

31 October 2006

Update

ENG KONG HOLDINGS

Acquires A 30% Stake In A China Logistic Company

HOLD | S\$0.185

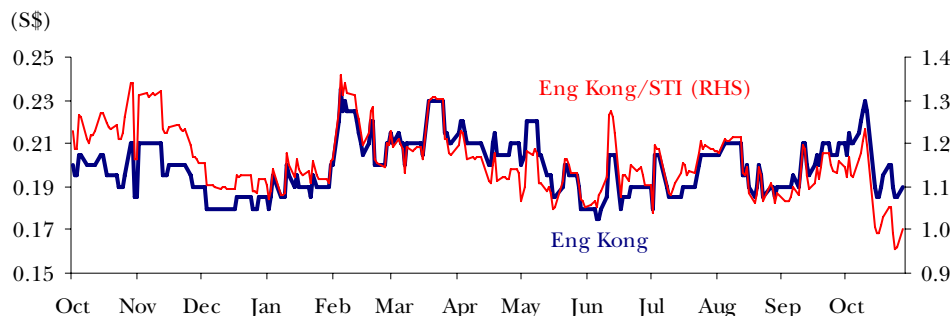
**The Acquisition.** Eng Kong is acquiring a 30% interest in Gold Prime Holdings Limited (Gold Prime). The acquisition would be undertaken in the following manner:

- a) Issue of redeemable convertible preference share (RCPS) to Eng Kong for Rmb28.5m, and b) Acquisition of vendor shares for Rmb34.5m, representing a 19% interest in Gold Prime.

Gold Prime is an investment holding company with operations, based in Tianjin, that provides logistic services under the name "Keyun". Based on the target of a cumulative profit of Rmb60m for 2007 and 2008, the acquisition is valued at an average PE of 7x. This is a fair price for a private company in China. Eng Kong is not acquiring control of Gold Prime. As Gold Prime will not be an associated company before the RCPS are exercised, Eng Kong cannot equity account for Gold Prime's earnings and can only recognise dividend income from Gold Prime.

**Outlook.** Eng Kong is putting its excess cash into good use by making this strategic acquisition in a related business. In addition, we believe Eng Kong should be able to derive some synergistic benefits from the acquisition at the operational level and this could eventually result in higher revenue or cost savings.

**Valuation.** We have raised our earnings forecast assuming that the acquisition will be completed. Based on our revised forecast, Eng Kong trades at 7.9x FY07 PE, or 9.7x on a fully-diluted basis, in line with its peers'. While valuation is now less demanding, we prefer to see some earnings flow from the acquisition before we upgrade our recommendation. Maintain HOLD.



<b>Sector</b>	Transport
<b>Bloomberg</b>	ENGK SP
<b>Website</b>	www.engkong.com
<b>Exchange Rate</b>	S\$1.5615/US\$
<b>52-Wk Range (S\$)</b>	0.245/0.17
<b>52-Wk Avg Daily Vol. ('000)</b>	106
<b>No. of Shares (m)</b>	209.1
<b>Market Cap (S\$m)</b>	38.7
<b>(US\$m)</b>	24.8
<b>Major Shareholders (%)</b>	
Li Hung	32.2
Ng Kam Ming	28.3
<b>Book NTA per Share (S\$)</b>	0.20
<b>ROE (%)</b>	7.3
<b>Net Cash per Share (S\$)</b>	0.08
<b>Alternative Instruments</b>	Nil
<b>Results Due</b>	
1Q: n.a.	1H: Feb
3Q: n.a.	Final: Aug
<b>Market PE - STI (x)</b>	
2005	13.4
2006F	15.1
<b>Analyst:</b>	
Chong Mean Phil, CFA	
☎ (65) 6539 1845	
✉ meanphil@uobkayhian.com	

Year to 30 Jun	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)	41.1	3.0	2.6
2006	61.1	9.3	3.1	1.5	231.1	12.4	2.6	0.6
2007F	75.8	10.4	4.9	2.3	56.5	7.9	2.4	0.6
2008F	81.7	13.2	6.2	3.0	27.6	6.2	1.9	0.6
2009F	86.2	13.6	6.4	3.1	4.2	6.0	1.8	0.6

Consensus net profit – n.a.

\* Includes special dividend 2 cents for FY05

**Figure 1: Profit & Loss**

Year to 30 Jun (\$m)	2005	2006	2007F	2008F	2009F
<b>Turnover</b>	<b>49.4</b>	<b>61.1</b>	<b>75.8</b>	<b>81.7</b>	<b>86.2</b>
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	10.4	13.2	13.6
Depreciation & Amortisation	(3.2)	(3.5)	(3.4)	(4.3)	(4.3)
Operating Profit	4.9	5.8	7.0	9.0	9.3
Interest Income	0.0	0.0	0.1	0.1	0.1
Interest Expense	(0.1)	(0.1)	(0.2)	(0.3)	(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
<b>Pre-tax Profit</b>	<b>4.8</b>	<b>5.7</b>	<b>6.9</b>	<b>8.8</b>	<b>9.2</b>
Taxation	(3.6)	(2.6)	(2.1)	(2.6)	(2.8)
Minorities	(0.2)	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1.1</b>	<b>3.1</b>	<b>4.9</b>	<b>6.2</b>	<b>6.4</b>
EPS (cents)	0.5	1.5	2.3	3.0	3.1
Diluted EPS (cents)	0.5	1.5	1.9	2.4	2.5
DPS (cents)	2.6	0.6	0.6	0.6	0.6

Source: Eng Kong, UOB Kay Hian

**Figure 2: Balance Sheet**

As at 30 Jun (\$m)	2005	2006	2007F	2008F	2009F
<b>Current Assets</b>	<b>33.5</b>	<b>38.3</b>	<b>24.3</b>	<b>29.7</b>	<b>35.2</b>
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	1.4	4.7	8.4
<b>Non-Current Assets</b>	<b>28.0</b>	<b>30.8</b>	<b>50.6</b>	<b>50.7</b>	<b>51.0</b>
Fixed Assets	25.4	28.3	35.4	35.7	35.9
Intangible Assets	1.2	1.1	9.9	9.8	9.8
Others	1.5	1.4	5.3	5.3	5.3
<b>Total Assets</b>	<b>61.5</b>	<b>69.2</b>	<b>74.9</b>	<b>80.4</b>	<b>86.1</b>
<b>Current Liabilities</b>	<b>12.3</b>	<b>15.1</b>	<b>17.0</b>	<b>18.5</b>	<b>19.5</b>
Interest Bearing Loans	0.6	0.7	0.3	0.2	0.2
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	1.6	2.0	2.1
<b>Non-current Liabilities</b>	<b>5.0</b>	<b>8.2</b>	<b>9.0</b>	<b>8.1</b>	<b>7.6</b>
Interest Bearing Bank Loans	1.5	3.6	4.6	4.1	4.1
Others	3.6	4.7	4.4	4.0	3.5
Minority Interests	1.9	1.9	2.0	2.0	2.0
<b>Shareholders' Funds</b>	<b>42.2</b>	<b>43.9</b>	<b>47.0</b>	<b>51.9</b>	<b>57.1</b>
<b>Total Equity &amp; Liabilities</b>	<b>61.5</b>	<b>69.2</b>	<b>74.9</b>	<b>80.4</b>	<b>86.1</b>

Source: Eng Kong, UOB Kay Hian

Figure 3: Cash Flow

Year to 30 Jun (\$m)	2005	2006	2007F	2008F	2009F
<b>Operating</b>	<b>5.0</b>	<b>6.7</b>	<b>5.9</b>	<b>10.3</b>	<b>9.7</b>
Pretax Profit	4.8	5.7	6.9	8.8	9.2
Depreciation	3.2	3.5	3.4	4.3	4.3
Working Capital Changes	(2.7)	(1.9)	(1.9)	(0.8)	(0.7)
Income Tax Paid	(0.3)	(0.6)	(2.5)	(2.0)	(3.1)
<b>Investing</b>	<b>(2.9)</b>	<b>(2.0)</b>	<b>(23.0)</b>	<b>(4.4)</b>	<b>(4.4)</b>
Capex	(4.0)	(4.3)	(4.5)	(4.5)	(4.5)
Proceeds from Fixed Asset Disposals	3.6	2.8	0.0	0.0	0.0
Interest Received	0.1	0.3	0.1	0.1	0.1
Others	(2.7)	(0.8)	(18.6)	0.0	0.0
<b>Financing</b>	<b>(5.6)</b>	<b>(1.4)</b>	<b>(1.5)</b>	<b>(2.6)</b>	<b>(1.6)</b>
Share Issue	0.1	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	(0.5)	0.0
Loan Repayment	(0.8)	(0.6)	0.9	(0.5)	0.0
Dividends Paid	(5.5)	(1.5)	(1.6)	(1.6)	(1.6)
Others	0.6	0.7	(0.9)	0.0	0.0
<b>Net Cash Inflow/(Outflow)</b>	<b>(3.5)</b>	<b>3.3</b>	<b>(18.7)</b>	<b>3.3</b>	<b>3.7</b>
<b>Cash &amp; Cash Equivalent at Start of Year</b>	<b>20.4</b>	<b>16.9</b>	<b>20.1</b>	<b>1.4</b>	<b>4.7</b>
<b>Cash &amp; Cash Equivalent at End of Year</b>	<b>16.9</b>	<b>20.1</b>	<b>1.4</b>	<b>4.7</b>	<b>8.4</b>

Source: Eng Kong, UOB Kay Hian

Figure 4: Ratios

As at 30 Jun (%)	2005	2006	2007F	2008F	2009F
<b>Growth</b>					
Sales	7.3	23.7	24.0	7.8	5.5
EBITDA	(19.2)	14.9	11.4	27.2	2.8
Pretax profit	(27.7)	18.1	22.0	27.8	4.2
Net profit	(82.3)	195.7	54.7	27.8	4.2
EPS	(82.6)	195.7	54.7	27.8	4.2
<b>Profitability</b>					
Gross profit margin	28.2	26.0	28.2	28.5	28.5
EBITDA margin	16.4	15.3	13.7	16.2	15.8
Pretax margin	9.7	9.3	9.1	10.8	10.7
Net margin	2.1	5.1	6.4	7.6	7.5
ROA	1.7	4.5	6.4	7.7	7.5
ROE	2.5	7.1	10.3	11.9	11.3
<b>Leverage</b>					
LT Debt/Equity	3.4	7.2	9.6	7.7	7.0
Total Debt/Total Assets	3.4	6.2	6.5	5.2	4.9
Total Debt/Equity	4.7	9.3	9.9	7.8	7.1
Net Debt (Cash)/Equity	(12.6)	(22.5)	8.5	0.7	(4.0)
Interest Cover (x)	42.4	42.5	31.2	32.1	37.5
<b>Working Capital Management (Days)</b>					
Debtors' Turnover	93	93	91	91	91
Creditors' Turnover	83	79	73	73	73
Inventory Turnover	15	14	14	15	16

Source: Eng Kong, UOB Kay Hian

UOB Kay Hian Research Pte Ltd produced this report under the SGX-MAS Research Incentive Scheme. UOB Kay Hian is compensated S\$5,000 per annum for each company covered under the Scheme.

As of 31 October 2006, the analyst and his / her immediate family do not hold positions in the securities recommended in this report.

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of UOB Kay Hian Research Pte Ltd only and are subject to change without notice. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgement by the addressee. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. UOB Kay Hian and its affiliates, their Directors, officers and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add to or dispose of any such securities. UOB Kay Hian and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

UOB Kay Hian (U.K.) Limited, a UOB Kay Hian subsidiary which distributes UOB Kay Hian research for only institutional clients, is an authorised person in the meaning of the Financial Services and Markets Act 2000 and is regulated by The Securities and Futures Authority.

In the United States of America, this research report is being distributed by UOB Kay Hian (U.S.) Inc ("UOBKHUS") which accepts responsibility for the contents. UOBKHUS is a broker-dealer registered with the U.S. Securities and Exchange Commission and is an affiliate company of UOBKH. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact UOBKHUS, not its affiliate. The information herein has been obtained from, and any opinions herein are based upon sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions and estimates herein reflect our judgement on the date of this report and are subject to change without notice. This report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, the firm preparing this report or its affiliates or the principals or employees of such firm or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such non-U.S. persons may have purchased securities referred to herein for their own account in advance of release of this report. Further information on the securities referred to herein may be obtained from UOBKHUS upon request.

**UOB Kay Hian Research Pte Ltd,**

80 Raffles Place, #30-01 UOB Plaza 1, Singapore 048624

Tel: (65) 6535 6868, Fax: (65) 6534 3243, Telex: RS 24085, RS 26128

<http://research.uobkayhian.com>