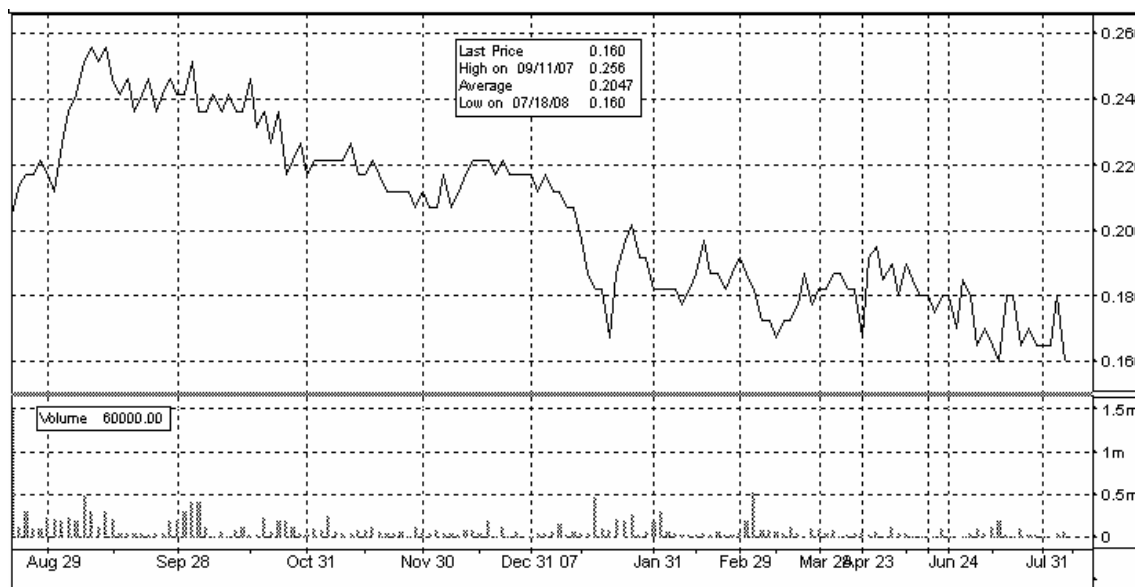
Source: Company, SIAS Research

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.

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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