

Corporate Highlights

Results Note

Integrated Logistics

1QFY12/09 Performance Weighed Down By RM11.9m One-Off Depreciation Adjustment



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

20 May 2009

Share Price : RM0.79
Fair Value : RM0.72
Recom : **Underperform**
(Maintained)

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

Bloomberg: ILB MK

FYE	Turnover (RMm)	Net				PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (%)	Net	
		Profit# (RMm)	EPS# (sen)	Growth (%)	Gearing (%)						GDY (%)	
2008	214.2	2.6	1.3	(78.6)	60.5	-	0.4	(7.1)	0.6	0.4	2.5	
2009f	188.6	(6.2)	(3.1)	nm	(25.2)	-	0.4	(2.3)	(1.6)	0.7	2.5	
2010f	206.1	17.7	9.0	nm	8.8	-	0.4	(8.8)	4.4	0.7	2.5	
2011f	213.9	19.0	9.7	7.6	8.2	-	0.4	5.3	4.6	0.7	2.5	

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

- ◆ **In the red in 1QFY12/09.** ILB's 1QFY12/09 results came in below our expectation. It reported a net loss of RM9.4m in 1QFY12/09, vis-à-vis our full-year forecast of RM3.7m net profit. The variance against our forecast came largely from a one-off depreciation adjustment amounting to RM11.9m recognised during the quarter, largely to better reflect the economic values of certain equipment used in the transportation/logistics division.
- ◆ **Forecasts.** We now project ILB to report a net loss of RM6.2m in FY12/09, having reflected the one-off depreciation adjustment.
- ◆ **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, will remain under tremendous pressure over the short term on the back of the global economic recession.
- ◆ **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	-

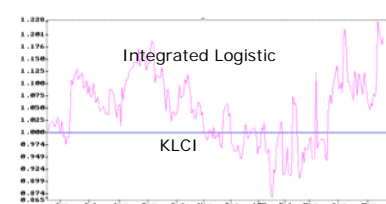
Issued Capital (m shares)	197.0
Market Cap(RMm)	155.7
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-0.89
Major Shareholders:	(%)
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	-268	+1	+1
Var to Cons (%)	nm	nm	nm

Share Price Chart



Relative Performance To KLCI



Please read important disclosures at the end of this report.

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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2008 3M	2009 3M	YoY Chg	Observations/Comments
Turnover	48.2	43.9	(9%)	Dragged down largely by poorer transportation's topline.
<i>By division</i>				
Warehousing	29.1	29.7	2%	We believe largely due to improvement in the performance of warehouses in Malaysia, from a washout a year ago, having signed up new tenants to fill up vacant space.
Transportation	19.1	14.3	(25%)	Reduced volumes on economic slowdown.
<i>By country</i>				
Malaysia	20.3	16.7	(18%)	We believe largely due to poorer transportation performance.
China (incl. HK)	27.9	27.2	(2%)	We believe due to reduced handling incomes from warehouses.
EBIT	7.1	(9.4)	nm	
Warehousing	7.0	0.1	(98%)	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	0.8	(8.7)	nm	Reduced volumes, coupled with the one-off RM11.9m depreciation adjustment.
Others	(0.7)	(0.8)	11%	
Net inc/(exp)	(1.8)	(1.6)	(16%)	
Associates	0.4	0.7	96%	
Pretax profit	5.6	(10.2)	nm	
Taxation	(0.6)	0.9	nm	
Minority interest	(1.2)	(0.1)	(89%)	
Net profit	3.8	(9.4)	nm	Weak operating results as recession started to bite, coupled with the one-off RM11.9m depreciation adjustment.
EPS (sen)	1.9	(4.8)	nm	
EBIT margin	15%	(21%)	(36% pts)	
Pretax margin	12%	(23%)	(35% pts)	
Effective tax rate	11%	nm	nm	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2008 4Q	2009 1Q	QoQ Chg	Observations/Comments
Turnover	52.9	43.9	(17%)	As global recession deepened.
<i>By division</i>				
Warehousing	32.6	29.7	(9%)	As global recession deepened.
Transportation	20.3	14.3	(30%)	As global recession deepened.
<i>By country</i>				
Malaysia	18.9	16.7	(11%)	As global recession deepened.
China (incl. HK)	34.0	27.2	(20%)	As global recession deepened.
EBIT	(4.2)	(9.4)	>100%	
Warehousing	1.3	0.1	(90%)	Weak overhead absorption on reduced volumes.
Transportation	(4.3)	(8.7)	>100%	Reduced volumes, coupled with the one-off RM11.9m depreciation adjustment.
Others	(1.2)	(0.8)	(33%)	
Net inc/(exp)	(2.4)	(1.6)	(35%)	
EI	19.0	0.0	nm	Gain from the sale and lease back of warehouses in Shanghai in 4QFY08.
Associates	0.7	0.7	11%	
Pretax profit	13.0	(10.2)	nm	
Taxation	(2.1)	0.9	nm	
Minority interest	(4.9)	(0.1)	(97%)	
Net profit	6.1	(9.4)	nm	Weak operating results as recession deepened, coupled with the one-off RM11.9m depreciation adjustment.
EPS (sen)	3.1	(4.8)	nm	
EBIT margin	(8%)	(21%)	(13% pts)	
Pretax margin	25%	(23%)	(48% pts)	
Effective tax rate	16%	nm	nm	

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 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.

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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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