

Singapore Company Focus

Eng Kong

Bloomberg: ENGK SP | Reuters: ENGK.SI

DBS Group Research . Equity

8 May 2009

HOLD S\$0.135 STI : 2,241.60

Price Target : 12-Month S\$ 0.15 (Prev S\$ 0.12)

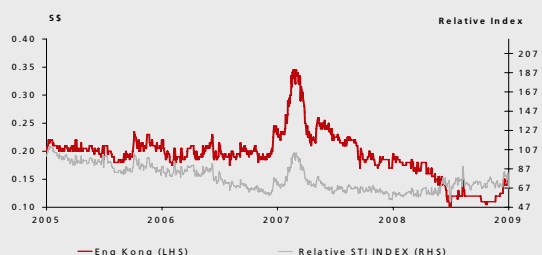
Reason for Report : Company update

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	87.8	91.1
EBITDA	10.6	9.7	11.4	11.7
Pre-tax Profit	7.1	9.4	7.0	7.0
Net Profit	6.2	9.4	6.1	6.2
Net Pft (Pre Ex.)	6.2	5.7	6.1	6.2
EPS (S cts)	2.6	3.7	2.4	2.4
EPS Pre Ex. (S cts)	2.6	2.2	2.4	2.4
EPS Gth Pre Ex (%)	(3)	(13)	9	0
Diluted EPS (S cts)	2.3	3.5	2.3	2.3
Net DPS (S cts)	0.5	1.2	0.8	0.8
BVPer Share (S cts)	21.5	23.8	25.0	26.6
PE (X)	5.2	3.6	5.6	5.5
PE Pre Ex. (X)	5.2	6.0	5.6	5.5
P/Cash Flow (X)	3.3	2.9	4.0	4.0
EV/EBITDA (X)	2.4	2.5	2.8	2.6
Net Div Yield (%)	3.6	8.9	5.8	5.8
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.7	16.8	10.0	9.4

Earnings Rev (%): 17.1 28.1
Consensus EPS (S cts): 3.5 N/A

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

Beneficiary of slower trade

- **Eng Kong continues to benefit from weak trade volumes**
- **Raising FY09/10 earnings forecasts to factor in higher utilization and expanded capacity**
- **Maintain HOLD, with fair value raised to S\$0.15**

Benefiting from slower container trade volumes.

Eng Kong is expected to continue to benefit from the higher demand for container storage services on the back of the current global slump in container shipping volume. Indeed, while the group has expanded its storage capacity across its regional yards by around 10% over the first few months of the year, yard utilization rates have also improved overall, as container storage space is snapped up by its customers.

Raising earnings forecast. We have raised our FY09/10 earnings forecasts by 17-28% as we factor in contributions from Eng Kong's expanded container storage capacity across the region, namely, Singapore, Malaysia, Thailand and China, as well as higher yard utilization rates as container turnover is expected to remain subdued over the near to medium term.

Maintain HOLD, TP raised to S\$0.15. Eng Kong's fair value has been raised upwards to S\$0.15 (prev S\$0.12) based on 6x FY09 PE (prev 4x blended FY08/09 PE) as we view that equity risk premiums would normalize upwards. Downside to share price continues to be limited by the group's net cash per share of 4.8 Scts. Maintain HOLD.

At A Glance

Issued Capital (m shrs)	257
Mkt. Cap (S\$m/US\$m)	34.7 / 23.6
Major Shareholders	
Li Hung (%)	32.9
Ng Kam Ming (%)	28.8
Wai Kuen Leung (%)	6.0
Free Float (%)	32.3
Avg. Daily Vol. ('000)	33

Eng Kong

Income Statement (\$\$ m)

FY Dec	2007A	2008A	2009F	2010F
Turnover	71.1	81.7	87.8	91.1
Cost of Goods Sold	(52.2)	(60.9)	(65.8)	(68.2)
Gross Profit	18.9	20.8	21.9	22.9
Other Opg (Exp)/Inc	(12.0)	(15.9)	(17.0)	(17.6)
Operating Profit	6.8	4.9	5.0	5.3
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	(0.2)
Exceptional Gain/(Loss)	0.0	3.7	0.0	0.0
Pre-tax Profit	7.1	9.4	7.0	7.0
Tax	(1.2)	(0.3)	(1.0)	(1.1)
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	6.1	6.2
Net profit before Except.	6.2	5.7	6.1	6.2
EBITDA	10.6	9.7	11.4	11.7
Sales Gth (%)	(25.1)	14.9	7.5	3.8
EBITDA Gth (%)	(23.7)	(8.2)	17.6	2.3
Opg Profit Gth (%)	(15.7)	(27.7)	1.0	5.3
Net Profit Gth (%)	10.2	52.3	(34.5)	0.4
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	7.0	7.0
Dep. & Amort.	3.6	3.7	4.4	4.4
Tax Paid	(0.8)	(2.2)	(1.2)	(1.0)
Assoc. & JV Inc/(loss)	(0.1)	(1.1)	(2.0)	(2.0)
Non-Cash Wkg.Cap.	(0.5)	(1.0)	(9.6)	(0.7)
Other Operating CF	(1.5)	(0.8)	0.0	0.0
Net Operating CF	7.8	8.1	(1.4)	7.7
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)	(2.0)
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)	(2.0)
Net Cashflow	(3.8)	10.5	(8.4)	1.7

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	15.9	17.6
Inventory	2.7	3.6	4.8	5.0
Debtors	13.7	19.9	26.7	27.7
Other Current Assets	7.1	1.8	1.8	1.8
Total Assets	79.0	93.5	94.7	99.1
ST Debt	1.1	5.7	5.7	5.7
Other Current Liab	16.0	15.9	14.2	14.8
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	63.2	67.4
Minority Interests	2.3	2.0	1.8	1.6
Total Cap. & Liab.	79.0	93.5	94.7	99.1
Non-Cash Wkg. Cap	7.5	9.3	19.1	19.8
Net Cash/(Debt)	9.2	12.1	3.7	5.4

Rates & Ratio

FY Dec	2007A	2008A	2009F	2010F
Gross Margins (%)	26.6	25.5	25.0	25.1
Opg Profit Margin (%)	9.6	6.1	5.7	5.8
Net Profit Margin (%)	8.7	11.5	7.0	6.8
ROAE (%)	12.7	16.8	10.0	9.4
ROA (%)	7.9	10.9	6.5	6.4
ROCE (%)	9.2	6.8	5.4	5.4
Div Payout Ratio (%)	18.9	32.4	32.4	32.4
Net Interest Cover (x)	NM	15.7	404.1	21.1
Asset Turnover (x)	0.9	0.9	0.9	0.9
Debtors Turn (avg days)	76.9	75.1	96.9	109.1
Creditors Turn (avg days)	70.2	91.5	83.0	77.0
Inventory Turn (avg days)	20.6	20.1	24.8	27.9
Current Ratio (x)	2.2	2.3	2.5	2.6
Quick Ratio (x)	1.6	2.0	2.1	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	(0.2)	(0.2)	(0.1)	(0.1)
Capex to Debt (%)	83.8	(53.6)	32.8	32.8
N. Cash/(Debt)/PS (S cts)	3.9	4.8	1.5	2.2
Opg CFPS (S cts)	3.5	3.6	3.3	3.3
Free CFPS (S cts)	1.7	5.8	(2.1)	1.5

Segmental Breakdown

FY Dec	2007A	2008A	2009F	2010F
Revenues (\$\$m)				
Container Depot	56.3	62.6	72.6	75.6
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	87.8	91.1
Operating Profit (\$\$m)				
Container Depot	5.7	4.9	5.8	6.1
Warehousing and	1.5	1.3	1.2	1.2
Container Sales, agencies	1.2	1.6	1.0	1.1
Others	(1.6)	(2.9)	(3.1)	(3.1)
Total	6.8	4.9	5.0	5.3
Operating Profit Margins				
Container Depot	10.1	7.8	8.0	8.0
Warehousing and	22.0	18.0	17.0	17.0
Container Sales, agencies	15.9	13.6	13.0	13.0
Others	nm	nm	nm	nm
Total	9.6	6.1	5.7	5.8

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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