

Corporate Highlights

Results Note

Integrated Logistics

Back In The Black In 1HFY12/10



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

17 August 2010

Share Price : RM0.965
Fair Value : RM1.48
Recom : **Outperform**
(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 (%)
2009	187.0	(17.7)	(9.0)	nm	nm	-	0.5	3.2	(4.7)	0.3	3.0
2010f	164.8	19.8	10.0	nm	9.9	-	0.5	1.4	5.0	Cash	2.0
2011f	130.5	22.4	11.4	13.2	8.7	-	0.5	19.3	5.4	Cash	2.0
2012f	136.5	23.4	11.9	4.5	8.3	-	0.5	14.6	5.4	Cash	2.0

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

- ◆ **Better 2H ahead.** 1HFY12/10 net profit came in at only 25% of our full-year forecast. However, we consider the results within our expectation as we expect: (1) Stronger quarters ahead against a backdrop of an improving global economy; and (2) Huge interest savings from 2H onwards upon the completion of the disposal of its Malaysian business.
- ◆ **A China play.** Upon the disposal, ILB will very much become a China-based company listed in Malaysia, operating six key warehouses in China. It is also building a new one in Dubai, planning for a second one in Wujiang, and according to our sources, planning for a new one in the eastern central part of China (see Table 4).
- ◆ **Forecasts.** Maintained.
- ◆ **Risks.** These include: (1) A double-dip in the global economy, and hence China's export sector; (2) Prolonged downturn in Dubai; and (3) Rising costs in China, particularly, labour.
- ◆ **Maintain Outperform.** There have been a few positive developments for ILB on the China front: (1) The signing of idX, a US-based international interior design firm, as the tenant for ILB's entire new warehouse in Wujiang; (2) The successful listing of China associate Hengyang on the Catalist Board of SGX; and (3) The possibility of ILB embarking on a new warehouse project in the eastern central part of China, backed by a long-term tenancy signed with a multi-national corporation. Indicative fair value is RM1.48 based on 13x FY12/11 EPS, at a 30% premium to our benchmark 1-year forward target PER for the transport and logistics sector of 10x to reflect ILB's superior earnings growth visibility with the good execution of its second wave of investment/expansion in China.

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

Issued Capital (m shares)	197.0
Market Cap (RMm)	190.1
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.695-1.15
Major Shareholders:	(%)
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY10	FY11	FY12
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.

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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2009 6M	2010 6M	YoY Chg	Observations/Comments
Turnover	90.6	96.6	7%	Driven largely by improved transportation topline.
<i>By division</i>				
Warehousing	59.3	61.1	3%	We believe improved performance in China was offset by weaker showing in Malaysia.
Transportation	31.3	35.5	13%	Increased volumes on economic recovery.
<i>By country</i>				
Malaysia	35.0	38.6	10%	We believe largely driven by transportation business.
China (incl. HK)	55.6	58.0	4%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
EBIT	(3.7)	11.5	nm	
Warehousing	4.6	9.0	96%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
Transportation	(6.7)	3.3	nm	Increased volumes and hence better economies of scale. There was a one-off RM11.9m depreciation adjustment in 1QFY09 (to better reflect the economic values of certain equipment used in the transportation/logistics division).
Others	(1.6)	(0.8)	(49%)	
Net inc/(exp)	(3.1)	(2.8)	(9%)	
EI	0.0	0.0	nm	
Associates	1.1	0.7	(40%)	
Pretax profit	(5.6)	9.4	nm	
Taxation	(0.6)	(2.8)	>100%	
Minority interest	(0.8)	(1.6)	94%	
Net profit	(7.1)	5.0	nm	Improved operating results. 1QFY12/09 performance was weighed down by the one-off RM11.9m depreciation adjustment.
EPS (sen)	(3.6)	2.6	nm	
EBIT margin	(4%)	12%	16% pts	
Pretax margin	(6%)	10%	16% pts	
Effective tax rate	(11%)	30%	41% pts	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2010 1Q	2010 2Q	QoQ Chg	Observations/Comments
Turnover	47.1	49.5	5%	Economic recovery gathered momentum.
<i>By division</i>				
Warehousing	30.1	31.0	3%	Economic recovery gathered momentum.
Transportation	17.1	18.5	8%	Economic recovery gathered momentum.
<i>By country</i>				
Malaysia	18.4	20.1	9%	
China (incl. HK)	28.7	29.3	2%	Economic recovery gathered momentum.
EBIT	6.1	5.4	(11%)	Eroded by "preliminary expenditures from a new project in Henan, China".
Warehousing	4.4	4.6	3%	
Transportation	1.7	1.6	(7%)	
Others	(0.1)	(0.7)	>100%	
Net inc/(exp)	(1.4)	(1.4)	3%	
Associates	0.5	0.2	(63%)	
Pretax profit	5.2	4.2	(19%)	
Taxation	(0.9)	(1.9)	99%	
Minority interest	(1.1)	(0.5)	(49%)	
Net profit	3.2	1.8	(44%)	
EPS (sen)	1.7	0.9	(47%)	
EBIT margin	13%	11%	(2% pts)	Eroded by "preliminary expenditures from a new project in Henan, China".
Pretax margin	11%	8%	(3% pts)	
Effective tax rate	18%	44%	26% pts	

Table 4: Warehouses Under ILB's Stable

Warehouse	Floor Area ('000 sq ft)	Ownership	Remarks
Shenzhen 1	320	No [^]	-
Shenzhen 2	450	Yes	-
Shenzhen 3	640	Yes	-
Shanghai 1	180	No ^{^ ^}	-
Shanghai 2	210	No ^{^ ^}	-
Wujiang 1	280	Yes	-
Dubai (Jebel Ali FTZ)	1,300-1,500*	50%-owned	35% completion at present, full completion by end-2010, total project cost of RM240m.
Wujiang 2	240	Yes	Total project cost of only RMB30-40m (RM15-20m), vis-à-vis RMB110-120m (RM54-59m) of Wujiang 1 as bulk of the basic infrastructure cost has already been put in.
Eastern central part, China#	900#	Yes#	Total project cost of US\$25m (RM80m)#

*Effective, with auto-racking system

[^] Sale-and-lease-back with Mitsui & Co Ltd, Japan

^{^ ^} Sale-and-lease-back with Mapletree, Singapore

#According to RHBRI's independent sources

Source: RHBRI, company

Table 5: Earnings Forecasts

FYE Dec (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	187.0	164.8	130.5	136.5
Turnover growth (%)	-12.7	-11.9	-20.8	4.6
EBITDA	29.6	33.3	31.2	33.6
EBITDA margin (%)	15.8	20.2	23.9	24.6
Depreciation	-28.4	-13.6	-10.2	-10.2
Net Interest	-6.4	2.8	3.9	0.4
Associates	1.9	5.4	6.0	8.0
EI	13.6	0.0	0.0	0.0
Pretax Profit	10.4	27.9	30.9	31.8
Tax	-8.0	-0.7	-0.7	-0.6
PAT	2.5	27.2	30.2	31.1
Minorities	-6.6	-7.4	-7.8	-7.7
Net Profit	-4.1	19.8	22.4	23.4

Source: Company data, RHBRI estimates

Table 6: Forecast Assumptions

FYE Dec	FY10F	FY11F	FY12F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Wujiang	280	280	280
Dubai	-	1,000	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.

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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