

Eng Kong Holdings

1 Jul 2008

Acquisition of Keyun

| Snapshot | | P&L | | | | Key ratios (08F) | |
|----------------|---------------|----------------|-------|------|-------|------------------|-------|
| Recommendation | Buy | (Y/E Dec) | FY06* | FY07 | FY08F | PER | 7.8x |
| Current Price | S\$0.18 | Sales (S\$m) | 65.3 | 71.1 | 73.5 | P/BV | 0.8x |
| Target Price | S\$0.23 | Gross Profit | 16.3 | 18.9 | 18.5 | Div Yield | 3.3% |
| No of Shares | 239.22m | Earnings | 3.6 | 6.2 | 6.0 | ROE | 10.6% |
| Market Cap | S\$43.06m | EPS (Scts) | 1.5 | 2.4 | 2.3 | Net Gearing | Cash |
| Year Hi/Lo | S\$0.36/0.165 | EPS growth (%) | 45.6 | 80.2 | -6.8 | Current Ratio | 2.0x |

Source: SIAS Research, Bloomberg

Note: The company changed its financial year end from 30 June to 31 Dec in 2006. Hence, FY06 and FY06* are 12 months financial results ended 30 Jun 06 and 31 Dec 2006 respectively.

Recent Developments and Outlook

- **Acquisition of Keyun:** Shareholders has approved the proposed 30% acquisition of Gold Prime Holdings Limited (GPHL) for RMB63m, consisting RMB34.5m (19%) for 190 ordinary shares and another RMB28.5m (11%) of preference shares which are convertible into ordinary shares. Eng Kong had earlier granted convertible loans (2 years, 6% interest) of RMB23m (or S\$4.7m) to GPHL as part of RMB28.5m for new preference shares.
- GPHL is an investment holding company with stakes in logistics companies that marketed primarily under the name Keyun (克运).
- Keyun Logistics Group, based in Tianjin, China, is a provider of logistics services in China, including international freight forwarding, warehousing and inland transportation, container depot services as well as third-party logistics services. Besides a strong international network, Keyun's domestic network spans its primary market Tianjin, Beijing, Qingdao, Shanghai, Xian, Shijiazhuang, Xiamen, Shenzhen, Dalian, Ningbo, Taiyuan and Zhengzhou.
- Eng Kong will be able to exploit the growth potential in Tianjin and establish more cooperation through this synergistic

partnership. The acquisition will likely be completed in 1H08.

- **Appointed New Directors:** Mr Lim Jit Poh and Mr Lim How Teck have joined the Board as Independent Directors. Mr Lim Jit Poh, a former top civil servant, has been appointed Non-Executive Chairman. Mr Lim How Teck, a well-respected figure in the shipping industry, has also been appointed as Chairman of the Audit Committee.
- **Rising Costs:** Profit margins are likely to be dampened due to escalating oil price, higher manpower and transportation cost. Furthermore, volatility in forex exchange may also affect revenue and margins.

Valuation/Recommendation

- Despite concern on the weakening US economy, economy in Asia and trading volume in the region remain healthy. Eng Kong has established container depot operations in 14 cities around the Asia Pacific region to provide storage, handling, repairing and transportation services for empty containers.
- The company has also expanded into new services. In Oct 07, it took a 25% stake in a RMB9.6m joint venture with Freight Links Express Holdings Ltd and Xiamen O&G International Logistics Co Ltd (50%) to establish O&G Eng Kong Container (Xiamen) Co. to specialise in container

- stuffing, quarantine inspection and fumigation services for containers.
- The imminent 30% acquisition of Tianjin based logistics service provider (Keyun), and other potential JV in the region may contribute positively to FY08 results.
- In view of more investments pouring into the development of petrochemical and biofuel products in Singapore, management also plans to service tank containers like tank cleaning and repairing services.
- Well diversified presence in the region enables Eng Kong to better weather any economy slowdown.
- In view of rising costs and fluctuation in forex exchange, we have lowered FY08 earnings forecast by 7.7% from \$6.5m to \$6.0m.
- The sector PE for FY08 is 10.4 times. However, in view of firmness in oil price, sluggish US economy and weak market sentiment, we use PE of 10 times on the FY08 EPS to arrive at the fair value of 23 cents. At the current price of 18 cents, we maintain BUY recommendation. **(Koh Chin Lek)**

| Company | Last Px (\$S) | PER(07) | PER(08) | Div Yld (%) (07) | ROE (%) (07) |
|------------------------------|---------------|------------|-------------|------------------|--------------|
| COUGAR LOGISTICS CORPORATION | 0.415 | 1.9 | 13.4 | 62.7 | 103.9 |
| CWT LTD | 0.830 | 12.5 | 4.6 | 2.4 | 20.3 |
| ENG KONG HOLDINGS LTD | 0.180 | 6.7 | 6.7 | 3.3 | 12.7 |
| FREIGHT LINKS EXPRESS HLDGS | 0.070 | 9.3 | N.A. | 3.6 | 16.2 |
| GOODPACK LTD | 1.590 | 15.1 | 16.9 | 1.9 | 22.5 |
| POH TIONG CHOON LOGISTICS | 0.205 | 6.2 | N.A. | 13.4 | 17.4 |
| Average | | 8.6 | 10.4 | | 32.2 |

Source: Bloomberg, SIAS Research

Financial Tables and Ratios

| Year End Dec | FY06* | FY07 | FY08F | FY09F |
|--------------------------------|-------|-------|-------|-------|
| Profit & Loss (\$m) | | | | |
| Turnover | 65.3 | 71.1 | 73.5 | 75.2 |
| Gross Profit | 16.3 | 18.9 | 18.5 | 19.3 |
| Pretax | 5.6 | 7.1 | 7.0 | 7.8 |
| Earnings | 3.6 | 6.2 | 6.0 | 6.7 |
| EPS (weighted average – S cts) | 1.7 | 2.7 | 2.5 | 2.6 |
| EPS (fully diluted – S cts) | 1.5 | 2.4 | 2.3 | 2.5 |
| Balance Sheet (\$m) | | | | |
| Long Term Assets | 35.5 | 41.7 | 49.7 | 49.9 |
| Current Assets | 40.7 | 37.3 | 35.0 | 40.0 |
| Current Liabilities | 15.8 | 17.1 | 17.4 | 18.2 |
| Long Term Liabilities | 12.2 | 8.3 | 8.3 | 8.3 |
| Total Equity | 48.1 | 53.6 | 58.9 | 63.3 |
| Cash Flow (\$m) | | | | |
| Operating Cash Flow | 5.8 | 7.8 | 8.5 | 10.4 |
| Investing Cash Flow | -5.3 | -10.3 | -10.5 | -4.1 |
| Financing Cash Flow | -1.2 | -1.3 | -1.0 | -1.3 |
| Net Cash Increase/(Decrease) | -0.7 | -3.8 | -3.0 | 4.9 |
| Cash & Equivalent | 17.6 | 13.8 | 10.8 | 15.7 |
| Financial Ratios | | | | |
| Revenue Growth (%) | 93.1 | 16.4 | 3.5 | 2.2 |
| Gross Profit Growth (%) | 91.2 | 19.1 | -2.1 | 4.2 |
| Earnings Growth (%) | 45.5 | 97.1 | -2.1 | 11.0 |
| EPS Growth (%) | 45.6 | 80.2 | -6.8 | 2.4 |
| Gross Margin (%) | 24.9 | 26.6 | 25.1 | 25.6 |
| Net Margin (%) | 5.5 | 8.7 | 8.2 | 8.9 |
| Current Ratio (x) | 2.6 | 2.2 | 2.0 | 2.2 |
| Book value per share (S cts) | 21.8 | 22.5 | 23.6 | 23.5 |
| Net Cash/(Debt) per sh (S cts) | 6.2 | 4.0 | 2.6 | 4.3 |
| Net Debt / Equity (%) | Cash | Cash | Cash | Cash |
| Dividend per share (S cts) | 0.2 | 0.5 | 0.6 | 0.6 |
| Dividend payout ratio (%) | 14.4 | 20.3 | 23.9 | 23.3 |
| Return on Equity (%) | 7.8 | 12.0 | 10.6 | 10.9 |
| Return on Asset (%) | 4.7 | 7.8 | 7.1 | 7.4 |
| Return on Invested Capital (%) | 7.1 | 11.1 | 9.9 | 10.3 |
| Debtor Days | 107.5 | 101.4 | 100.1 | 97.9 |
| Creditor Days | 103.8 | 92.0 | 94.9 | 98.5 |
| Inventory Days | 20.5 | 17.7 | 18.8 | 19.4 |
| Cash Conversion Cycle | 24.2 | 27.1 | 24.0 | 18.8 |
| Valuations | | | | |
| Price to sales (x) | 0.6 | 0.6 | 0.6 | 0.6 |
| PER (x) | 12.4 | 7.5 | 7.8 | 7.1 |
| Price to book (x) | 0.8 | 0.8 | 0.8 | 0.8 |
| Dividend Yield (%) | 1.4 | 3.0 | 3.3 | 3.3 |

Source: Company, SIASResearch

Note: The company changed its financial year end from 30 June to 31 Dec in 2006. Hence, FY06 and FY06* are 12 months financial results ended 30 Jun 06 and 31 Dec 2006 respectively.

About the Company

Eng Kong Holdings Limited is an established player in the region's logistics industry providing integrated container services such as storage, handling, transport, repair and maintenance of containers. The company also trades used containers, as well as surveys newly manufactured containers.

Price-Volume Chart



Source: Bloomberg

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