

Corporate Highlights

Results Note

Integrated Logistics

4QFY12/09 Results Hit By "Kitchen Sinking"



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

24 February 2010

Share Price : RM0.945
Fair Value : RM1.24
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	3.1	(4.7)	0.3	3.2
2010f	210.4	18.8	9.5	nm	9.9	-	0.5	(9.1)	4.8	0.6	2.1
2011f	218.3	20.1	10.2	7.1	9.2	-	0.5	7.0	4.9	0.5	2.1
2012f	224.3	21.5	10.9	6.8	8.7	-	0.4	6.2	5.0	0.5	2.1

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

- ◆ **Adjustments in 4QFY12/09 ahead of ILS disposal.** Excluding RM13.6m gains from the sale-and-lease-back of the oldest of its three warehouses in Shenzhen, ILB reported an adjusted net loss of RM17.7m in FY12/09, substantially higher than our net loss forecast of RM1.9m. We understand that the wider-than-expected net loss was largely due to adjustments made ahead of ILB's disposal of its core operating unit in Malaysia, Integrated Logistics Solutions Sdn Bhd (ILS), including the provision for hefty disposal stamp duty and write-off of office renovation expenses incurred by ILS recently (that the buyer is unwilling to absorb). As such, we do not believe ILB's weak performance in 4QFY12/09 should be a major cause for concern. To recap, ILB last week received an offer from AWH Equity Holdings Sdn Bhd (AWH) to buy over ILS for RM170m cash, "subject to adjustments" (that we believe including RM138.1m debt at ILS).
- ◆ ILB has declared a first and final dividend of 3sen per share (less 25% tax) coupled with a 1-for-20 share dividend.
- ◆ **Forecasts.** Maintained.
- ◆ **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.

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

Issued Capital (m shares)	197.0
Market Cap(RMm)	185.2
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	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.

Joshua CY Ng
(603) 92802151
joshuang@rhb.com.my

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2008 12M	2009 12M	YoY Chg	Observations/Comments
Turnover	214.2	187.0	(13%)	Weaker performance across the board.
<i>By division</i>				
Warehousing	126.9	120.0	(5%)	Hit by reduced rental and handling incomes on economic slowdown.
Transportation	87.4	67.0	(23%)	Reduced volumes on economic slowdown.
<i>By country</i>				
Malaysia	85.6	72.8	(15%)	We believe largely due to poorer transportation business.
China (incl. HK)	128.6	114.2	(11%)	We believe largely due to reduced handling incomes from warehouses.
EBIT	22.1	0.8	(96%)	
Warehousing	27.7	7.1	(74%)	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. Also, adjustments ahead of the disposal of ILS including provision for disposal stamp duty and write-off of office renovation expenses.
Transportation	(2.3)	(2.9)	29%	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	(3.3)	(3.4)	1%	
Net inc/(exp)	(9.2)	(5.9)	(35%)	
EI	19.0	13.6		Gains from the sale-and-lease-back of warehouses in China.
Associates	0.1	1.9	>100%	
Pretax profit	31.9	10.4	(67%)	
Taxation	(7.1)	(8.0)	12%	
Minority interest	(9.0)	(6.6)	(27%)	
Net profit	15.9	(4.1)	nm	Weak operating results coupled with the one-off RM11.9m depreciation adjustment in 1QFY09.
EPS (sen)	8.1	(2.2)	nm	
Net profit ex-EI	(3.1)	(17.7)	>100%	
EBIT margin	10%	0%	(10% pts)	
Pretax margin	15%	6%	(9% pts)	
Effective tax rate	22%	76%	54% pts	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 1Q	2009 2Q	2009 3Q	2009 4Q	QoQ Chg	Observations/Comments
Turnover	43.9	46.6	46.9	49.5	6%	
<i>By division</i>						
Warehousing	29.7	29.6	29.4	31.3	6%	In line with the pick-up in the global economy during the quarter.
Transportation	14.3	17.0	17.5	18.2	4%	In line with the pick-up in the global economy during the quarter.
<i>By country</i>						
Malaysia	16.7	18.3	19.2	18.6	(4%)	Maybe reflective of the uneven recovery in Malaysia's economy.
China (incl. HK)	27.2	28.4	27.7	31.0	12%	Reflective of the economic recovery in China.
EBIT	(9.4)	5.7	6.4	(1.9)	nm	Dragged down by adjustments ahead of the disposal of ILS.
Warehousing	0.1	4.5	6.1	(3.6)	nm	These adjustments include provision for disposal stamp duty and write-off of office renovation expenses.
Transportation	(8.7)	2.0	1.1	2.7	>100%	
Others	(0.8)	(0.8)	(0.8)	(1.0)	26%	
Net inc/(exp)	(1.6)	(1.5)	(1.6)	(1.3)	(22%)	
EI	0.0	0.0	0.0	13.6	nm	
Associates	0.7	0.4	0.5	0.3	(25%)	
Pretax profit	(10.2)	4.6	5.3	10.8	>100%	Underpinned by disposal gains.
Taxation	0.9	(1.6)	(1.9)	(5.5)	>100%	
Minority interest	(0.1)	(0.7)	(0.9)	(4.8)	>100%	
Net profit	(9.4)	2.3	2.5	0.5	(79%)	Underpinned by disposal gains.
EPS (sen)	(4.8)	1.2	1.3	0.3	(77%)	
Net profit ex-EI	(9.4)	2.3	2.5	(13.1)	nm	
EBIT margin	(21%)	12%	14%	(4%)	(17% pts)	Hurt by adjustments ahead of the disposal of ILS.
Pretax margin	(23%)	10%	11%	22%	11% pts	
Effective tax rate	9%	34%	36%	51%	15% pts	

Table 4: 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 5: Earnings Forecasts

FYE Dec (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	187.0	210.4	218.3	224.3
Turnover growth (%)	-12.7	12.5	3.7	2.7
EBITDA	29.6	42.3	45.6	47.7
EBITDA margin (%)	15.8	20.1	20.9	21.3
Depreciation	-28.4	-17.0	-17.0	-17.0
Net Interest	-6.4	-4.6	-7.3	-10.2
Associates	1.9	5.4	6.0	8.0
EI	13.6	0.0	0.0	0.0
Pretax Profit	10.4	26.1	27.3	28.5
Tax	-8.0	-0.6	-0.6	-0.5
PAT	2.5	25.5	26.8	28.1
Minorities	-6.6	-6.7	-6.6	-6.5
Net Profit	-4.1	18.8	20.1	21.5

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

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

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.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.