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

Results Note

30 November 2010

Integrated Logistics

Back In The Black In 9MFY12/10

Share Price	:	RM1.02
Fair Value	:	RM1.47
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 (%)
2009	187.0	(17.7)	(9.0)	nm	nm	-	0.5	3.3	(4.7)	0.3	2.9
2010f	173.2	11.4	5.8	nm	17.6	-	0.5	(2.9)	3.0	0.5	2.9
2011f	138.0	22.3	11.3	95.3	9.0	-	0.5	1.4	5.5	0.2	2.9
2012f	151.5	28.1	14.3	26.0	7.1	-	0.5	10.2	6.6	0.1	2.9

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

- **Bumper 4Q ahead.** 9MFY12/10 net profit came in at only 61% of our full-year forecast. However, we consider the results within our expectations as we expect a bumper final quarter on the back of: (1) A seasonally strong 4Q; and (2) Huge interest savings following the completion of the disposal of its Malaysian business in end-3Q.

- **Revelation by Hong Leong Asia.** Hong Leong Asia revealed during a recent investors' conference that its refrigeration and cooling products division under Frestech/Xinfei based in Henan, China, has formed a "partnership with Integrated Logistics China to build and operate a central distribution centre".

- **A high-growth blue-chip client.** To ILB, we consider Frestech/Xinfei a high-growth blue-chip client of which ILB can piggy-back on to expand its presence and scale of operation in China. Frestech/Xinfei is the second largest refrigerator and freezer maker in China. Analysts project the market for refrigerators and freezers in China to grow by a CAGR of 9.9% between 2009 and 2013.

- **New warehouse to contribute a quarter of FY12/12 earnings.** We understand that backed by a 5+5 year long-term lease agreement with Frestech/Xinfei, ILB's US$25m (RM77.5m) investment in the warehouse will have a pay-back period of 8-10 years. We project the new warehouse to contribute about a quarter of ILB's net profit in FY12/12.

- **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.

- **A China play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has very much now become a high-growth China-based company listed in Malaysia. Indicative fair value is RM1.47 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)	201.0
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.815-1.07
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.7

FYE Dec	FY10	FY11	FY12
EPS Revision (%)	-	-	-
Var to Cons (%)	nm	nm	nm

Share Price Chart

Relative Performance To FBM KLCI

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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2009 9M	2009 9M	YoY Chg	Observations/Comments
Turnover	137.5	146.6	7%	Drivenly largely by improved transportation topline.
By division				
Warehousing	88.7	92.1	4%	We believe improved performance in China was partially offset by weaker showing in Malaysia.
Transportation	48.8	54.5	12%	Increased volumes on economic recovery.
By country				
Malaysia	54.2	59.1	9%	We believe largely driven by transportation business.
China (incl. HK)	83.2	87.5	5%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
EBIT	3.3	18.4	>100%	Improved performance across the board.
Warehousing	7.8	12.2	56%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
Transportation	(5.8)	4.4	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	1.2	1.8	48%	
Net inc/(exp)	(5.3)	(4.5)	(14%)	
Associates	1.6	0.1	(91%)	
Pretax profit	(0.4)	14.1	nm	
Taxation	(2.5)	(5.0)	99%	
Minority interest	(1.8)	(2.2)	23%	
Net profit	(4.6)	6.9	nm	Improved operating results. FY12/09 performance was weighed down by the one-off RM11.9m depreciation adjustment in 1Q.
EPS (sen)	(2.4)	3.6	nm	
EBIT margin	2%	13%	10% pts	
Pretax margin	(0%)	10%	10% pts	
Effective tax rate	nm	35%	nm	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2010 1Q	2010 2Q	2010 3Q	QoQ Chg	Observations/Comments
Turnover	47.1	49.5	50.1	1%	
By division					
Warehousing	30.1	31.0	31.0	0%	
Transportation	17.1	18.5	19.0	3%	
By country					
Malaysia	18.4	20.1	20.5	2%	
China (incl. HK)	28.7	29.3	29.5	1%	
EBIT	6.1	5.4	6.9	28%	Low base in 2Q due to preliminary expenses recognised with regards to the Frestech/Xinfei warehouse project in Henan.
Warehousing	4.4	4.6	3.2	(31%)	
Transportation	1.7	1.6	1.1	(29%)	
Others	(0.1)	(0.7)	2.6	nm	
Net inc/(exp)	(1.4)	(1.4)	(1.7)	24%	
Associates	0.5	0.2	(0.5)	nm	
Pretax profit	5.2	4.2	4.7	11%	
Taxation	(0.9)	(1.9)	(2.2)	18%	
Minority interest	(1.1)	(0.5)	(0.6)	2%	
Net profit	3.2	1.8	1.9	8%	
EPS (sen)	1.7	0.9	1.0	11%	
EBIT margin	13%	11%	14%	3% pts	
Pretax margin	11%	8%	9%	1% pt	
Effective tax rate	18%	44%	47%	3% pts	

Table 4: Warehouses Under ILB's Stable

Warehouse	Floor Area ('000 sq ft)	Status	Ownership	Remarks
Shenzhen 1	320	In operation	No^	-
Shenzhen 2	450	In operation	Yes	-
Shenzhen 3	640	In operation	Yes	-
Shanghai 1	180	In operation	No^^	-
Shanghai 2	210	In operation	No^^	-
Wujiang 1	280	In operation	Yes	-
Dubai (Jebel Ali FTZ)	1,300-1,500*	Under construction	50%-owned	Total project cost of RM240m.
Henan (Frestech/Xinfei)#	900#	Under construction	Yes#	Total project cost of US$25m (RM77.5m)#.
Wujiang 2	240	Under planning	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.

**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	173.2	138.0	151.5
Turnover growth (%)	-12.7	-7.4	-20.3	9.8
EBITDA	29.6	34.1	34.2	39.7
EBITDA margin (%)	15.8	19.7	24.8	26.2
Depreciation	-28.4	-13.6	-10.2	-10.2
Net Interest	-6.4	-4.6	0.0	-1.3
Associates	1.9	5.4	6.0	8.0
EI	13.6	0.0	0.0	0.0
Pretax Profit	10.4	21.4	30.0	36.3
Tax	-8.0	-4.0	-0.6	-0.6
PAT	2.5	17.3	29.4	35.7
Minorities	-6.6	-5.9	-7.1	-7.6
Net Profit	-4.1	11.4	22.3	28.1

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
Henan	-	450	900
Dubai	-	500	1,000

Source: RHBRI estimates

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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