

Corporate Highlights

News Update

Integrated Logistics

Secures Land In Shanghai Yangshan Deep Seaport, Finally



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

10 March 2009

Share Price : RM0.525
Fair Value : RM0.52
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)	40.2	-	0.3	(4.8)	0.6	0.4	3.8	
2009f	241.1	(2.7)	(1.4)	nm	(38.9)	-	0.3	(1.9)	(0.7)	0.6	3.8	
2010f	249.8	17.1	8.7	nm	6.1	-	0.3	2.5	4.2	0.5	3.8	
2011f	250.4	18.2	9.2	6.5	5.7	-	0.2	2.5	4.4	0.5	3.8	

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

- ◆ **Done deal.** ILB, via its 70%-owned China unit, has acquired a 13-acre land plot in Shanghai Yangshan deep seaport from the authority for RMB61.6m (RM30.8m). We first caught the wind of this as early as end-2006 (see our *Visit Note* on ILB date 29 Dec 06). ILB intends to build a 3-storey consolidation and distribution warehouse on the land.
- ◆ **Fair price.** On per sq ft basis, the pricing comes to about RMB106. This is fairly consistent with RMB103 SGX-listed CWT paid for a 6-acre land plot in nearby Yangshan Free Port in end-2007 (CWT paid about S\$5.2m for the land at the then exchange rate of RMB5.05:S\$1).
- ◆ **No hurry to build.** In our recent discussion with ILB, as far as overseas expansion is concerned, the key focus is to complete its 50%-owned AED230m (RM230m) new warehouse in Dubai (that is 20-25% completed at present), while the new warehouse projects in China, including the one in Shanghai Yangshan deep seaport, will be put on the back burner pending more clarity in the global economic outlook.
- ◆ **Gearing to go up temporarily.** The latest land acquisition will increase ILB's net debt and gearing of RM173.1m and 0.44x as at 31 Dec 08 to RM203.9m and 0.52x. These numbers should come down over time on the back of ILB's on-going efforts to "restructure" its portfolio of warehouses by parting with (via sale-and-leaseback or outright sale) its maturing warehouses in Malaysia and China.
- ◆ **Forecasts.** Impact on earnings is insignificant given that funding cost for the land can be capitalised. The construction of the warehouse is unlikely to commence over the short term.
- ◆ **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/IBM's *ThinkPad* laptops and IBM's servers in China; and (2) Its long-term growth potential driven by four new overseas warehouse projects in the pipeline (see Table 2). However, rental yields and values of its properties, largely warehouses, will remain under tremendous pressure over the short term on the back of the global economic recession.
- ◆ **Maintain Underperform.** Indicative fair value is RM0.52 based on 6x FY12/10 EPS, in line with our 1-year forward target PER for the transport and logistics sector.

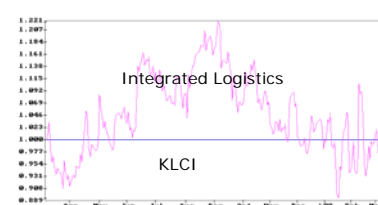
Issued Capital (m shares)	197.0
Market Cap(RMm)	103.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-0.89
Major Shareholders: (%)	
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

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

Share Price Chart



Relative Performance To KLCI



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Please read important disclosures at the end of this report.

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	200	50	1,300-1,500*
Yangshan Port, Shanghai (Ph 1)	RMB120m	55	70	500
Wujiang, China (Ph 1)	RMB50m	23	45.5	200
Yantian Port, Shenzhen	RMB100m	45	70	500
Total		323		2,500-2,700

*Effective, with auto-racking system

Source: Company, RHBRI

Table 3: Earnings Forecasts

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	214.2	241.1	249.8	250.4
Turnover growth (%)	12.3	12.6	3.6	0.2
EBITDA	41.3	28.4	59.8	61.3
EBITDA margin (%)	19.3	11.8	24.0	24.5
Depreciation	-18.5	-27.7	-29.1	-30.6
Net Interest	-9.9	-8.9	-13.5	-12.0
Associates	0.1	7.0	9.7	9.7
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-1.3	26.9	28.4
Tax	-7.1	0.3	-2.4	-2.5
PAT	24.8	-1.0	24.5	25.8
Minorities	-9.0	-1.6	-7.4	-7.6
Net Profit	15.9	-2.7	17.1	18.2

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

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Outperform = The stock return is expected to exceed the 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 KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

Industry/Sector Ratings

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

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

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

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