

# Singapore Company Focus

## Eng Kong Holdings

Bloomberg: ENKG SP | Reuters: ENKG.SI

=DBS Group Research . Equity

22 Aug 2008

**HOLD S\$0.16 STI : 2,713.47**

**Price Target :** 12-Month S\$ 0.21 (Prev S\$ 0.23)

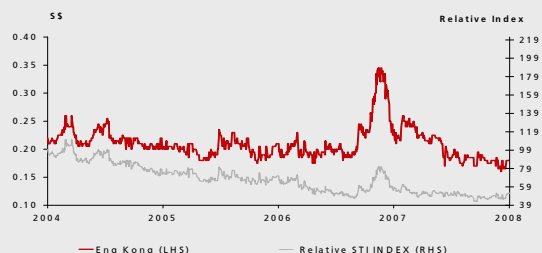
**Reason for Report :** 1H08 Results

**Potential Catalyst:** Further expansion and acquisitions

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Dec (\$ m)	2006A	2007A	2008F	2009F
Turnover	94.9	71.1	85.1	91.9
EBITDA	13.9	10.6	11.7	14.1
Pre-tax Profit	8.5	7.1	8.1	9.6
Net Profit	5.6	6.2	7.1	8.1
Net Pft (Pre Ex.)	5.5	6.2	7.1	8.1
EPS (S cts)	2.7	2.6	3.0	3.4
EPS Pre Ex. (S cts)	2.6	2.6	3.0	3.4
EPS Gth Pre Ex (%)	4,347.6	(2.6)	15.1	14.9
Diluted EPS (S cts)	2.3	2.3	2.7	3.1
Net DPS (S cts)	0.6	0.5	0.6	0.7
BVPer Share (S cts)	21.8	21.5	23.9	26.6
PE (X)	6.0	6.2	5.4	4.7
PE Pre Ex. (X)	6.1	6.2	5.4	4.7
P/Cash Flow (X)	2.9	4.0	3.8	3.5
EV/EBITDA (X)	1.7	2.9	3.1	2.3
Net Div Yield (%)	3.9	3.4	3.9	4.5
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.7	12.7	13.1	13.5

**Earnings Rev (%):** 19.0 21.9  
**Consensus EPS (S cts):** - -

**ICB Industry :** Industrials

**ICB Sector:** Industrial Transportation

**Principal Business:** Provide integrated container services such as warehousing and container freight station, container sales and agencies and transportation.

## SGX MAS Research Incentive Scheme

### Proving resilient

**Story:** Eng Kong released an encouraging set of 1H08 results, with net profit growing 45% y-o-y to S\$3.1m, above our expectations. The group also declared an interim dividend of 0.3 Sents per share, which works out to a yield of c. 1.7%.

**Point:** 1H08 sales came in at S\$40.0m (+16% y-o-y) primarily due to the higher sale of parts and transportation revenue from Singapore and Thailand, as well as greater volume of containers sold in Singapore during the period. Gross margin expanded 2.2ppt y-o-y to 26.9% as a result of higher utilization of their container depot, as well as a change in depreciation policy in effect since end of last year, resulting in lower depreciation on their forklifts and stackers. This was slightly offset by higher administrative expenses (+34% y-o-y) resulting from higher labour, repair and maintenance costs, as well as higher professional fees relating to the acquisition of a 30% stake in Gold Prime Holdings.

Looking ahead, we believe the group's experienced management team and diversified presence across Asia will enable them to negotiate the challenging business environment. Associates should make more meaningful contributions in 2H08, with the acquisition of a 30% stake in Keyun completed recently. Also, due to higher demand from Thailand and Malaysia, Eng Kong is currently expanding the capacities of their container depot facilities there by c. 20% each, which should lend support to the group's growth going forward.

**Relevance:** We have adjusted our net profit forecasts for FY08 and FY09 upwards by 19% and 22% respectively to S\$7.1m and S\$8.1m to account for higher sales volume and lower tax expense. However, our fair value estimate has been adjusted downwards slightly to S\$0.21 based on a lower multiple of 8x FY08F EPS (prev 10x FY08F EPS) on the back of lowered risk appetite of investors. Maintain HOLD.

### At A Glance

Issued Capital (m shrs)	239
Mkt. Cap (S\$m/US\$m)	38.3 / 27.3
Major Shareholders	
Li Hung (%)	31.9
Ng Kam Ming (%)	27.6
Leung Nai Kuen (%)	6.4
Free Float (%)	34.1
Avg. Daily Vol.('000)	38

## Results Summary and Comments

FYE Dec (\$\$ m)	1H07	1H08	% chg y-o-y	Comments
Sales	34.6	40.0	15.5%	Higher sale of parts and transportation revenue from Singapore and Thailand, as well as greater volume of containers sold in Singapore
Cost of Goods Sold	(26.1)	(29.2)	12.1%	
Gross Profit	8.5	10.7	26.0%	
Other Operating Income	0.1	0.0	nm	
<i>Selling &amp; distribution expenses</i>	(1.6)	(1.5)	-1.7%	
<i>Admin expenses</i>	(4.5)	(6.0)	34.3%	Higher labour, repair and maintenance costs as well as higher professional fees
<i>Others</i>	(0.3)	(0.2)	-43.8%	
Operating profit	2.3	3.0	31.2%	
Non-Operating Income	0.0	0.2	nm	
Net interest Income	0.4	0.3	-18.2%	
Share of Associates' or JV Income	(0.0)	0.0	nm	
Pretax Profit	2.7	3.6	34.1%	
Tax	(0.8)	(0.5)	-37.5%	Due to over provision of prior years' tax
Minority Interests	0.3	0.0	-88.5%	
Net Profit	2.2	3.1	44.8%	
<b>Margins (%)</b>				
Gross Margin	24.7	26.9		Lower depreciation expense due to change in useful life on forklifts and stackers, as well as higher utilization rate
EBITDA Margin	13.3	11.8		
EBIT Margin	6.7	7.6		
Net Margin	6.3	7.9		
Depr % of sales	6.6	4.2		
Effective Tax Rate %	29	13		Due to over provision of prior years' tax

Source: Company, DBS Vickers

## Income Statement (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Turnover	94.9	71.1	85.1	91.9
Cost of Goods Sold	(70.5)	(52.2)	(63.5)	(68.7)
<b>Gross Profit</b>	<b>24.4</b>	<b>18.9</b>	<b>21.6</b>	<b>23.2</b>
Other Opg (Exp)/Inc	(16.2)	(12.0)	(14.2)	(15.4)
<b>Operating Profit</b>	<b>8.1</b>	<b>6.8</b>	<b>7.4</b>	<b>7.8</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.1	0.7	1.8
Net Interest (Exp)/Inc	0.3	0.1	0.0	(0.1)
Exceptional Gain/(Loss)	0.1	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>8.5</b>	<b>7.1</b>	<b>8.1</b>	<b>9.6</b>
Tax	(3.0)	(1.2)	(1.2)	(1.4)
Minority Interest	0.1	0.2	0.2	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>5.6</b>	<b>6.2</b>	<b>7.1</b>	<b>8.1</b>
Net profit before Except.	5.5	6.2	7.1	8.1
EBITDA	13.9	10.6	11.7	14.1
Sales Gth (%)	92.1	(25.1)	19.7	8.0
EBITDA Gth (%)	93.1	(23.7)	10.3	20.6
Opg Profit Gth (%)	110.2	(15.7)	7.5	6.5
Net Profit Gth (%)	501.3	10.2	15.3	14.9
Effective Tax Rate (%)	35.2	16.7	15.0	15.0

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

FY Dec	2006A	2007A	2008F	2009F
Pre-Tax Profit	8.5	7.1	8.1	9.6
Dep. & Amort.	5.8	3.6	3.6	4.4
Tax Paid	(3.0)	(0.8)	(2.1)	(1.2)
Assoc. & JV Inc/(loss)	0.0	(0.1)	(0.7)	(1.8)
Non-Cash Wkg.Cap.	(5.7)	(0.5)	(0.4)	(1.0)
Other Operating CF	2.5	(1.5)	0.0	0.0
<b>Net Operating CF</b>	<b>8.1</b>	<b>7.8</b>	<b>8.5</b>	<b>10.0</b>
Capital Exp.(net)	(4.9)	(3.8)	(4.0)	(4.0)
Other Invts.(net)	1.9	0.3	0.0	0.0
Invts in Assoc. & JV	(2.7)	(2.0)	(8.3)	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.0	(4.8)	0.0	0.0
<b>Net Investing CF</b>	<b>(5.7)</b>	<b>(10.4)</b>	<b>(12.3)</b>	<b>(4.0)</b>
Div Paid	(1.9)	(2.2)	(1.3)	(1.5)
Chg in Gross Debt	(1.0)	(0.7)	0.0	0.0
Capital Issues	0.1	1.5	0.0	0.0
Other Financing CF	1.1	0.1	0.0	0.0
<b>Net Financing CF</b>	<b>(1.7)</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>(1.5)</b>
Net Cashflow	0.7	(3.8)	(5.2)	4.5

## Quarterly / Interim Income Statement (\$\$ m)

FY Dec	2H2006	1H2007	2H2007	1H2008
Turnover	33.8	34.6	36.5	40.0
Cost of Goods Sold	(25.3)	(26.1)	(26.1)	(29.2)
<b>Gross Profit</b>	<b>8.5</b>	<b>8.5</b>	<b>10.3</b>	<b>10.7</b>
Other Oper. (Exp)/Inc	(5.8)	(6.2)	(5.8)	(7.7)
<b>EBIT</b>	<b>2.7</b>	<b>2.3</b>	<b>4.5</b>	<b>3.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.2
Associates & JV Inc	0.0	0.0	0.1	0.0
Net Interest (Exp)/Inc	0.1	0.4	(0.2)	0.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>2.8</b>	<b>2.7</b>	<b>4.4</b>	<b>3.6</b>
Tax	(0.4)	(0.8)	(0.4)	(0.5)
Minority Interest	0.1	0.3	0.0	0.0
<b>Net Profit</b>	<b>2.5</b>	<b>2.2</b>	<b>4.0</b>	<b>3.1</b>
Net profit bef Except.	2.5	2.1	4.0	3.1
EBITDA	4.9	4.6	5.5	6.6
Sales Gth (%)	7.4	2.3	5.5	9.5
EBITDA Gth (%)	12.7	(6.5)	19.7	19.7
Opg Profit Gth (%)	5.6	(14.0)	96.5	(33.2)
Net Profit Gth (%)	119.8	(11.7)	83.3	(21.0)
Gross Margins (%)	25.1	24.7	28.4	26.9
Opg Profit Margins (%)	7.9	6.7	12.4	7.6
Net Profit Margins (%)	7.3	6.3	10.9	7.9

## Balance Sheet (\$\$ m)

FY Dec	2006A	2007A	2008F	2009F
Net Fixed Assets	28.1	29.3	30.1	29.8
Invts in Assocs & JVs	0.1	2.3	11.3	13.1
Other LT Assets	7.3	10.1	9.7	9.6
Cash & ST Invts	17.6	13.8	8.6	13.1
Other Current Assets	23.0	23.5	24.1	25.5
<b>Total Assets</b>	<b>76.2</b>	<b>79.0</b>	<b>83.9</b>	<b>91.1</b>
ST Debt	0.8	1.1	1.1	1.1
Other Current Liab	15.0	16.0	15.3	15.9
LT Debt	3.8	3.5	3.5	3.5
Other LT Liabilities	8.4	4.8	4.8	4.8
Shareholder's Equity	45.6	51.3	57.1	63.7
Minority Interests	2.5	2.3	2.0	2.0
<b>Total Cap. &amp; Liab.</b>	<b>76.2</b>	<b>79.0</b>	<b>83.9</b>	<b>91.1</b>
Non-Cash Wkg. Cap	8.0	7.5	8.8	9.6
Net Cash/(Debt)	13.0	9.2	4.1	8.5

## Rates &amp; Ratio

FY Dec	2006A	2007A	2008F	2009F
Gross Margins (%)	25.7	26.6	25.4	25.2
Opg Profit Margin (%)	8.5	9.6	8.6	8.5
Net Profit Margin (%)	5.9	8.7	8.3	8.9
ROAE (%)	12.7	12.7	13.1	13.5
ROA (%)	8.1	7.9	8.7	9.3
ROCE (%)	11.4	11.2	11.1	10.7
Div Payout Ratio (%)	23.7	21.2	21.2	21.2
Net Interest Cover (x)	NM	NM	NM	146.7
Asset Turnover (x)	1.4	0.9	1.0	1.1
Debtors Turn (avg days)	52.0	76.9	60.7	60.2
Creditors Turn (avg days)	21.4	26.5	20.5	20.2
Inventory Turn (avg days)	12.5	19.2	15.0	13.7
Current Ratio (x)	2.6	2.2	2.0	2.3
Quick Ratio (x)	2.4	2.0	1.8	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	106.0	83.8	87.5	87.5
N. Cash/(Debt)PS (S cts)	6.2	3.9	1.7	3.6
Opg CFPS (S cts)	6.6	3.5	3.7	4.6
Free CFPS (S cts)	1.5	1.7	1.9	2.5

## Segmental Breakdown

FY Dec	2006A	2007A	2008F	2009F
<b>Revenues (\$\$ m)</b>				
Container Depot	76.3	56.3	68.5	74.9
Warehousing and	9.8	6.9	8.3	8.5
Container Sales, agencies	8.7	7.8	8.2	8.4
Others	nm	nm	nm	nm
<b>Total</b>	<b>94.9</b>	<b>71.1</b>	<b>85.1</b>	<b>91.9</b>
<b>Operating Profit (\$\$ m)</b>				
Container Depot	8.1	5.7	6.9	7.6
Warehousing and	2.1	1.5	1.7	1.7
Container Sales, agencies	0.8	1.2	1.2	1.3
Others	(2.9)	(1.6)	(2.5)	(2.7)
<b>Total</b>	<b>8.1</b>	<b>6.8</b>	<b>7.4</b>	<b>7.8</b>
<b>Operating Profit Margins</b>				
Container Depot	10.7	10.1	10.1	10.1
Warehousing and	21.0	22.0	20.0	20.0
Container Sales, agencies	9.1	15.9	15.0	15.0
Others	nm	nm	nm	nm
<b>Total</b>	<b>8.5</b>	<b>9.6</b>	<b>8.6</b>	<b>8.5</b>

Source: Company, DBS Vickers

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

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*Share price appreciation + dividends*

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