Malaysia
MARKET DATELINE • PP 7767/09/2011(028730)

Corporate Highlights

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

Results Note

16 August 2011

Integrated Logistics

Start-Up Losses Weigh Down On 1HFY12/11 Performance

Share Price	:	RM0.795
Fair Value	:	RM1.61
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	16.1	-	0.5	5.4	3.1	0.1	8.8
2011f	130.5	7.4	3.7	(37.7)	21.2	-	0.4	(1.7)	2.0	0.4	3.8
2012f	147.8	22.5	11.4	>100	7.0	-	0.4	2.5	5.8	0.2	3.8
2013f	148.2	28.4	14.4	26.3	5.5	-	0.4	8.3	6.9	0.2	3.8

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

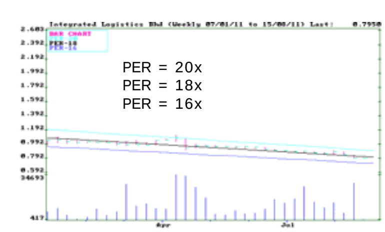
- **Hurt by start-up losses.** 1HFY12/11 net profit came in below our expectations at only 10% of our full-year forecast largely due to start-up losses from its new operations in Chongqing (custom brokerage services in a free trade zone) and Xiamen (logistics services to a mobile phone manufacturer), China. Recall, ILB's warehouse operations in these locations are based on an asset-light and lean model, i.e. in rented warehouses with limited headcounts or substantially outsourced staffers.
- **Plenty of action in China.** The RMB170m (RM85m) greenfield warehouse complex in Henan, China, is now completed. Recall, the warehouse complex is leased to Frestech/Xinfei, a unit of Hong Leong Asia, that is currently the second largest refrigerator and freezer maker in China. Similarly, the RMB67m (RM34m) Phase 2 of Wujiang warehouse (50km from Shanghai) is going ahead with completion expected by 2011. We understand that ILB has already identified potential tenants including a world-renowned France-based cosmetics and beauty products company and a prominent US-based global online retailer. Recall, Phase 1 of the warehouse that was completed in Dec 2008, is leased to idX, a US-based international interior design firm.
- **Good take-up for new Dubai warehouse.** Meanwhile, the testing and commissioning of 50%-owned AED260m (RM213m) new warehouse in Dubai Logistic City is scheduled in 3Q2011 with commercial operation expected as early as 4Q2011. So far, indications are pointing towards good take-up for the space due to scale and range, i.e. it being the largest warehouse complex in a single location in the entire United Arab Emirates (UAE), offering frozen, air-conditioned and dry storage facilities. ILB's 50% local JV partner of the venture, NTDE, is expected to take up 30% of total frozen/air-conditioned pallet positions of the new warehouse complex.
- **Forecasts.** FY12/11 net profit forecast is cut by 56% to reflect the start-up losses.
- **Risks.** These include: (1) A major slowdown in the global economy, and hence China's export sector; (2) Prolonged unrest in the Middle East and North Africa (MENA); and (3) Rising costs in China, particularly, labour.
- **A China/Dubai play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has now become a high-growth logistics company listed in Malaysia but with operations in China and Dubai. Indicative fair value is RM1.61 based on "sum of parts" (see Table 4).

RHBRI	Vs.	Consensus
	Above	-
	In Line	-
✓	Below	-

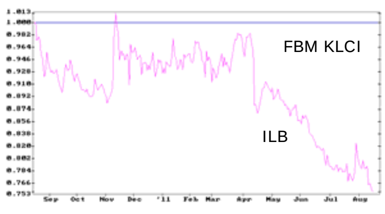
Issued Capital (m shares)	197.0
Market Cap (RMm)	156.6
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.79-1.00
Major Shareholders:	**(%)**
Takahashi family	19.0
Lembaga Tabung Haji	9.7
Tee Tuan Sem	5.0

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-56	-2	-1
Var to Cons (%)	nm	nm	nm

PE Band Chart



Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2010 6M	2011 6M	YoY Chg	Observations/Comments
Turnover	58.0	62.1	7%	Sustained recovery in China's export sector.
Warehousing	47.6	51.4	8%	
Transportation	10.4	10.7	4%	
EBIT	7.5	5.3	(29%)	Dragged down by start-up losses in Chongqing and Xiamen, China.
Net inc/(exp)	(2.8)	(2.0)	(30%)	Reduced gearing after the disposal of Malaysian business.
Associates	0.7	0.2	(75%)	
Pretax profit	5.4	3.5	(34%)	Dragged down by start-up losses in Chongqing and Xiamen, China.
Taxation	(1.9)	(1.1)	(43%)	
Discounted operation	3.2	0.0	nm	Operation in Malaysia.
Minority interest	(1.6)	(0.7)	(59%)	
Net profit	5.0	1.8	(65%)	Also high base in FY10 before the disposal of Malaysian business.
EPS (sen)	2.6	1.0	(62%)	
EBIT margin	13%	9%	(4% pts)	Dragged down by start-up losses in Chongqing and Xiamen, China.
Pretax margin	9%	6%	(4% pts)	
Effective tax rate	36%	31%	(5% pts)	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2011 1Q	2011 2Q	YoY Chg	Observations/Comments
Turnover	30.7	31.4	2%	
Warehousing	25.3	26.1	3%	
Transportation	5.4	5.3	(1%)	
EBIT	3.3	2.1	(36%)	Dragged down by start-up losses in Chongqing, China.
Net inc/(exp)	(1.1)	(0.9)	(11%)	Reduced gearing after the disposal of Malaysian business.
Associates	0.0	0.2	>100%	
Pretax profit	2.2	1.3	(40%)	Dragged down by start-up losses in Chongqing, China.
Taxation	(0.6)	(0.5)	(29%)	
Minority interest	(0.4)	(0.3)	(24%)	
Net profit	1.2	0.6	(51%)	Dragged down by start-up losses in Chongqing, China, as well as a higher effective tax rate.
EPS (sen)	0.6	0.3	(50%)	
EBIT margin	11%	7%	(4% pts)	Dragged down by start-up losses in Chongqing, China.
Pretax margin	7%	4%	(3% pts)	
Effective tax rate	29%	34%	5% pts	

Table 4: "Sum-Of-Parts" Valuation

Project/Business	RMm	Methodology	Basis/Assumptions
Operations ex-Dubai warehouse	196.6	PER	10x 1-year forward earnings
Dubai warehouse	148.3	DCF	50% share of NPV based on WACC of 7.7%
Land in Shah Alam	17.2	-	Actual selling price
Net cash/(debt)	(44.0)	-	As at 31 Dec 2010, adjusted for: (1) Dividend paid; (2) Balance of investment in Dubai warehouse; and (3) RM27.6m net proceeds from the disposal of Yangshan land.
Sum-of-parts valuation (RMm)	**318.1**		
Sum-of-parts valuation (RM/shr)	**1.61**		

Source: RHBRI estimates

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Table 5: 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 Logistic City	75 (pallet positions)	Under construction	50%-owned	Total project cost of AED260m (RM213m).
Henan (Frestech/Xinfei)	810	In operation	Yes	Total project cost of RMB170m (RM85m).
North-Eastern China#	Sizeable	Under negotiation	Yes	Sizeable

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

Source: RHBRI, company *#Source: Independent sources*

Table 6: Earnings Forecasts

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	119.9	130.5	147.8	148.2
Turnover growth (%)	5.0	8.9	13.2	0.3
EBITDA	14.1	21.9	37.0	37.5
EBITDA margin (%)	11.8	16.8	25.1	25.3
Depreciation	-13.4	-10.2	-10.2	-10.2
Net Interest	-6.1	-4.3	-5.7	-4.1
Associates	-2.8	6.0	8.8	13.1
EI	13.8	0.0	0.0	0.0
Pretax Profit	5.5	13.5	30.0	36.4
Tax	-6.5	-0.5	-0.5	-0.6
Discontinued op.	21.7	-	-	-
PAT	20.7	13.0	29.4	35.8
Minorities	-0.2	-5.6	-6.9	-7.4
Net Profit	20.5	7.4	22.5	28.4

Source: Company data, RHBRI estimates

Table 7: 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 (pallet positions)	-	75,000	75,000

Source: RHBRI estimates

IMPORTANT DISCLOSURES

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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