Malaysia

MARKET DATELINE ● PP 7767/09/2011(028730)

Corporate Highlights

Visit Note

RHB Research
Institute Sdn Bhd
A member of the
RHB Banking Group
Company No: 233327 -M

9 March 2011

Integrated Logistics

Full-Steam Ahead In China, Dubai Warehouse Opens For Business In 2012

Share Price	:	RM1.00
Fair Value	:	RM1.40
Recom	:	**Outperform** (Maintained)

Table 1 : Investment Statistics (ILB; Code: 5614) — **Bloomberg: ILB MK**

FYE Dec	Turnover (RMm)	Net Profit# (RMm)	EPS# (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (%)	Net Gearing (%)	GDY (%)
2010	119.9	11.4	6.0	nm	16.6	-	0.5	5.6	3.1	0.1	8.5
2011f	130.5	21.2	10.8	79.0	9.3	-	0.5	(2.8)	5.5	0.3	3.0
2012f	154.9	26.2	13.3	23.5	7.5	-	0.5	(9.4)	6.5	0.3	3.0
2013f	160.9	29.2	14.8	11.4	6.8	-	0.5	8.9	6.8	0.3	3.0

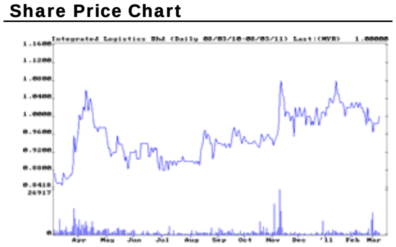
Main Market Listing /Syariah-Approved Stock By The SC *#Excluding EI* ** Consensus Based On IBES Estimates*

- **Wujiang 2 starting.** The construction of the RMB67m (RM34m) Phase 2 of ILB's warehouse complex in Wujiang with a total area of 390k sq ft is scheduled to start during the month with completion expected by Aug 2011. We understand that ILB has already identified potential tenants including a world-renowned France-based cosmestics and beauty company and a prominent US-based global online retailer.
- **Henan completing.** The full completion of the greenfield RMB170m (RM85m) warehouse complex for Frestech/Xinfei is expected by June 2011. At present, three of the five warehouses within the 810,000 sq ft complex have been completed.
- **A new warehouse in North-Eastern China?** We understand from independent sources that ILB may also embark on a fairly sizeable greenfield warehouse project within the auto industry belt in North-Eastern China, to be leased to a Sino-American auto company for the storage of auto parts on a 15-year lease.
- **Dubai Warehouse Opens For Business In 2012.** Currently 75% completed, ILB's 50%-owned new RM260m warehouse in Dubai is scheduled to open for business by early-2012. Substantially equipped with cold room facilities, the warehouse will tap into Dubai's fast-growing regional fast moving consumer goods (FMGC) distribution business, covering the Middle East and North Africa. While the unrest in the region may put a dent to the growth in its FMGC sector, we are more inclined to believe that this is temporary.
- **Forecasts.** We are raising FY12/12-13 net profit forecasts by 1-3%, having changed our assumptions on the commencement and area of the Phase 2 of the warehouse project in Wujiang to FY12/12 and 390k sq ft, from FY12/13 and 240k sq ft as guided previously.
- **Risks.** These include: (1) A major slowdown in the global economy, and hence China's export sector; (2) Prolonged downturn in Dubai; and (3) Rising costs in China, particularly, labour.
- **A China play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has very much now become a high-growth China-based company listed in Malaysia. Indicative fair value is RM1.40 based on 13x FY12/11 EPS, at a 30% premium to our benchmark 1-year forward target PER for the transport and logistics sector of 10x to reflect ILB's superior earnings growth visibility with the good execution of its second wave of investment/expansion in China.

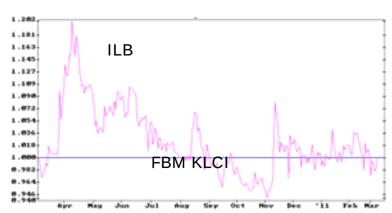
Issued Capital (m shares)	197.0
Market Cap (RMm)	197.0
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.86-1.08
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.7

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-	+3	+1
Var to Cons (%)	nm	nm	nm

Share Price Chart



Relative Performance To FBM KLCI



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Full-Steam Ahead In China, Dubai Warehouse Opens For Business In 2012

- **Highlights.** Key takeaways from recent meeting with ILB are:
  1. ILB is moving full-steam ahead in China with warehouse projects in Wujiang (starting on Phase 2), Henan (completion by Jun 2011), Beijing, Chongqing and Xiamen (all in operation already, asset-light model). We understand from independent sources that ILB may also embark on a greenfield warehouse project in North-Eastern China; and
  2. ILB's new warehouse in Dubai, currently 75% completed, is scheduled to open for business by early-2012.

- **Full-Steam Ahead In China.** ILB is moving full-steam ahead in China with a greater presence in Wujiang, and new presence in Henan, Beijing, Chongqing and Xiamen, and potentially North-Eastern China.

Wujiang: The construction of the RMB67m (RM34m) Phase 2 of ILB's warehouse complex in Wujiang, 50km from Shanghai, is scheduled to start during the month with completion expected by Aug 2011. We understand that ILB has already identified potential tenants for the four warehouses of Phase 2 with a total area of 390k sq ft. They include a world-renowned France-based cosmetics and beauty company and a prominent US-based global online retailer. Recall, completed in Dec 2008, the four warehouses of Phase 1 with a total area of 280k sq ft is leased to idX (www.idxcorporation.com), a US-based interior design firm with international clients such as *Nike, Ralph Lauren, Tommy Hilfiger, Starbucks, Calvin Klein* and *Bed, Bath & Beyond*, on a 10-year lease. We are changing our assumptions on the commencement and area of the Phase 2 to FY12/12 and 390k sq ft, from FY12/13 and 240k sq ft as guided previously.

Henan: The construction of the greenfield RMB170m (RM85m) warehouse complex for Frestech/Xinfei has progressed well with full completion expected by June 2011. At present, three of the five warehouses within the 810,000 sq ft complex have been completed (see Image 1). The warehouses will be handed over to the tenant in stages from Apr 2011. Recall, the tenant Frestech/Xinfei is a unit of Hong Leong Asia that is currently the second largest refrigerator and freezer maker in China. We understand that backed by a 5+5 year long-term lease agreement with Frestech/Xinfei, ILB's investment in the warehouse will have a pay-back period of 8-10 years. We project the new warehouse will contribute about a quarter of ILB's net profit from FY12/12.

Image 1: One Of Five Warehouses Within Frestech/Xinfei Warehouse Complex

Source: ILB

Beijing, Chongqing and Xiamen: ILB has, in a way quietly, expanded its footprints in China to Beijing, Chongqing and Xiamen. Already up-and-running for a while, ILB's warehouse operations in these three locations are small but profitable based on an asset-light and lean model, i.e. in rented warehouses with limited headcounts or substantially outsourced staffers. The key services provided by these three warehouse operations are: (1) In Beijing, logistics services to some manufacturers of compressors and projectors/displays; (2) In Chongqing, custom brokerage services in a free trade zone (see Image 2); and (3) In Xiamen, logistics services to a mobile phone manufacturer.

North-Eastern China: We understand from independent sources that ILB may also embark on a fairly sizeable greenfield warehouse project within the auto industry belt in North-Eastern China, to be leased to a Sino-

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American auto company for the storage of auto parts on a 15-year lease. Our forecasts have not reflected this potential.

Image 2: Custom Brokerage Operation In Chongqing

Source: ILB

- **Dubai Warehouse Opens For Business In 2012.** Currently 75% completed (see Image 3), ILB's 50%-owned new RM260m warehouse in Dubai is scheduled to open for business by early-2012. Recall, the warehouse with an initial capacity of 67,400 pallet positions is substantially equipped with cold room facilities, enabling it to tap into Dubai's fast-growing regional fast moving consumer goods (FMGC) distribution business, covering the Middle East and North Africa (often known as MENA) with a total population of 380m. While the unrest in certain parts of the Middle East and North Africa may put a dent to the growth in the FMGC sector in the region, we are more inclined to believe that this is temporary. Also recall, ILB's 50% JV partner for the project, i.e. Dubai-based National Trading & Development Establishment (NTDE) (www.ntde.ae), will take up part of the space to expand its own FMGC distribution business in the Gulf region. The business carries international brands such as *Cadbury's, Davidoff, Häagen-Dazs* and *Lay's* in the Gulf region. In our earnings forecasts, we assume maiden contribution from the warehouse to come in in FY12/12.

Image 3: Warehouse Complex Under Construction In Dubai

Source: ILB

- **Forecasts.** We are raising FY12/12-13 net profit forecasts by 1-3%, having changed our assumptions on the commencement and area of the Phase 2 of the warehouse project in Wujiang to FY12/12 and 390k sq ft, from FY12/13 and 240k sq ft as guided previously.

- **Risks.** These include: (1) A major slowdown in the global economy, and hence China's export sector; (2) Prolonged downturn in Dubai; and (3) Rising costs in China, particularly, labour.

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- **A China play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has very much now become a high-growth China-based company listed in Malaysia. Indicative fair value is RM1.40 based on 13x FY12/11 EPS, at a 30% premium to our benchmark 1-year forward target PER for the transport and logistics sector of 10x to reflect ILB's superior earnings growth visibility with the good execution of its second wave of investment/expansion in China.

Table 2: Warehouses Under ILB's Stable

Warehouse	Floor Area ('000 sq ft)	Status	Ownership	Remarks
Shenzhen 1	320	In operation	No^	-
Shenzhen 2	450	In operation	Yes	-
Shenzhen 3	640	In operation	Yes	-
Shanghai 1	180	In operation	No^^	-
Shanghai 2	210	In operation	No^^	-
Wujiang 1	280	In operation	Yes	Total project cost of RMB75m (RM38m)
Wujiang 2	390	Under construction	Yes	Total project cost of RMB67m (RM34m).
Dubai (Jebel Ali FTZ)	1,300-1,500*	Under construction	50%-owned	Total project cost of RM260m.
Henan (Frestech/Xinfei)	810	Under construction	Yes	Total project cost of RMB170m (RM85m).
North-Eastern China#	Sizeable	Under negotiation	Yes	Sizeable

**Effective, with auto-racking system*

^Sale-and-lease-back with Mitsui & Co Ltd, Japan ^^ Sale-and-lease-back with Mapletree, Singapore

Source: RHBRI, company #Source: Independent sources

Table 3: Earnings Forecasts

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	119.9	130.5	154.9	160.9
Turnover growth (%)	5.0	8.9	18.7	3.9
EBITDA	14.1	31.9	38.8	41.9
EBITDA margin (%)	11.8	24.5	25.0	26.1
Depreciation	-13.4	-10.2	-10.2	-10.2
Net Interest	-6.1	1.4	-2.4	-2.5
Associates	-2.8	6.0	8.0	8.0
EI	13.8	0.0	0.0	0.0
Pretax Profit	5.5	29.2	34.2	37.2
Tax	-6.5	-0.7	-0.6	-0.6
Discontinued op.	21.7	-	-	-
PAT	20.7	28.5	33.6	36.6
Minorities	-0.2	-7.3	-7.4	-7.4
Net Profit	20.5	21.2	26.2	29.2

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions

FYE Dec	FY11F	FY12F	FY13F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Wujiang	280	670	670
Henan	450	810	810
Dubai	-	1,000	1,000

Source: RHBRI estimates

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The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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