BUY S$0.19 **STI : 2,691.60**

Price Target : 12-Month S$ 0.35 (Prev S$0.29)
Reason for Report : Company Update
Potential Catalyst: Economic trade and acquisition completion.

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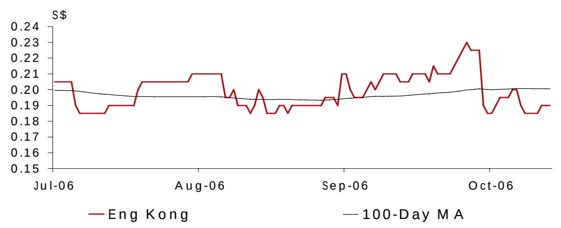
FORECASTS AND VALUATION

FY Jun (S$ m)	2005A	2006A	2007F	2008F
Turnover	49.4	61.1	82.4	96.2
EBITDA	7.9	9.1	12.9	14.6
Pre-tax Profit	4.7	5.7	12.0	13.5
Net Profit	0.9	3.1	7.2	8.1
Net Pft (Pre Ex.)	0.9	3.1	7.2	8.1
EPS (S cts)	0.4	1.5	3.5	3.9
EPS Gth (%)	(85)	236	132	12
Diluted EPS (S cts)	0.4	1.5	3.5	3.9
DPS (S cts)	2.6	0.6	0.7	0.8
BV Per Share (S cts)	20.3	20.9	23.7	26.9
PE (X)	42.7	12.7	5.5	4.9
P/Cash Flow (X)	9.4	5.9	4.8	4.3
EV/EBITDA (X)	3.4	2.8	2.6	2.1
Net Div Yield (%)	13.8	3.3	3.6	4.1
P/Book Value (X)	0.9	0.9	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.1	7.2	15.5	15.3

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)	209.1
Mkt. Cap (Sm/USm)	40 / 25
Major Shareholders	
Li Hung (%)	32.2
Ng Kam Ming (%)	28.4
KingAsia Holdings (%)	5.7
Free Float (%)	33.6
Avg. Daily Vol.('000)	187

Earnings Rev :	FY07: +18.0%	FY08: +15.5%
Consensus EPS :	FY07: -	FY08: -
Variance vs Cons :	FY07: -	FY08: -

Sector : INDUSTRIALS
Bloomberg/Reuters Code: ENGK SP EQUITY/ENGK.SI
Principal Business: Provide integrated container services such as warehousing and container freight station, container sales and agencies and transportation.

SGX MAS Research Incentive scheme

Eng Kong Holdings

Earnings growth continues with Keyun acquisition.

➢ **Story:** Eng Kong acquires 30% interest in Keyun, a Chinese based logistics group.

➢ **Point:** The acquisition was based on Keyun's P/E of 7x FY05 earnings. Eng Kong will pay a total consideration of Rmb63m, and has a profit warranty from GPHL for a minimum cumulative audited PBT of Rmb60m for FY07-FY08. As such, we believe the acquisition is earnings accretive for Eng Kong. Keyun operates in Tianjin, where PSA recently announced they were intent on constructing new container berths. Eng Kong's subsidiary, Reefertec, has previously been appointed by PSA to be the reefer operator at the Pasir Panjang Terminal, hence, we expect the relationship between PSA and Eng Kong to strengthen given their established record.

➢ **Relevance:** Profit warranties from Keyun are expected to increase PBT by S$1.8m in both FY07 and FY08. We have raised our target price to S$0.35 (pre-warrants dilution) based on a P/E of 10x FY07 earnings. This translates to a post 1 for 4 warrants dilution target price of S$0.28. Maintain BUY.

Continues to grow via acquisition. Eng Kong recently announced the 30% acquisition of Keyunvia its HK holding company Gold Prime Holdings Limited (GPHL). The cost of the acquisition is Rmb63m. Essentially, Eng Kong will pay a cash of Rmb28.5m for redeemable convertible preference shares issued by GPHL to Eng Kong. In addition, the Vendors of GPHL will sell their existing ordinary shares to Eng Kong for a cash consideration of Rmb34.5m. The acquisition is based on a P/E 7x GPHL's FY05 earnings. GPHL has also made a profit warranty to Eng Kong that the cumulative audited consolidated profit before tax for FY07 and FY08 will be at least Rmb60m, translating to a combined associate income of S$3.6m for FY07 and FY08.

Strengthened China presence. Keyun is a logistics group providing services such as international freight forwarding, warehousing and inland transportation and container depot services. Synergistic benefits are expected to arise since Eng Kong will be able to capitalize on Keyun's logistics network to expand its presence in China. In addition, GPHL has also agreed to enter a depot management agreement with Eng Kong, where the Group will provide management services for GPHL's depot operations. Keyun's core markets include Tianjin, Beijing, Qingdao, Shanghai, Xian, Shijiazhuang, Xiamen, Shenzhen, Dalian, Ningbo, Taiyun and Zhengzhou. Of particular interest, is Keyun's presence in Tianjin. Recently, the Port of Singapore Authority Corp (PSA) has stated that it intends to invest in Tianjin via the construction of container berths. This bodes well for Eng Kong in the longer term since PSA has already appointed Reefertec (Eng Kong's subsidiary) to be the reefer operator for the Pasir Panjang Terminal. As such, we expect the relationship between PSA and Eng Kong to continue strengthening given their (Eng Kong's) established track record.

Maintain Buy; T/P of S$0.35. In light of Eng Kong's growth prospects via the acquisition of Keyun, we have raised our earnings estimates for FY07 and FY08 to S$7.2m and S$8.1m respectively, given the profit warranties from GPHL. Maintain BUY, with a raised target price of S$0.35 based on a P/E of 10x FY07 earnings. This translates to a post 1 for 4 warrants dilution target price of S$0.28.

Income Statement (S$ m)

FY Jun	2005A	2006A	2007F	2008F
Turnover	49.4	61.1	82.4	96.2
Cost of Goods Sold	(35.6)	(45.2)	(51.9)	(59.6)
Gross Profit	**13.8**	**15.9**	**30.6**	**36.6**
Other Opg (Exp)/Inc	(9.1)	(10.3)	(20.6)	(25.0)
EBIT	**4.7**	**5.5**	**10.0**	**11.6**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	1.8	1.8
Net Interest (Exp)/Inc	0.0	0.2	0.2	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	**4.7**	**5.7**	**12.0**	**13.5**
Tax	(3.6)	(2.6)	(4.8)	(5.4)
Minority Interest	(0.2)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	**0.9**	**3.1**	**7.2**	**8.1**
Net profit before Except.	0.9	3.1	7.2	8.1
EBITDA	7.9	9.1	12.9	14.6
Sales Gth (%)	7	24	35	17
EBITDA Gth (%)	(18)	14	42	14
EBIT Gth (%)	(26)	17	81	16
Effective Tax Rate (%)	76.2	45.6	40.0	40.0

Balance Sheet (S$ m)

FY Jun	2005A	2006A	2007F	2008F
Net Fixed Assets	24.8	28.3	30.1	31.7
Invts in Assocs & JVs	0.1	0.1	14.5	16.3
Other LT Assets	2.5	2.4	2.4	2.4
Cash & ST Invts	18.8	20.1	11.7	14.4
Other Current Assets	14.7	18.2	24.5	28.6
Total Assets	**60.9**	**69.2**	**83.2**	**93.4**
ST Debt	0.6	0.1	0.1	0.1
Other Current Liab	10.9	14.9	23.1	26.6
LT Debt	1.5	3.6	3.6	3.6
Other LT Liabilities	3.6	4.7	4.7	4.7
Shareholder's Equity	42.5	43.6	49.5	56.2
Minority Interests	1.9	2.3	2.2	2.2
Total Cap. & Liab.	**60.9**	**69.2**	**83.2**	**93.4**
Non-Cash Wkg. Cap	5.7	3.3	1.4	1.9
Net Cash/(Debt)	14.8	16.4	8.0	10.7

Cash Flow Statement (S$ m)

FY Jun	2005A	2006A	2007F	2008F
Pre-Tax Profit	4.7	5.7	12.0	13.5
Dep. & Amort.	3.2	3.5	2.9	3.0
Tax Paid	(0.3)	(0.6)	(1.2)	(4.8)
Assoc. & JV Inc/(loss)	0.1	0.0	(1.8)	(1.8)
Chg in Wkg. Capital	(2.4)	(1.2)	(1.7)	(1.1)
Other Operating CF	(0.1)	(0.8)	0.0	0.0
Net Operating CF	**5.1**	**6.7**	**10.1**	**8.8**
Capital Exp.(net)	(3.6)	(3.8)	(4.6)	(4.6)
Other Invts.(net)	0.5	1.7	0.0	0.0
Invts in Assoc. & JV	0.8	0.0	(12.6)	0.0
Div from Assoc & JV	0.1	0.0	0.0	0.0
Other Investing CF	(0.8)	0.0	0.0	0.0
Net Investing CF	**(3.1)**	**(2.1)**	**(17.2)**	**(4.6)**
Div Paid	(5.5)	(1.3)	(1.3)	(1.4)
Chg in Gross Debt	(0.9)	(0.7)	0.0	0.0
Capital Issues	0.1	0.0	0.0	0.0
Other Financing CF	0.7	0.6	0.0	0.0
Net Financing CF	**(5.6)**	**(1.4)**	**(1.3)**	**(1.4)**
Net Cashflow	(3.5)	3.2	(8.4)	2.7

Rates & Ratios

FY Jun	2005A	2006A	2007F	2008F
Gross Margin (%)	28.0	26.0	37.1	38.1
EBITDA Margin (%)	16.1	14.8	15.6	15.2
EBIT Margin (%)	9.5	9.0	12.1	12.1
Net Profit Margin (%)	1.9	5.1	8.8	8.4
ROAE (%)	2.1	7.2	15.5	15.3
ROA (%)	7.9	8.9	15.9	15.4
ROCE (%)	2.6	6.8	12.4	0.0
Div Payout Ratio (%)	591.7	42.4	20.0	20.0
Interest Cover (x)	N/A	N/A	N/A	N/A
Debtors Turn (days)	73.9	76.8	81.4	86.8
Creditors Turn (days)	36.8	62.8	81.0	86.0
Inventory Turn (days)	16.8	17.8	19.3	20.9
Current Ratio (x)	2.9	2.5	1.6	1.6
Quick Ratio (x)	2.7	2.4	1.4	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	173.9	102.5	123.4	123.4
N.Cash/(Debt)PS (S cts)	7.1	7.8	3.8	5.1
Opg CFPS (S cts)	3.62	3.79	5.67	4.72
Free CFPS (S cts)	0.74	1.38	2.65	1.99

Source: Company, DBS Vickers

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