Malaysia
MARKET DATELINE ● PP 7767/09/2010(025354)

Corporate Highlights

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

News Update

22 February 2010

Integrated Logistics

Bye Bye Malaysia

Share Price	:	RM0.925
Fair Value	:	RM1.24
Recom	:	**Outperform** (Maintained)

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)	70.8	-	0.5	(8.4)	0.6	0.4	2.2
2009f	188.6	(1.9)	(1.0)	nm	(94.2)	(1.0)	0.5	(2.9)	(0.5)	0.6	2.2
2010f	210.4	18.8	9.5	nm	9.7	10.0	0.5	(8.9)	4.6	0.6	2.2
2011f	218.3	20.1	10.2	7.1	9.1	10.0	0.4	6.9	4.8	0.5	2.2

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

- **An offer to buy its Malaysia's core operating unit.** ILB has received an offer from AWH Equity Holdings Sdn Bhd (AWH) to acquire its core operating unit in Malaysia, Integrated Logistics Solutions Sdn Bhd (ILS), for RM170m cash, "subject to adjustments" (that are not disclosed by ILB).
- **Effective selling price unknown, serious buyer.** We believe the effective price tag will be substantially lower, assuming that it will have to be adjusted for RM138.1m debt at ILS as at 31 Dec 08. The adjusted price tag may be more consistent with ILS's net assets of only RM13.1m as at 31 Dec 08. ILS reported a net loss of RM29.2m on RM85.8m turnover in FY12/08. The de-consolidation of RM138.1m debt at ILS alone will reduce ILB's net debt and gearing of RM152.4m and 0.41x as at 30 Sep 09 to RM14.3m and 0.04x. Based on our estimate, *ceteris paribus*, the deal will enhance ILB's FY12/10 net profit by 13.5% as interest savings will more than offset profits foregone (see Table 2). AWH appears a serious buyer as its owners, i.e. Dato' Wan Ariff bin Wan Hamzah (70%) and Sidqi Ahmad Said bin Ahmad (30%) are already in the marine and oil & gas logistics/support service business via Syarikat Borcos Shipping Sdn Bhd.
- **Pursuing growth outside Malaysia.** While we are unable to ascertain if ILB is getting a good price for ILS (as the effective price tag is unknown), the disposal is certainly in line with ILB's strategy to dispose of its mature and low-yielding assets (largely in Malaysia) and reinvest the proceeds in high-growth and high-yielding assets (particularly in China and the Gulf states) (see Table 3). We are positive on the latest development.
- **Forecasts.** Maintained, pending finalisation of the price tag and completion of the deal.
- **Risks.** These include: (1) A double-dip in the global economy, and hence China's export sector; (2) Continued marginalisation of Malaysia as a manufacturing base for multi-nationals; and (3) Rising fuel cost.
- **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. Indicative fair value is RM1.24 based on 13x FY12/10 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.

Issued Capital (m shares)	197.0
Market Cap(RMm)	176.3
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.52-1.15
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

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Table 2: Impact On Earnings From The Disposal		
FY12/10 (RMm)	**Before**	**After**
Net Profit	18.8	18.8
ILS's net profit foregone	-	-4.4
Interest savings*	-	6.9
Adjusted Net Profit	18.8	21.3
Chg (%)	-	*+13.5*

**From de-consolidation of RM138.1m debt at ILS at 5% p.a.*

Table 3: New Overseas Warehouse Projects In The Pipeline				
Location	**Project Cost**	**Project Cost (RMm)**	**ILB's Stake (%)**	**Floor area ('000 sq ft)**
Jebel Ali FTZ, Dubai	AED275m	250	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 4: Earnings Forecasts				
FYE Dec (RMm)	**FY08a**	**FY09F**	**FY10F**	**FY11F**
Turnover	214.2	188.6	210.4	218.3
Turnover growth (%)	12.3	-12.0	11.6	3.7
EBITDA	41.3	30.3	42.3	45.6
EBITDA margin (%)	19.3	16.1	20.1	20.9
Depreciation	-18.5	-28.9	-17.0	-17.0
Net Interest	-9.9	-6.9	-4.6	-7.3
Associates	0.1	5.0	5.4	6.0
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-0.5	26.1	27.3
Tax	-7.1	0.0	-0.6	-0.6
PAT	24.8	-0.5	25.5	26.8
Minorities	-9.0	-1.4	-6.7	-6.6
Net Profit	15.9	-1.9	18.8	20.1

Source: Company data, RHBRI estimates

Table 5: Forecast Assumptions			
FYE Dec	**FY09F**	**FY10F**	**FY11F**
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Wujiang	-	280	280
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.

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