

Corporate Highlights

Results Note

Integrated Logistics

Some Signs Of Stability In 2QFY12/09



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

31 July 2009

Share Price : RM1.00
Fair Value : RM0.72
Recom : **Underperform**
(Maintained)

Table 1 : Investment Statistics (ILB; Code: 5614)

Bloomberg: ILB MK

FYE	Net							Net				
	Turnover	Profit#	EPS#	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	Gearing	GDY	
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)	(%)	
2008	214.2	2.6	1.3	(78.6)	76.6	-	0.5	(9.0)	0.6	0.4	2.0	
2009f	188.6	(6.2)	(3.1)	nm	(31.9)	-	0.5	(3.0)	(1.6)	0.7	2.0	
2010f	206.1	17.7	9.0	nm	11.1	-	0.5	(11.2)	4.4	0.7	2.0	
2011f	213.9	19.0	9.7	7.6	10.4	-	0.5	6.7	4.6	0.7	2.0	

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

- ◆ **Returns to profitability in 2Q.** ILB reported a net loss of RM7.1m in 1HFY12/09, vis-à-vis our full-year forecast of RM6.2m net loss. We consider the 1HFY12/09 results within our expectation as we expect ILB to report a small profit in 2H. ILB returned to profitability in 2Q with a net profit of RM2.3m vis-à-vis a net loss of RM9.4m in 1Q.
- ◆ **Forecasts.** Maintained.
- ◆ **Risks.** These include: (1) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations; and (2) Prolonged recession 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 4). However, rental yields and values of its properties, largely warehouses, are unlikely to improve significantly over the short term on the back of a slow and uneven recovery in the global economy.
- ◆ **Maintain Underperform.** Indicative fair value is RM0.72 based on 8x FY12/10 EPS, in line with our 1-year forward target PER for the transport and logistics sector.

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

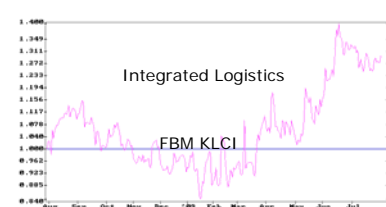
Issued Capital (m shares)	197.0
Market Cap(RMm)	197.0
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.52-1.00
Major Shareholders:	(%)
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	-	-	-
Var to Cons (%)	nm	nm	nm

Share Price Chart



Relative Performance To FBM KLCI



Please read important disclosures at the end of this report.

Joshua CY Ng
(603) 92802151
joshuang@rhb.com.my

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2008 6M	2009 6M	YoY Chg	Observations/Comments
Turnover	101.7	90.6	(11%)	Weaker performance across the board.
<i>By division</i>				
Warehousing	60.4	59.3	(2%)	Hit by reduced rental and handling incomes on economic slowdown.
Transportation	41.3	31.3	(24%)	Reduced volumes on economic slowdown.
<i>By country</i>				
Malaysia	42.3	35.0	(17%)	We believe largely due to poorer transportation business.
China (incl. HK)	59.4	55.6	(6%)	We believe largely due to reduced handling incomes from warehouses.
EBIT	16.3	(3.7)	nm	
Warehousing	16.1	4.6	(71%)	We believe largely due to losses in warehouses in Shanghai due to reduced occupancy rates and yields, and lower handling incomes from warehouses in Shenzhen.
Transportation	1.7	(6.7)	nm	Reduced volumes, coupled with the one-off RM11.9m depreciation adjustment in 1QFY09 (to better reflect the economic values of certain equipment used in the transportation/logistics division).
Others	(1.5)	(1.6)	5%	
Net inc/(exp)	(4.2)	(3.1)	(27%)	
Associates	0.6	1.1	83%	
Pretax profit	12.7	(5.6)	nm	
Taxation	(1.8)	(0.6)	(65%)	
Minority interest	(2.6)	(0.8)	(68%)	
Net profit	8.3	(7.1)	nm	Weak operating results as recession started to bite, coupled with the one-off RM11.9m depreciation adjustment in 1QFY09.
EPS (sen)	4.2	(3.6)	nm	
EBIT margin	16%	(4%)	(20% pts)	
Pretax margin	12%	(6%)	(19% pts)	
Effective tax rate	14%	(11%)	(25% pts)	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 1Q	2009 2Q	QoQ Chg	Observations/Comments
Turnover	43.9	46.6	6%	Stronger topline performance from the transportation division.
<i>By division</i>				
Warehousing	29.7	29.6	(0%)	Business stabilised, after a 9% drop between 1QFY09 and 4QFY08.
Transportation	14.3	17.0	19%	Business bounced back, after a 30% plunge between 1QFY09 and 4QFY08.
<i>By country</i>				
Malaysia	16.7	18.3	9%	Business bounced back, after an 11% decline between 1QFY09 and 4QFY08.
China (incl. HK)	27.2	28.4	4%	Business bounced back, after a 30% plunge between 1QFY09 and 4QFY08.
EBIT	(9.4)	5.7	nm	
Warehousing	0.1	4.5	>100%	Largely due to cost-cutting initiatives.
Transportation	(8.7)	2.0	nm	Improved volumes, cost-cutting initiatives, coupled with absence of lumpy one-off depreciation adjustment.
Others	(0.8)	(0.8)	(6%)	
Net inc/(exp)	(1.6)	(1.5)	(4%)	
Associates	0.7	0.4	(49%)	
Pretax profit	(10.2)	4.6	nm	
Taxation	0.9	(1.6)	nm	
Minority interest	(0.1)	(0.7)	>100%	
Net profit	(9.4)	2.3	nm	Business stabilised, impact of cost-cutting measures kicked in, absence of lumpy one-off depreciation adjustment.
EPS (sen)	(4.8)	1.2	nm	
EBIT margin	(21%)	12%	34% pts	
Pretax margin	(23%)	10%	33% pts	
Effective tax rate	9%	34%	25% pts	

Table 4: 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 5: 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	25.3	44.7	48.1
EBITDA margin (%)	19.3	13.4	21.7	22.5
Depreciation	-18.5	-28.9	-17.0	-17.0
Net Interest	-9.9	-7.0	-7.7	-10.4
Associates	0.1	5.0	5.4	6.0
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-5.6	25.5	26.7
Tax	-7.1	0.1	-0.8	-0.7
PAT	24.8	-5.5	24.7	26.0
Minorities	-9.0	-0.7	-7.0	-7.0
Net Profit	15.9	-6.2	17.7	19.0

Source: Company data, RHBRI estimates

Table 6: 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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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.

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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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