

**BUY S\$0.20** STI : 2,531.42

Price Target : 12-Month S\$ 0.29 (Prev S\$ 0.24)

Reason for Report : Company Update

Potential Catalyst: Economic trade and further acquisitions.

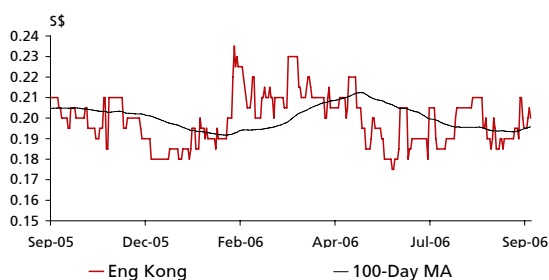
**ANALYST**

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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	10.1	11.8
Net Profit	0.9	3.1	6.1	7.1
Net Pft (Pre Ex.)	0.9	3.1	6.1	7.1
EPS (S cts)	0.4	1.5	2.9	3.4
EPS Gth (%)	(85)	236	97	16
Diluted EPS (S cts)	0.4	1.5	2.9	3.4
DPS (S cts)	2.6	0.6	1.2	1.4
BV Per Share (S cts)	20.3	20.9	23.1	25.4
PE (X)	44.9	13.4	6.8	5.9
P/Cash Flow (X)	9.9	6.2	4.6	4.1
EV/EBITDA (X)	3.6	3.0	1.8	1.4
Net Div Yield (%)	13.1	3.2	5.9	6.8
P/Book Value (X)	1.0	1.0	0.9	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	2.1	7.2	13.3	14.0

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	209
Mkt. Cap (S\$m/US\$m)	42 / 26
Major Shareholders	
Li Hung (%)	32.2
Ng Kam Ming (%)	28.4
Free Float (%)	33.6
Avg. Daily Vol. ('000)	99

Earnings Rev :	FY07: +35.6%	FY08: +30.8%
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 via Ming Fung acquisition.**

➤ **Story:** We recently paid a visit to Eng Kong's management and took a tour of one of their container depots.

➤ **Point:** The Group's core Container Depot Operations business should continue to drive revenues in FY07, with expected healthy capacity utilization levels of c. 80%. The Group has also increased its scope of services by expanding reefer services. Previously, Eng Kong's subsidiaries, Reefertec and EK Kool provided refrigerated container repair services in Singapore and HK, respectively. With the acquisition of 80% stake in Ming Fung in HK, the Group expanded their penetration of HK's container depot and reefer services market.

➤ **Relevance:** We remain positive on Eng Kong's prospects, and expect an earnings boost led by Ming Fung's contribution. But the proposed warrants issue will dilute EPS. We maintain our Buy rating, with a DCF-based target price of S\$0.29, or S\$0.25 fully diluted by the proposed 1 for 4 warrants issue.

**Container depot ops continue to lead.** FY06 profitability strengthened as a result of top-line growth of 24% y-o-y to S\$61.1m. This was driven by a 29% y-o-y improvement in the Container Depot revenue to S\$48.9m. Increased economic trade helped to lift capacity utilization levels to above 80% in FY06, a marked improvement from FY05 when utilization below 60%. Going forward, the Container Depot business will continue to drive revenues despite lower freight rates as we expect trade growth to remain. Management reiterated that utilization levels would remain healthy in FY07.

**Growth via acquisitions.** In FY06, Eng Kong made further inroads into the HK market by completing the acquisition of 80% stake in Ming Fung. The company is expected to contribute c. S\$10m to FY07F revenues and S\$1.52m at net profit level. The enlarged Group also expanded its value-added services to include refrigerated ("reefer") container repair services, which is inline with the Group's growth strategy. In FY05, Eng Kong's subsidiary, Reefertec was appointed by PSA Corp to be the reefer operator for the Pasir Panjang Terminal. EK Kool is the reefer subsidiary in HK that currently services Ming Fung - the inclusion of Ming Fung should allow the Group to grow in HK. Eng Kong continues to seek viable M&A opportunities in Singapore and abroad. With a net cash position and S\$20m in the bank, we believe that growth via acquisitions will bode well for the Group.

**Maintain Buy, TP of S\$0.29.** We remain positive on Eng Kong's prospects given the sustained trade growth outlook. Following the completion of the Ming Fung acquisition, we revised our numbers to include the subsidiary. Maintain BUY, with a DCF-based target price of S\$0.29, or S\$0.25 fully diluted from the proposed 1 for 4 warrants issue.

## Company Focus

Eng Kong

### 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)
<b>Gross Profit</b>	<b>13.8</b>	<b>15.9</b>	<b>30.6</b>	<b>36.6</b>
Other Opg (Exp)/Inc	(9.1)	(10.3)	(20.6)	(25.0)
<b>EBIT</b>	<b>4.7</b>	<b>5.5</b>	<b>10.0</b>	<b>11.6</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.2	0.2	0.2
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>4.7</b>	<b>5.7</b>	<b>10.1</b>	<b>11.8</b>
Tax	(3.6)	(2.6)	(4.1)	(4.7)
Minority Interest	(0.2)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>0.9</b>	<b>3.1</b>	<b>6.1</b>	<b>7.1</b>
Net profit before Except.	0.9	3.1	6.1	7.1
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

### Cash Flow Statement (\$S m)

FY Jun	2005A	2006A	2007F	2008F
Pre-Tax Profit	4.7	5.7	10.1	11.8
Dep. & Amort.	3.2	3.5	2.9	3.0
Tax Paid	(0.3)	(0.6)	(1.2)	(4.1)
Assoc. & JV Inc/(loss)	0.1	0.0	0.0	0.0
Chg in Wkg. Capital	(2.4)	(1.2)	(1.7)	(1.1)
Other Operating CF	(0.1)	(0.8)	0.0	0.0
<b>Net Operating CF</b>	<b>5.1</b>	<b>6.7</b>	<b>10.1</b>	<b>9.7</b>
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	0.0	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
<b>Net Investing CF</b>	<b>(3.1)</b>	<b>(2.1)</b>	<b>(4.6)</b>	<b>(4.6)</b>
Div Paid	(5.5)	(1.3)	(1.3)	(2.5)
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
<b>Net Financing CF</b>	<b>(5.6)</b>	<b>(1.4)</b>	<b>(1.3)</b>	<b>(2.5)</b>
Net Cashflow	(3.5)	3.2	4.2	2.6

Source: Company, DBS Vickers

### 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	0.1	0.0
Other LT Assets	2.5	2.4	2.4	2.4
Cash & ST Invts	18.8	20.1	24.3	27.0
Other Current Assets	14.7	18.2	24.5	28.6
<b>Total Assets</b>	<b>60.9</b>	<b>69.2</b>	<b>81.4</b>	<b>89.7</b>
ST Debt	0.6	0.1	0.1	0.1
Other Current Liab	10.9	14.9	22.3	26.0
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	48.4	53.1
Minority Interests	1.9	2.3	2.2	2.2
<b>Total Cap. &amp; Liab.</b>	<b>60.9</b>	<b>69.2</b>	<b>81.4</b>	<b>89.7</b>
Non-Cash Wkg. Cap	5.7	3.3	2.2	2.6
Net Cash/(Debt)	14.8	16.4	20.6	23.2

### 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	7.4	7.4
ROAE (%)	2.1	7.2	13.3	14.0
ROA (%)	7.9	8.9	13.6	14.0
ROCE (%)	2.6	6.8	12.5	0.0
Div Payout Ratio (%)	591.7	42.4	40.0	40.0
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	2.2	2.1
Quick Ratio (x)	2.7	2.4	2.0	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	173.9	102.5	123.4	123.4
N.Cash/(Debt)PS (\$ cts)	7.1	7.8	9.8	11.1
Opq CFPS (\$ cts)	3.62	3.79	5.67	5.16
Free CFPS (\$ cts)	0.74	1.38	2.65	2.44

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