

# Corporate Highlights

## News Update

### Integrated Logistics

Sale-And-Lease-Back For Another Warehouse In China



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

1 December 2009

Share Price : RM0.92  
Fair Value : RM0.93  
Recom : **Market Perform**  
(Maintained)

Table 1 : Investment Statistics (ILB; Code: 5614)										Bloomberg: ILB MK	
FYE	Turnover	Net		Growth	PER	C.EPS*	P/NTA	P/CF	ROE	Net	
Dec	(RMm)	Profit#	EPS#	(%)	(x)	(sen)	(x)	(x)	(%)	Gearing	GDY
		(RMm)	(sen)							(%)	(%)
2008	214.2	2.6	1.3	(78.6)	70.4	-	0.5	(8.3)	0.6	0.4	2.2
2009f	188.6	(1.9)	(1.0)	nm	(93.7)	(1.0)	0.5	(2.9)	(0.5)	0.6	2.2
2010f	206.1	18.3	9.3	nm	9.9	10.0	0.4	(8.7)	4.5	0.6	2.2
2011f	213.9	19.6	9.9	7.2	9.2	10.0	0.4	7.0	4.7	0.5	2.2

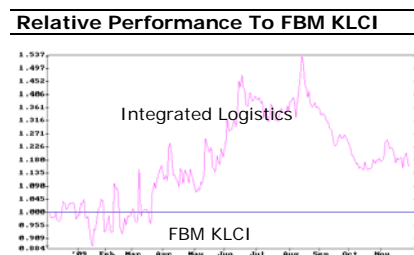
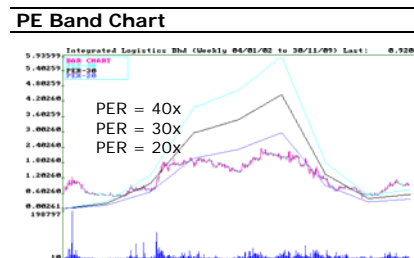
Main Market Listing /Syariah-Approved Stock By The SC #Excluding EI \* Consensus Based On IBES Estimates

- ◆ **A second sale-and-lease-back deal.** ILB has entered into a sale-and-lease-back agreement with Mitsui & Co Ltd (Mitsui), a Japan-based international trading house, for the sale-and-lease-back of the oldest of its three warehouses in Futian FTZ in Shenzhen, China, with a net lettable area of 320,000 sq ft. The warehouse will be transacted at US\$25m (RM83.3m), resulting in an estimated net gain (after adjusting for 30% minority interest in the asset) of RM10.7m or 5.4sen/share. The RM83.3m proceeds from the transaction will reduce ILB's net debt and gearing of RM152.4m and 0.41x as at 30 Sep 09 to RM69.1m and 0.18x. This is ILB's second sale-and-lease-back deal in recent years. Recall, ILB in 2008 struck a sale-and-lease-back deal with Singapore-based Mapletree for its two warehouses in Waigaoqiao FTZ in Pudong, Shanghai.
- ◆ **"Restructuring" of warehouse portfolio.** We are mildly positive on the latest development that is consistent with ILB's strategy to continuously "restructure" its warehouse portfolio by disposing of the low-yielding ones in Malaysia and maturing ones in China, and reinvesting the money in new warehouse projects in China and the Gulf states for growth (see Table 2).
- ◆ **Forecasts.** Having factored in rental incomes foregone, partially cushioned by lower interest expense on reduced debt, FY12/10-11 core net profit forecasts are trimmed by 3% each.
- ◆ **Risks.** These include: (1) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations; and (2) Prolonged slow growth in the global economy, and hence, the export sector in China.
- ◆ **Investment case.** This lies in: (1) ILB's niche strength in the operation of supply chain management system vendor-managed inventory (VMI) to support the production of Lenovo's ThinkPad laptops and IBM's servers in China; and (2) Its long-term growth potential driven by new overseas warehouse projects in the pipeline (see Table 2).
- ◆ **Maintain Market Perform.** Indicative fair value is trimmed by 3% from RM0.95 to RM0.93 based on 10x revised FY12/10 EPS, in line with our benchmark 1-year forward target PER for the transport and logistics sector.

Issued Capital (m shares)	197.0
Market Cap(RMm)	181.3
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-1.15

<b>Major Shareholders:</b>	<b>(%)</b>
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

<b>FYE Dec</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
EPS Revision (%)	-	-3	-3
Var to Cons (%)	nm	nm	nm



Please read important disclosures at the end of this report.

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**Table 2: New Overseas Warehouse Projects**

Location	Project Cost	Project Cost (RMm)	ILB's Stake (%)	Floor area ('000 sq ft)
Jebel Ali FTZ, Dubai	AED230m	230	50	1,300-1,500*
Yangshan Port, Shanghai (Ph 1)	RMB120m	60	70	500
Yantian Port, Shenzhen	RMB100m	50	70	500

\*Effective, with auto-racking system

Source: Company, RHBRI

**Table 3: Earnings Forecasts**

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	214.2	188.6	206.1	213.9
Turnover growth (%)	12.3	-12.0	9.3	3.8
EBITDA	41.3	30.3	41.7	45.0
EBITDA margin (%)	19.3	16.1	20.3	21.1
Depreciation	-18.5	-28.9	-17.0	-17.0
Net Interest	-9.9	-6.9	-4.6	-7.3
Associates	0.1	5.0	5.4	6.0
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-0.5	25.6	26.8
Tax	-7.1	0.0	-0.6	-0.6
PAT	24.8	-0.5	25.0	26.2
Minorities	-9.0	-1.4	-6.7	-6.6
Net Profit	15.9	-1.9	18.3	19.6

Source: Company data, RHBRI estimates

**Table 4: Forecast Assumptions**

FYE Dec	FY09F	FY10F	FY11F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Dubai	-	-	1,000

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### 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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