# Corporate Highlights

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

## Visit Note

**13 January 2010**

# Integrated Logistics

*Good Execution Of Second Wave Of Investment/Expansion In China*

| | | |
|---|---|---|
| Share Price | : | RM0.895 |
| Fair Value | : | RM1.24 |
| Recom | : | **Outperform** (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) | 68.5 | - | 0.4 | (8.1) | 0.6 | 0.4 | 2.2 |
| **2009f** | 188.6 | (1.9) | (1.0) | nm | (91.2) | (1.0) | 0.5 | (2.8) | (0.5) | 0.6 | 2.2 |
| **2010f** | 210.4 | 18.8 | 9.5 | nm | 9.4 | 10.0 | 0.4 | (8.7) | 4.6 | 0.6 | 2.2 |
| **2011f** | 218.3 | 20.1 | 10.2 | 7.1 | 8.8 | 10.0 | 0.4 | 6.7 | 4.8 | 0.5 | 2.2 |

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

- **idX takes up whole of Wujiang warehouse.** ILB has signed up idX as the tenant for its new warehouse in Wujiang. The US-based interior design firm has taken up the entire area of 280k sq ft of the newly completed Phase 1 of the project.

- **Foreversun listed on Catalist Board of SGX.** ILB's China associate Forversun, a tank farm owner/operator in the Yangtze Delta region, was listed on the Catalist Board of SGX under the name of "Hengyang Petrochemical Logistics Ltd" (Hengyang) in a low-key event on 9 Oct 09.

- **A new warehouse project in the eastern central part of China?** We understand that there is a possibility that ILB may embark on a new warehouse project in the eastern central part of China, backed by a long-term tenancy signed with a multinational.

- **Cold room rates hold up in Dubai.** Despite the credit crisis, cold room rates in Dubai have held up due to shortage (while the going rates for normal warehouses are believed to have halved). This augurs well for ILB's 50%-owned warehouse currently under construction in Dubai that is substantially equipped with cold room facilities.

- **Forecasts.** We are raising FY12/10-11 net profit forecasts by 3% each largely to reflect 280k sq ft of rental-yielding area in the new warehouse in Wujiang (from 120k previously).

- **Risks.** These include: (1) A double-dip in the global economy, and hence the export sector of China; (2) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations; and (3) Rising fuel cost.

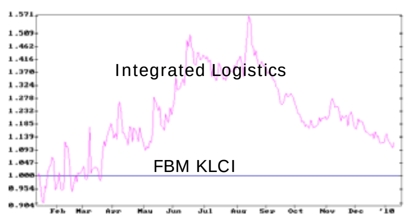
- **Upgrade to Outperform from Market Perform.** We are raising ILB's indicative fair value by 33% from RM0.93 to RM1.24 based on 13x revised FY12/10 EPS, at a 30% premium to our benchmark 1-year forward target PER for the transport and logistics sector of 10x to reflect ILB's superior earnings growth 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) | 0.50-1.15 |
| **Major Shareholders:** | **(%)** |
| Takahashi & Tee TS | >40 |
| Lembaga Tabung Haji | 9.4 |

| FYE Dec | FY09 | FY10 | FY11 |
|---|---|---|---|
| EPS Revision (%) | - | +3 | +3 |
| Var to Cons (%) | nm | nm | nm |

**Share Price Chart**

**Relative Performance To FBM KLCI**

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**Please read important disclosures at the end of this report.**

**Good Execution Of Second Wave Of Investment/Expansion In China**

- **Highlights.** Key takeaways from our recent meeting with the company are:
  1. There are a few positive developments 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 Foreversun under the name of "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 multinational; and
  2. Despite the credit crisis, cold room rates in Dubai have held up due to shortage. This augurs well for ILB's 50%-owned warehouse currently under construction in Dubai that will be substantially equipped with cold room facilities.

- **idX takes up whole of Wujiang warehouse.** ILB has signed up idX (www.dixcorporation.com) as the tenant for its new warehouse in Wujiang, 50km from Shanghai. The US-based interior design firm with international clients such as *Nike, Ralph Lauren, Tommy Hilfiger, Starbucks, Calvin Klein* and *Bed, Bath & Beyond*, has taken up the entire area of 280k sq ft of the newly completed Phase 1 of the project. ILB is now planning for Phase 2 with a total area of 240k sq ft. The Phase 1 cost ILB about RMB110-120m (RM54-59m), while the Phase 2 will cost only about RMB30-40m (RM15-20m) as bulk of the basic infrastructure for the entire project has already been put in during the construction of the Phase 1. We are revising up our forecasts that assumed only 120k sq ft of area were rental-yielding (vis-à-vis 280k sq ft actual at present).

- **Foreversun listed on Catalist Board of SGX.** ILB's China associate Forversun, a tank farm owner/operator in the Yangtze Delta region, was listed on the Catalist Board of SGX under the name of "Hengyang Petrochemical Logistics Ltd" (Bloomberg: HYNG SP) (Hengyang) in a low-key event on 9 Oct 09. During its IPO, 18m new shares priced at S$0.38/share were offered to investors by way of private placement, raising gross proceeds of S$6.8m that will largely be used to part finance its new tank farm project called Deqiao Phase 1. At the last traded price of S$0.455 and its enlarged share base of 118m shares, Hengyang boasts a market value of S$53.7m (RM129m). ILB's 25.4% stake in the company (diluted from 30% previously) is therefore worth RM32.8m or 17sen per ILB share.

- Hengyang has embarked on two expansion plans concurrently at present that will boost its capacity by 172% from 97,600 to 265,600 cu m. Construction works on both expansion plans, i.e. Foreversun (Expansion) (139,600 cu m) and Deqiao Phase 1 (265,600 cu m) are already at fairly advanced stages and completion is targeted by 1Q2010. In addition, Deqiao Phase 2 (439,600 cu m) is already on the drawing board to cater to future demand (see Table 2). Recall, Hengyang is well positioned to capitalise on the rising demand for liquid chemical storage facilities along the booming eastern petrochemical belt of China. It has a solid portfolio of clientele comprising oil majors such as BP, Shell and BASF, as well as certain China-based petrochemical companies. We project Hengyang to contribute RM5-6m p.a. to ILB's PBT in FY12/10-11.

**Table 2: Hengyang's Expansion Plans**

| | Location | No. of Tanks | Capacity (cu m) |
|---|---|---|---|
| Foreversun (Existing) | Southern bank of Yangtze River, Jiangyin City, Jiangsu Province | 37 | 97,600 |
| Foreversin (Expansion) | Southern bank of Yangtze River, Jiangyin City, Jiangsu Province | 12 | 139,600 |
| Deqiao (Phase 1) | Northern bank of Yangtze River, Jingjiang City, Jiangsu Province | 42 | 265,600 |
| Deqiao (Phase 2) | Northern bank of Yangtze River, Jingjiang City, Jiangsu Province | 76 | 439,600 |

*Source: Company*

- **A new warehouse project in the eastern central part of China?** We understand that there is a possibility that ILB may embark on a new warehouse project in the eastern central part of China, backed by a long-term tenancy signed with a multinational. We understand that if it happens, the new warehouse project may boost ILB's topline in China by 30%. We have yet to reflect this possibility in our forecasts.

- **Cold room rates hold up in Dubai.** Despite the credit crisis, cold room rates in Dubai have held up due to shortage (while the going rates for normal warehouses are believed to have halved). This augurs well for ILB's 50%-owned warehouse currently under construction in Dubai that is substantially equipped with cold room facilities, i.e. 42,000 out of 67,400 pallet positions, or 62% of total. At 35% completion currently, the project is expected to be fully completed by end-2010. Recall, ILB's 50% JV partner for the project, i.e. Dubai-based National Trading & Development Establishment (NTDE) (www.ntde.ae), will take up part of the space to expand its fast moving consumer goods (FMGC) distribution business in the Gulf region. The business carries international brands such as

*Cadbury's, Davidoff, Häagen-Dazs* and *Lay's* in the Gulf region. We do not expect material contribution from this warehouse project during our forecast period.

- **Forecasts.** We are raising FY12/10-11 net profit forecasts by 3% each largely to reflect 280k sq ft of rental-yielding area in the new warehouse in Wujiang (from 120k previously).
- **Risks.** These include: (1) A double-dip in the global economy, and hence the export sector of China; (2) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations; and (3) Rising fuel cost.
- **Investment case.** ILB's earnings growth visibility has improved tremendously with the recovery in the global economy in general, and in specific, good execution of its second wave of investment/expansion in China including: (1) The ability to secure a bluechip tenant to take up its entire new warehouse in Wujiang; (2) The successful listing of associate Hengyang in SGX that will enable the tank farm owner/operator to tap into equity and debt markets more easily for funding for expansion; and (3) The possibility of ILB embarking on a new warehouse project in the eastern central part of China over the immediate term, backed by a long-term tenancy signed with a multinational.
- We are raising ILB's indicative fair value by 33% from RM0.93 to RM1.24 based on 13x revised 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. Upgrade to **Outperform** from Market Perform.

**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 |

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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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