

## Eng Kong Holdings

29 Sep 2008

### Disposal of Property

Snapshot		P&L				Key ratios (08F)	
Recommendation	Buy	(Y/E Dec)	FY07	FY08F	FY09F	PER	6.2x
Current Price	S\$0.155	Revenue (S\$m)	71.1	81.9	86.7	P/BV	0.7x
Target Price	S\$0.21	Gross Profit	18.9	21.5	22.5	Div Yield	3.9%
No of Shares	253.08m	Op Income	6.6	6.0	6.6	ROE	11.5%
Market Cap	S\$39.23m	Earnings	6.2	6.5	9.4	Net Gearing	Cash
Year Hi/Lo	S\$0.255/0.14	EPS (S cts)	2.4	2.5	3.5	Current Ratio	2.0x

Source: SIAS Research, Bloomberg

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

### Recent Developments and Outlook

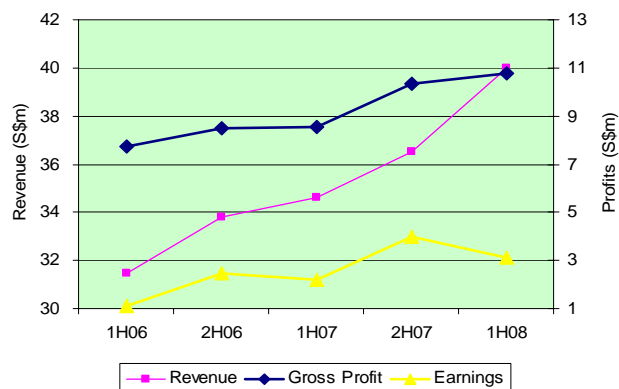
- Established Logistics Player:** Eng Kong Holdings is an established player in the logistics industry providing integrated container services such as storage, handling, transport, repair and maintenance of containers. The company also trades used containers, as well as surveys newly manufactured containers. Main customers include shipping lines, container leasing companies and freight forwarding companies.

Business	Services
Container Depot operations	storage and handling, repair and transportation services for empty containers
Warehousing and Container Freight Station	stuffing and unstuffing of outbound and inbound general cargo, warehousing of cargo which require long term storage and rental income from warehouse
Container Sales, Agencies and Survey	trading of used containers, acting as container leasing agents and inspection of new containers
Others	rental income from properties and treasury activities

Source: Company

- Container Depot Operations, contributing about 79.3% of revenue, is the largest segment. Based in Singapore, Eng Kong operates 23 container depots in Singapore, Malaysia, Thailand, Hong Kong SAR, China, Taiwan and Vietnam, with a total land area of over 450,000 square meters and supported by over 500 staffs.

- Continuing Expansion:** Revenue and earnings grew in the last few years following its expansion in services and footprint and the company continues to do so.



Source: Company, SIAS Research

- The 30% acquisition of Gold Prime Holdings Limited, an investment holding company with stakes in Tianjin based logistics service provider Keyun Logistics Group, for RMB63m was completed in end June 2008. Hence, it has begun contribution in 2H08.
- Currently, 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.

- **Disposal of Asset:** Eng Kong Tech Park Pte Ltd, a wholly-owned subsidiary, has proposed to sell a property to Maxima Investments Pte Ltd for a cash consideration of S\$14m. Gain from this disposal will be about S\$3m and the net proceeds of S\$13m (after payment of outstanding loan for this property of S\$0.8m and estimated expenses of S\$0.2m) will be used for working capital and funding requirements.
- This 14,662 square meters, 60 year-leasehold land (to be expired on 17 August 2053) is located at 43 Tech Park Crescent Singapore. It has been leased out as container depot for about S\$1m per year including a 4-storey office/warehouse building with built-up area of 5,374 square meters.
- This disposal is pending approvals within 16 weeks from the date of the agreement (i.e. 22 Sep 2008), and to be completed within 12 weeks from the date of the agreement or 3 weeks after the last approval. Nevertheless, as this property is a non-core asset and is not utilised for its main business, Eng Kong is seeking waiver for shareholders' approval from SGX.
- This disposal should be completed either late this year or early 2009.

- **Challenging Environment:** While Asian economies will continue to grow driven by demand from China and India, the sub-prime and financial crises have dampened economy growth and consumer confidence. It may also result in credit crunch that add constraint to business expansion.
- On the bright side, revenue from Container Sales, Agencies and Survey segment should continue to grow due to higher trading activities for used containers. The recent acquisition of Gold Prime Holdings Limited and container port expansion in Thailand and Malaysia will also help to improve results.

#### Valuation/Recommendation

- Based on the assumption that the disposal of land will be completed in early 2009, we have raised the earning forecast of FY09 by about S\$3m in view of the disposal gain while maintaining FY08 forecasts.
- We value the counter using PE of 7 times (against 8 times previously due to cautious market sentiment) on the average of FY08 (2.5 cents) and FY09 EPS (3.5 cents).
- We value the counter at 21 cents and maintain our BUY recommendation. **(Koh Chin Lek)**

Company	Last Px (\$)	PER(07)	PER(08)	Div Yld (%) (07)	ROE (%) (07)
CWT	0.515	9.0	3.4	3.9	20.3
COUGAR LOGISTICS	0.245	1.1	N.A.	10.2	103.9
ENG KONG	0.150	5.6	5.6	4.0	12.7
FREIGHT LINKS EXPRESS	0.050	N.A.	N.A.	5.0	16.2
GOODPACK	1.400	12.7	12.5	2.1	19.8
SKY ONE	0.090	5.0	6.2	1.6	N.A.
POH TIONG CHOON	0.160	4.8	N.A.	12.5	17.4
<b>Average</b>		<b>6.4</b>	<b>6.9</b>		<b>31.7</b>

Source: Bloomberg, SIAS Research as at 26 Sep 2008

### Financial Tables and Ratios

Year End Dec	FY06*	FY07	FY08F	FY09F
<b>Profit &amp; Loss (\$m)</b>				
Turnover	65.3	71.1	81.9	86.7
Gross Profit	16.3	18.9	21.5	22.5
Op Income	5.5	6.6	6.0	6.6
Pretax	5.6	7.1	7.7	11.2
Earnings	3.6	6.2	6.5	9.4
EPS (weighted average – S cts)	1.7	2.7	2.6	3.6
EPS (fully diluted – S cts)	1.5	2.4	2.5	3.5
<b>Balance Sheet (\$m)</b>				
Long Term Assets	35.5	41.7	49.4	39.7
Current Assets	40.7	37.3	37.1	56.6
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	59.3	67.4
<b>Cash Flow (\$m)</b>				
Operating Cash Flow	5.8	7.8	8.6	12.3
Investing Cash Flow	-5.3	-10.3	-11.0	8.2
Financing Cash Flow	-1.2	-1.3	-1.0	-1.3
Net Cash Increase/(Decrease)	-0.7	-3.8	-3.4	19.2
Cash & Equivalent	17.6	13.8	10.4	29.6
<b>Financial Ratios</b>				
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	43.3
EPS Growth (%)	45.6	80.2	-4.6	40.5
Gross Margin (%)	24.9	26.6	26.3	26.0
Net Margin (%)	5.5	8.7	8.0	10.8
Current Ratio (x)	2.6	2.2	2.0	2.8
Book value per share (S cts)	21.8	22.5	22.4	25.0
Net Cash/(Debt) per sh (S cts)	6.2	4.0	2.3	9.6
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	23.4	16.6
Return on Equity (%)	7.8	12.0	11.5	14.4
Return on Asset (%)	4.7	7.8	7.6	9.7
Return on Invested Capital (%)	7.1	11.1	10.7	13.6
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
<b>Valuations</b>				
Price to sales (x)	0.5	0.5	0.5	0.5
PER (x)	10.6	6.5	6.2	4.4
Price to book (x)	0.7	0.7	0.7	0.6
Dividend Yield (%)	1.6	3.5	3.9	3.9

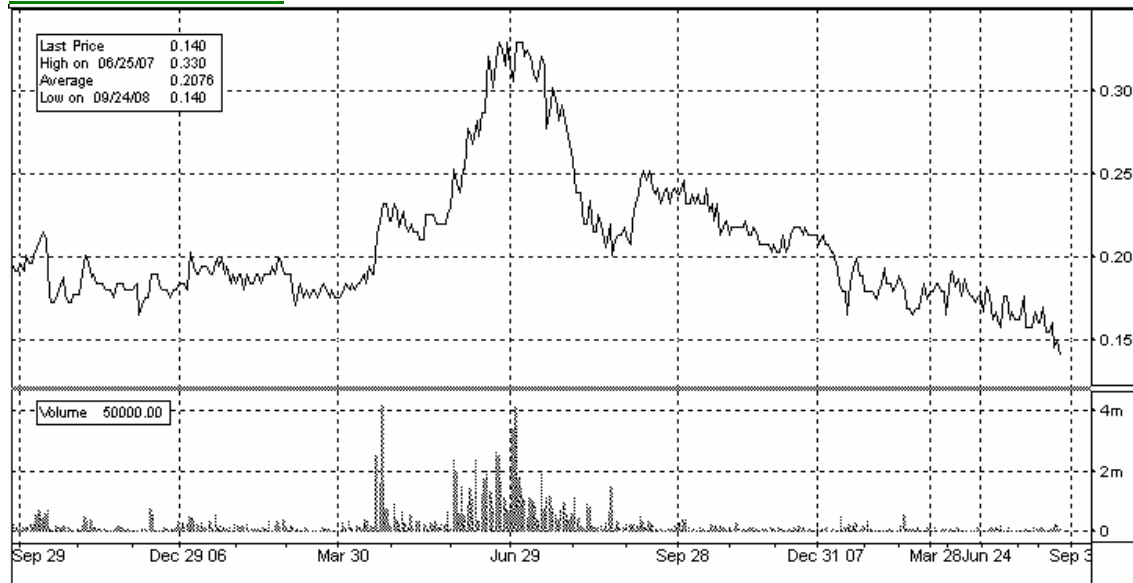
Source: Company, SIAS Research

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

### SGX Research Incentive Scheme

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