

26 September 2006

Update

ENG KONG HOLDINGS

On an Acquisition Trail

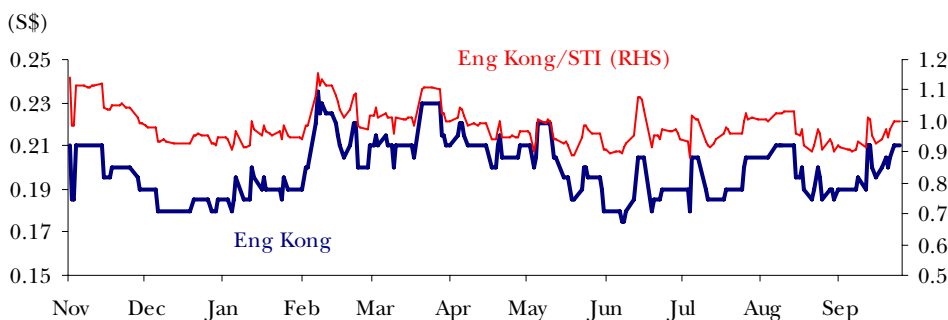
HOLD | S\$0.21

FY06 results were better than expected. Higher turnover from Container Depot operation was attributable to better utilisation rates and increased depot area. Eng Kong is riding on increased shipping traffic activities and higher container volume at the ports in the Asia Pacific region.

Looking for acquisition targets. There is no special dividend for this year and management has signalled the intention to utilise the excess cash reserves. The company is looking for acquisition targets in related business to boost their earnings growth potential, much like the Reefer acquisition.

Warrant issue. Eng Kong is issuing one warrant at S\$0.01 for every four shares held. The exercise price is \$0.05 and the warrant can be exercised within three years from the date of issue. At the current share price, the warrant is deep in the money and we expect them to be fully taken up by shareholders.

Outlook and valuation. FY07 profit would be boosted by the Reefer acquisition. Currently trading at 9.2x FY07 PE or 11.8x on a fully diluted basis, Eng Kong's valuation is not really attractive compared to larger players in the sector which trade on low valuation metrics. Current valuation is supported by its cash of 9.6 cents/share. Without that or any sustainable growth drivers, we believe upside for the stock is limited. Maintain HOLD and entry price of S\$0.19.



Sector Transport
 Bloomberg ENGK SP
 Website www.engkong.com

Exchange Rate S\$1.5864/US\$

52-Wk Range (S\$) 0.245/0.17
 52-Wk Avg Daily Vol. ('000) 83

No. of Shares (m) 208.9
 Market Cap (S\$m) 43.9
 (US\$m) 27.6

Major Shareholders (%)
 Li Hung 32.3
 Ng Kam Ming 28.3

Book NTA per Share (S\$) 0.20
 ROE (%) 7.3
 Net Cash per Share (S\$) 0.08

Alternate Instruments
 Nil

Results Due
 1Q: n.a. 1H: Feb
 3Q: n.a. Final: Aug

Market PE - STI (x)
 2005 12.6
 2006F 14.4

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Year to 30 June	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS* (¢)
2005	49.4	8.1	0.9	0.5	(84.6)	46.7	3.7	2.6
2006	61.1	9.3	3.1	1.5	231.1	14.1	3.2	0.6
2007F	75.8	10.0	4.5	2.2	45.4	9.7	3.0	0.6
2008F	81.7	10.7	5.0	2.4	11.1	8.7	2.8	0.6
2009F	86.2	11.1	5.3	2.5	4.8	8.3	2.7	0.6

Consensus net profit – n.a.

* Includes special dividend 2 cents for FY05

Figure 1: FY06 Results Review

Year to 30 Jun (\$m)	2005	2006	yoy % chg
Revenue	49.39	61.08	23.7
Cost of sales	(35.45)	(45.22)	27.6
Gross Profit	13.94	15.85	13.7
Other revenue	1.22	0.76	(37.5)
Selling & distribution expenses	(2.05)	(2.08)	1.4
Administrative expenses	(7.10)	(8.39)	18.2
Other operating expenses	(1.04)	(0.32)	(69.6)
Total operating expenses	(10.19)	(10.78)	5.8
Operating Profit	4.97	5.83	17.2
Finance income	0.00	0.00	0
Finance costs	(0.11)	(0.13)	17.7
Associate income	(0.07)	(0.04)	(40.8)
Pretax profit	4.79	5.66	18.1
Tax payable	(3.55)	(2.58)	(27.5)
Minorities	(0.18)	0.04	(123.8)
Net Profit	1.06	3.12	195.7
Gross profit margin	28.2	26.0	(2.3)
Operating profit margin	10.1	9.5	(0.5)
Effective tax rate (%)	74.2	45.6	28.6
Net profit margin	2.1	5.1	3.0

Source: Eng Kong, UOB Kay Hian

Figure 2: Revenue By Segment

	2005	2006	yoy % chg
Container depot	37.8	48.9	29.3
Warehousing & CFS	5.8	6.3	7.8
Container sales agencies & survey	5.7	5.8	2.6
Others	0.0	0.0	0.0
Total	49.4	61.1	23.7

Source: Eng Kong, UOB Kay Hian

Figure 3: Operating Statistics

	2005	2006	yoy % chg
Land area of depot at year end (square metre)	350,000	450,000	28.6
Average utilisation (%)	<60	80	20

Source: Eng Kong, UOB Kay Hian

Figure 4: Peer Valuation

Name	Price @ 25 Sep 06	Local Curr	Market Cap (\$m)		PE			PB (x)
					(LC)	(US\$)	Historical (x)	
Evergreen International Stor	15.55	NT\$	16,594.0	504.1	12.4	n.a.	n.a.	0.9
Wan Hai Lines Limited	18.10	NT\$	37,233.4	1,131.1	6.8	9.1	14.2	1.2
Shan-loong Transportation Co	12.10	NT\$	1,022.3	31.1	7.2	n.a.	n.a.	0.7
Taiwan Allied Container Term	9.98	NT\$	718.6	21.8	15.6	n.a.	n.a.	0.7
Eng Kong Holdings Ltd	0.21	S\$	43.9	27.7	14.1	9.5	8.1	1.0

Source: Eng Kong, UOB Kay Hian

Figure 5: Profit & Loss

Year to 30 Jun (\$m)	2005	2006	2007F	2008F	2009F
Turnover	49.4	61.1	75.8	81.7	86.2
Container Depot Operations	37.8	48.9	63.6	70.0	74.9
Warehousing & CFS	5.8	6.3	6.3	6.0	5.8
Container Sales, Agencies, Surveys	5.7	5.8	5.8	5.6	5.5
Others	0.0	0.0	0.0	0.1	0.1
Cost of Sales	(35.5)	(45.2)	(54.4)	(58.4)	(61.6)
Distribution Costs	(2.0)	(2.1)	(3.3)	(3.5)	(3.7)
Administrative Costs	(7.1)	(8.4)	(10.6)	(11.4)	(12.1)
Other Operating Expenses	(1.0)	(0.3)	(2.0)	(2.2)	(2.3)
EBITDA	8.1	9.3	9.9	11.4	11.8
Depreciation & Amortisation	(3.2)	(3.5)	(3.4)	(4.3)	(4.3)
Operating Profit	4.9	5.8	6.5	7.2	7.5
Interest Income	0.0	0.0	0.1	0.1	0.1
Interest Expense	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Others Including Exceptionals	0.0	0.0	0.0	0.0	0.0
Gains from Disposals	0.0	0.0	0.0	0.0	0.0
Forex Gain/ (Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.8	5.7	6.4	7.1	7.5
Taxation	(3.6)	(2.6)	(1.9)	(2.1)	(2.2)
Minorities	(0.2)	0.0	0.0	0.0	0.1
Net Profit	1.1	3.1	4.5	5.0	5.3
EPS (cents)	0.5	1.5	2.2	2.4	2.5
Diluted EPS (cents)	0.5	1.5	1.8	2.0	2.1
DPS (cents)	2.6	0.6	0.6	0.6	0.6

Source: Eng Kong, UOB Kay Hian

Figure 6: Balance Sheet

Year to 30 Jun (\$m)	2005	2006F	2007F	2008F	2009F
Current Assets	33.5	38.3	34.8	39.3	43.6
Prepayments, Deposits, Other Receivables	0.1	0.2	1.1	1.2	1.5
Inventories	2.1	2.3	2.9	3.3	3.7
Trade Receivables	12.6	15.6	18.9	20.4	21.5
Cash & Equivalents	18.8	20.1	11.9	14.4	16.8
Non-Current Assets	28.0	30.8	38.0	38.1	38.4
Fixed Assets	25.4	28.3	35.4	35.7	35.9
Intangible Assets	1.2	1.1	1.0	0.9	0.9
Others	1.5	1.4	1.6	1.6	1.6
Total Assets	61.5	69.2	72.8	77.4	81.9
Current Liabilities	12.3	15.1	16.7	18.1	19.1
Interest Bearing Loans	0.6	0.7	0.1	0.1	0.1
Trade Payables	11.3	13.1	15.2	16.3	17.2
Other Payables And Accruals	0.0	0.0	0.0	0.0	0.0
Due To Related Companies	0.0	0.0	0.0	1.0	1.0
Tax Payables	0.4	1.2	1.4	1.6	1.7
Non-current Liabilities	5.0	8.2	7.5	7.1	6.6
Interest Bearing Bank Loans	1.5	3.6	3.1	3.1	3.1
Others	3.6	4.7	4.4	4.0	3.5
Minority Interests	1.9	1.9	2.0	2.0	2.0
Shareholders' Funds	42.2	43.9	46.6	50.3	54.3
Total Equity & Liabilities	61.5	69.2	72.8	77.4	81.9

Source: Eng Kong, UOB Kay Hian

Figure 7: Cash Flow

As at 30 Jun (\$\$ m)	2005	2006F	2007F	2008F	2009F
Operating Cash Flow	5.0	6.4	5.2	8.4	8.5
Pre-tax Profit	4.8	5.7	6.4	7.1	7.5
Depreciation	3.2	3.5	3.4	4.3	4.3
Working Capital Changes	(2.7)	(2.2)	(1.9)	(0.8)	(0.7)
Income Tax Paid	(0.3)	(0.6)	(2.6)	(2.2)	(2.6)
Investing	(2.9)	(1.7)	(10.4)	(4.4)	(4.4)
Capex	(4.0)	(4.3)	(4.5)	(4.5)	(4.5)
Proceeds from Fixed Asset Disposals	3.6	3.2	0.0	0.0	0.0
Interest Received	0.1	0.3	0.1	0.1	0.1
Others	(2.7)	(1.0)	(6.0)	0.0	0.0
Financing	(5.6)	(2.1)	(3.0)	(1.6)	(1.6)
Share Issue	0.1	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Loan Repayment	(0.8)	(0.6)	(0.6)	0.0	0.0
Dividends Paid	(5.5)	(1.5)	(1.6)	(1.6)	(1.6)
Others	0.6	0.0	(0.9)	0.0	0.0
Net Cash Inflow/(Outflow)	(3.5)	2.6	(8.2)	2.4	2.5
Cash & Cash Equivalent at Start of Year	20.4	16.9	20.1	11.9	14.4
Cash & Cash Equivalent at End of Year	16.9	19.5	11.9	14.4	16.8

Source: Eng Kong, UOB Kay Hian

Figure 8: Ratios

Year to 30 Jun (%)	2004	2005	2006F	2007F	2008F
Growth					
Sales	11.5	7.3	23.7	24.0	7.8
EBITDA	51.4	(19.2)	14.9	6.0	15.4
Pretax profit	80.2	(27.7)	18.1	13.1	11.1
Net profit	93.2	(82.3)	195.7	44.9	11.1
EPS	87.5	(82.6)	195.7	44.9	11.1
Profitability					
Gross profit margin	29.9	28.2	26.0	28.2	28.5
EBITDA margin	21.8	16.4	15.3	13.1	14.0
Pretax margin	14.4	9.7	9.3	8.4	8.7
Net margin	13.0	2.1	5.1	6.0	6.2
ROA	9.9	1.7	4.5	6.2	6.5
ROE	12.9	2.5	7.1	9.7	10.0
Leverage					
LT Debt/Equity	4.4	3.4	7.2	6.4	6.0
Total Debt/Total Assets	4.8	3.4	6.2	4.4	4.1
Total Debt/Equity	6.1	4.7	9.3	6.6	6.1
Net Debt (Cash)/Equity	(6.0)	(12.6)	(22.5)	(7.9)	(12.0)
Interest Cover (x)	45.0	42.4	42.5	28.9	38.5
Working Capital Management (Days)					
Debtors' turnover	56	93	93	91	91
Creditors' turnover	29	83	79	73	73
Inventory turnover	10	15	14	14	15

Source: Eng Kong, UOB Kay Hian

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