Corporate Highlights

Results Note

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

27 October 2009

Integrated Logistics

Another Profitable Quarter In 3QFY12/09

Share Price	:	RM0.94
Fair Value	:	RM0.95
Recom	:	**Market Perform** (Upgraded)

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 (%)
2008	214.2	2.6	1.3	(78.6)	72.0	-	0.5	(8.5)	0.6	0.4	2.1
2009f	188.6	(1.9)	(1.0)	nm	(95.8)	-	0.5	(2.9)	(0.5)	0.6	2.1
2010f	206.1	18.8	9.5	nm	9.9	-	0.5	(11.1)	4.6	0.7	2.1
2011f	213.9	20.2	10.2	7.4	9.2	-	0.4	6.1	4.8	0.6	2.1

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

- **Another profitable quarter.** ILB registered another profitable quarter in 3QFY12/09 with a net profit of RM2.5m, vis-à-vis a net profit of RM2.3m in 2Q and a net loss of RM9.4m in 1Q. Cumulatively, for 9MFY12/09, ILB was still in a net loss of RM4.6m. However, as against our full-year forecast of RM6.2m net loss, this is considered above our expectation as we expect ILB to remain profitable in 4Q. We believe the variance against our forecast came largely from cost-cutting initiatives that bore fruit, and not a pick-up in sales. Yoy, 3Q turnover slumped by a larger magnitude of -21%, vis-à-vis -13% in 2Q and -9% in 1Q.

- **Forecasts.** Having factored in better cost efficiency, we now forecast ILB to report a smaller net loss of RM1.9m in FY12/09 (vis-à-vis RM6.2m net loss previously), while FY12/10-11 net profit forecasts are raised by 6% 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 4). However, rental yields and values of its properties, largely warehouses, are unlikely to improve significantly over the short term on the back of only a mild rebound in the global economy.

- **Upgrade to Market Perform from Underperform.** Indicative fair value is raised by about a third from RM0.72 to RM0.95 based on 10x revised FY12/10 EPS, from 8x previously to reflect a lower risk premium we accord to the transport and logistics sector as the worst appears to be over.

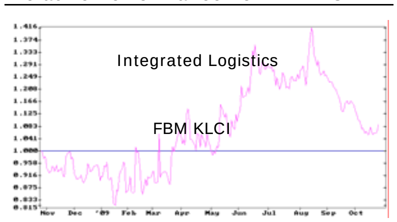
RHBRI	Vs.	Consensus
✓	Above	-
	In Line	-
	Below	-

Issued Capital (m shares)	197.0
Market Cap(RMm)	185.2
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-1.15
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	nm	+6	+6
Var to Cons (%)	nm	nm	nm

Share Price Chart

Relative Performance To FBM 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 9M	2009 9M	YoY Chg	Observations/Comments
Turnover	161.4	137.5	(15%)	Weaker performance across the board.
By division				
Warehousing	94.3	88.7	(6%)	Hit by reduced rental and handling incomes on economic slowdown.
Transportation	67.1	48.8	(27%)	Reduced volumes on economic slowdown.
By country				
Malaysia	66.8	54.2	(19%)	We believe largely due to poorer transportation business.
China (incl. HK)	94.6	83.2	(12%)	We believe largely due to reduced handling incomes from warehouses.
EBIT	26.3	2.7	(90%)	
Warehousing	26.4	10.7	(60%)	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	2.1	(5.6)	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	(2.1)	(2.4)	10%	
Net inc/(exp)	(6.8)	(4.7)	(31%)	
Associates	(0.6)	1.6	nm	
Pretax profit	18.9	(0.4)	nm	
Taxation	(5.1)	(2.5)	(51%)	
Minority interest	(4.1)	(1.8)	(57%)	
Net profit	9.8	(4.6)	nm	Weak operating results as downturn set in, coupled with the one-off RM11.9m depreciation adjustment in 1QFY09.
EPS (sen)	5.0	(2.4)	nm	
EBIT margin	16%	2%	(14% pts)	
Pretax margin	12%	(0%)	(12% pts)	
Effective tax rate	27%	nm	nm	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 1Q	2009 2Q	2009 3Q	QoQ Chg	Observations/Comments
Turnover	43.9	46.6	46.9	1%	
By division					
Warehousing	29.7	29.6	29.4	(1%)	Business stabilised, after a 9% drop between 1QFY09 and 4QFY08.
Transportation	14.3	17.0	17.5	3%	Business stabilised, after a 30% plunge between 1QFY09 and 4QFY08.
By country					
Malaysia	16.7	18.3	19.2	5%	Business stabilised, after an 11% decline between 1QFY09 and 4QFY08.
China (incl. HK)	27.2	28.4	27.7	(3%)	Business stabilised, after a 30% plunge between 1QFY09 and 4QFY08.
EBIT	(9.4)	5.7	6.4	12%	Largely driven cost-cutting initiatives.
Warehousing	0.1	4.5	6.1	36%	Largely driven cost-cutting initiatives.
Transportation	(8.7)	2.0	1.1	(43%)	Remained in the black on cost-cutting initiatives.
Others	(0.8)	(0.8)	(0.8)	6%	
Net inc/(exp)	(1.6)	(1.5)	(1.6)	9%	
Associates	0.7	0.4	0.5	23%	
Pretax profit	(10.2)	4.6	5.3	15%	
Taxation	0.9	(1.6)	(1.9)	19%	
Minority interest	(0.1)	(0.7)	(0.9)	34%	
Net profit	(9.4)	2.3	2.5	6%	Business stabilised, impact of cost-cutting measures kicked in.
EPS (sen)	(4.8)	1.2	1.3	8%	
EBIT margin	(21%)	12%	14%	1% pt	
Pretax margin	(23%)	10%	11%	1% pt	
Effective tax rate	9%	34%	36%	1% pt	

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	30.3	45.7	49.1
EBITDA margin (%)	19.3	16.1	22.2	22.9
Depreciation	-18.5	-28.9	-17.0	-17.0
Net Interest	-9.9	-6.9	-7.5	-10.1
Associates	0.1	5.0	5.4	6.0
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-0.5	26.7	28.0
Tax	-7.1	0.0	-0.8	-0.8
PAT	24.8	-0.5	25.9	27.2
Minorities	-9.0	-1.4	-7.1	-7.1
Net Profit	15.9	-1.9	18.8	20.2

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

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.