

7 June 2006

Update

ENG KONG HOLDINGS

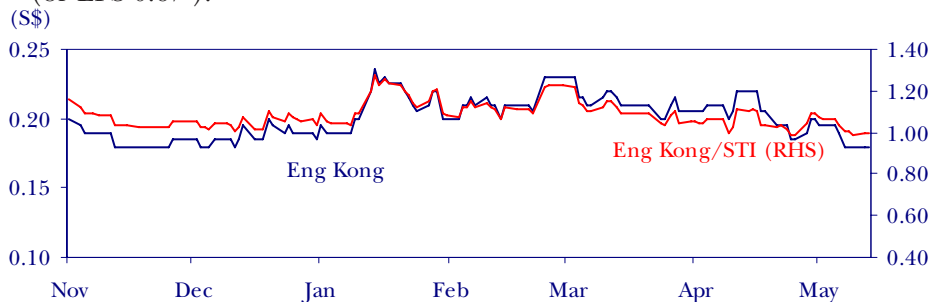
Reefer Acquisition

HOLD | Current Price : S\$0.18

The Acquisition. Eng Kong is acquiring an 80% stake each in Ming Fung Container Limited (MFC) and Ming Fung Reefer Container Services Co., Ltd (MFRC) for HK\$32m-34m. The acquisition is done at 5.0-6.0x FY06 earnings as the purchase consideration is payable in two installments based on MFC's and MFRC's results from FY05 to FY07.

Positive impact. We are positive about this acquisition:

- a) **Operational synergy.** Eng Kong's 80%-owned EK Kooll is a subcontractor of MFC and MFRC. EK Kooll was set up in Jan 06 to provide temperature-controlled container services. MFC and MFRC provide reefer container repair and maintenance services to container terminals and to River Trade Terminal (RTT) in Hong Kong. They have exclusive contracts for reefer services to several operators of the container terminals and RTT. In addition, MFRC is also a part and service dealer for several Japanese reefer machinery manufacturers. The acquisition enables Eng Kong to expand its reefer (dry and refrigerated container) business and access new customers in Hong Kong rapidly.
- b) **Earnings accretion.** Eng Kong is acquiring both companies at PEs that are lower than its current PE of 13.8x. Even though there is no profit guarantee from the vendors but with the second installment of the purchase consideration pegged to the companies' performance in FY06 and FY07, Eng Kong's downside risk is mitigated. Assuming Eng Kong consolidates MFC and MFRC results for FY07, this acquisition is expected to add S\$1m to Eng Kong's FY07 profit (or EPS 0.6¢).



Sector	Transport
Bloomberg	ENGK SP
Website	www.engkong.com
Exchange Rate	S\$1.5838/US\$
52-Wk Range (S\$)	0.245/0.17
52-Wk Avg Daily Vol. ('000)	62
No. of Shares (m)	208.8
Market Cap (S\$m)	37.6
(US\$m)	23.7
Major Shareholders (%)	
Li Hung	32.3
Ng Kam Ming	28.3
Book NTA per Share (S\$)	0.20
ROE (%)	2.4
Net Cash per Share (S\$)	0.07
Alternate Instruments	
Nil	
Results Due	
1Q: n.a.	1H: Feb
3Q: n.a.	Final: Aug
Market PE - STI (x)	
2005	12.0
2006F	14.2
Singapore Research Team	
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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* (¢)
2004	46.1	10.1	6.0	2.9	86.0	6.2	2.2	1.5
2005	49.4	8.1	1.1	0.5	(82.5)	35.3	2.7	2.6
2006F	49.7	6.7	2.7	1.3	155.3	13.8	3.3	1.0
2007F	50.3	7.2	3.1	1.5	13.2	12.2	3.1	1.0
2008F	51.1	7.4	3.2	1.5	4.7	11.7	3.0	1.0

Consensus net profit – n.a.

* Include Special Dividend 0.3¢ for FY04 & 2¢ for FY05

c) **Better utilisation of cash reserves.** As at 31 Dec 05, Eng Kong has net cash of S\$12.2m. The amount is high relative to the size of its operation and in excess of its working capital and capital expenditure requirements. Eng Kong is starting to put the excess cash into good use by making meaningful acquisition in areas related to its core competencies. We believe the current acquisition is more meaningful compared to Eng Kong's previous equity investments even though the returns from those investments may be impressive.

Valuation. While the acquisition is positive, we are keeping our estimate unchanged until we have better visibility on Eng Kong core operations. Eng Kong currently trades a forward PE of 13.8x appears at a premium against its much larger comparable like Evergreen of 12.3x. Maintain HOLD.

Figure 1: Profit & Loss

Year to 31 Jun (S\$ m)	2004	2005F	2006F	2007F	2008F
Turnover	46.1	49.4	49.7	50.3	51.1
Container depot operations	36.0	37.8	37.1	38.2	39.3
Warehousing & CFS	5.7	5.8	6.3	6.1	5.8
Container sales, agencies, surveys	4.3	5.7	6.2	6.0	5.9
Others	0.0	0.0	0.0	0.1	0.1
Cost of sales	(32.3)	(35.5)	(35.8)	(36.1)	(36.5)
Distribution costs	(1.9)	(2.0)	(2.1)	(2.2)	(2.2)
Administrative costs	(7.1)	(7.1)	(7.6)	(7.6)	(7.7)
Other operating expenses	(0.9)	(1.0)	(1.3)	(1.3)	(1.4)
EBITDA	10.1	8.1	6.7	7.2	7.4
Pre-tax profit	6.6	4.8	3.6	4.1	4.3
Taxation	(0.3)	(3.6)	(0.7)	(0.8)	(0.9)
Minorities	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Net Profit	6.0	1.1	2.7	3.1	3.2
EPS (S\$ ¢)	2.9	0.5	1.3	1.5	1.5
DPS (S\$ ¢)	1.2	2.6	1.0	1.0	1.0

Source: Eng Kong, UOB Kay Hian

Figure 2: Balance Sheet

As at 31 Jun (S\$ m)	2004	2005F	2006F	2007F	2008F
Current Assets					
Prepayments, deposits, other receivables	2.9	0.1	2.9	3.1	3.1
Inventories	1.2	2.1	2.0	1.5	1.2
Trade receivables	7.1	12.6	8.0	8.5	8.5
Cash & equivalents	22.1	18.8	20.5	23.1	24.9
Non-Current Assets					
Fixed assets	24.4	24.8	25.3	25.8	26.3
Interest in joint ventures	0.8	1.1	1.1	1.0	0.9
Others	2.1	1.5	1.6	1.6	1.6
Current Liabilities					
Interest bearing loans	0.9	0.6	0.1	0.1	0.1
Trade payables	3.6	9.7	3.6	3.7	3.7
Other payables and accruals	5.8	0.7	6.0	6.5	6.5
Due to minority s/holders	0.0	0.0	0.0	0.0	1.0
Tax payables	0.1	0.4	0.5	0.6	0.6
Non-Current Liabilities					
Shareholders' funds	46.3	42.5	46.4	48.9	50.9
Total Equity & Liabilities	60.6	60.9	61.3	64.4	67.4

Source: Eng Kong, UOB Kay Hian

Figure 3: Cash Flow

As at 31 Jun (\$\$ m)	2004	2005	2006F	2007F	2008F
Operating Cash Flow	7.0	5.0	5.2	5.1	6.4
Pretax Profit	6.6	4.8	3.6	4.1	4.3
Depreciation	3.3	3.2	3.0	3.1	3.2
Working capital changes	(2.6)	(2.7)	2.1	(1.4)	(0.3)
Income tax paid	(0.4)	(0.3)	(3.6)	(0.7)	(0.8)
Investing	(5.6)	(2.9)	(1.9)	(1.9)	(1.9)
Capex	(5.2)	(4.0)	(2.0)	(2.0)	(2.0)
Proceeds from fixed asset disposals	5.7	3.6	0.0	0.0	0.0
Interest received	0.1	0.1	0.1	0.1	0.1
Others	(6.2)	(2.7)	0.0	0.0	0.0
Financing	(0.4)	(5.6)	(2.6)	(2.6)	(2.6)
Share issue	2.8	0.1	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Loan repayment	(0.8)	(0.8)	0.0	0.0	0.0
Dividends paid	(2.4)	(5.5)	(2.6)	(2.6)	(2.6)
Others	(0.1)	0.6	(0.0)	0.0	0.0
Net Cash Inflow/(Outflow)	0.9	(3.5)	0.6	0.6	1.8
Cash & cash equivalent at start of year	19.4	20.4	16.9	17.5	18.1
Cash & cash equivalent at end of year	20.4	16.9	17.5	18.1	19.9

Source: Eng Kong, UOB Kay Hian

Figure 5: Ratios

Year to 31 Jun	2004	2005	2006F	2007F	2008F
Growth (%)					
Sales	11.5	7.3	0.6	1.4	1.4
EBITDA	51.4	(19.2)	(17.8)	7.7	3.6
Pretax profit	80.2	(27.7)	(24.0)	12.7	4.8
Net profit	93.2	(82.3)	157.5	13.2	4.7
EPS	87.5	(82.6)	157.5	13.2	4.7
Profitability (%)					
Gross profit margin	29.9	28.2	28.0	28.2	28.5
EBITDA margin	21.8	16.4	13.4	14.3	14.6
Pretax margin	14.4	9.7	7.3	8.1	8.4
Net margin	13.0	2.1	5.5	6.1	6.3
ROA	9.9	1.7	4.4	4.8	4.9
ROE	12.9	2.5	5.9	6.3	6.3
Leverage (%)					
LT Debt/Equity	4.4	3.4	4.3	4.1	3.9
Total Debt/Total Assets	4.8	3.4	3.6	3.4	3.3
Total Debt/Equity	6.1	4.6	4.5	4.3	4.1
Net Debt (Cash)/Equity	(6.0)	(12.5)	(11.2)	(11.8)	(14.8)
Interest Cover (x)	45.0	42.4	29.8	32.9	34.5
Working Capital Management (Days)					
Debtors' turnover	56	93	59	62	61
Creditors' turnover	29	72	26	27	26
Inventory turnover	10	15	15	11	9

Source: Eng Kong, UOB Kay Hian

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