

# Corporate Highlights

## Results Note

# Integrated Logistics

Weak 1QFY12/11, But Stronger 2H Ahead



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

23 May 2011

Share Price : RM0.95  
Fair Value : RM1.55  
Recom : **Outperform**  
(Maintained)

Table 1 : Investment Statistics (ILB; Code: 5614)

Bloomberg: ILB MK

FYE	Net							Net			
	Turnover	Profit#	EPS#	Growth	PER	C.EPS*	P/NTA	P/CF	ROE	Gearing	GDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)	(%)
2010	119.9	11.4	6.0	nm	16.1	-	0.5	5.4	3.1	0.1	8.8
2011f	130.5	16.9	8.6	42.6	11.1	-	0.5	(2.3)	4.5	0.3	3.2
2012f	147.8	22.0	11.1	29.9	8.5	-	0.5	10.1	5.5	0.3	3.2
2013f	148.2	26.9	13.6	22.4	7.0	-	0.4	9.6	6.4	0.3	3.2

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

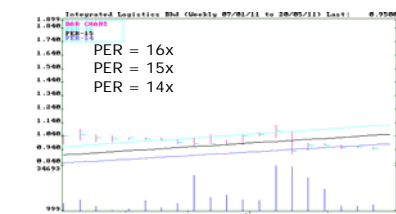
- ◆ **FY12/11 earnings will be back-loaded.** 1QFY12/11 net profit came in at only 7% of our full-year forecast. However, we consider the results within our expectations as: (1) 1Q is seasonally a weak quarter; and (2) We expect a stronger 2H ahead with maiden contribution from ILB's new warehouse complex in Henan, China.
- ◆ **Plenty of action in China.** The RMB170m (RM85m) greenfield warehouse complex in Henan, China, is on track for completion by June 2011. Recall, the warehouse complex will be leased to Frestech/Xinfei, a unit of Hong Leong Asia, that is currently the second largest refrigerator and freezer maker in China. Similarly, the RMB67m (RM34m) Phase 2 of Wujiang warehouse (50km from Shanghai) is going ahead with completion expected by 2011. We understand that ILB has already identified potential tenants including a world-renowned France-based cosmetics and beauty products company and a prominent US-based global online retailer. Recall, Phase 1 of the warehouse that was completed in Dec 2008, is leased to idX, a US-based international interior design firm.
- ◆ **Good take-up for new Dubai warehouse.** Meanwhile, the testing and commissioning of 50%-owned AED260m (RM213m) new warehouse in Dubai Logistic City is scheduled in 3Q2011 with commercial operation expected as early as 4Q2011. So far, indications are pointing towards good take-up for the space due to scale and range, i.e. it being the largest warehouse complex in a single location in the entire United Arab Emirates (UAE), offering frozen, air-conditioned and dry storage facilities. ILB's 50% local JV partner of the venture, NTDE, is expected to take up 30% of total frozen/air-conditioned pallet positions of the new warehouse complex.
- ◆ **Forecasts.** Maintained.
- ◆ **Risks.** These include: (1) A major slowdown in the global economy, and hence China's export sector; (2) Prolonged unrest in the Middle East and North Africa (MENA); and (3) Rising costs in China, particularly, labour.
- ◆ **A China/Dubai play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has now become a high-growth logistics company listed in Malaysia but with operations in China and Dubai. Indicative fair value is RM1.55 based on "sum of parts" (see Table 4).

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

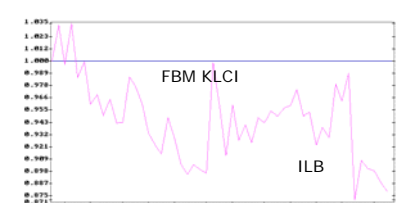
Issued Capital (m shares)	197.0
Market Cap (RMm)	187.2
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.81-1.00
<b>Major Shareholders:</b>	<b>(%)</b>
Takahashi family	19.0
Lembaga Tabung Haji	9.7
Tee Tuan Sem	5.0

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-	-	-
Var to Cons (%)	nm	nm	nm

### PE Band Chart



### Relative Performance To FBM KLCI



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Please read important disclosures at the end of this report.

<b>Table 2: Earnings Review (YoY Cumulative)</b>				
<b>FYE Dec (RMm)</b>	<b>2010 3M</b>	<b>2011 3M</b>	<b>YoY Chg</b>	<b>Observations/Comments</b>
Turnover	28.7	30.7	7%	Sustained recovery in China's export sector.
Warehousing	23.5	25.3	7%	
Transportation	5.2	5.4	5%	
EBIT	1.9	3.3	70%	Better overhead absorption on improved topline performance.
Net inc/(exp)	(1.4)	(1.1)	(25%)	Reduced gearing after the disposal of Malaysian business.
Associates	0.5	0.0	nm	
Pretax profit	1.0	2.2	>100%	Better topline performance and margins, and reduced interest expenses.
Taxation	(0.3)	(0.6)	>100%	
Discounted operation	3.6	0.0	nm	Operation in Malaysia.
Minority interest	(1.1)	(0.4)	(64%)	
Net profit	3.2	1.2	(63%)	Post the disposal of Malaysian business.
EPS (sen)	1.7	0.6	(65%)	
EBIT margin	7%	11%	4% pts	Better overhead absorption on improved topline performance.
Pretax margin	3%	7%	4% pts	
Effective tax rate	30%	29%	(1% pt)	

<b>Table 3: Earnings Review (QoQ)</b>				
<b>FYE Dec (RMm)</b>	<b>2010 4Q</b>	<b>2011 1Q</b>	<b>QoQ Chg</b>	<b>Observations/Comments</b>
Turnover	32.3	30.7	(5%)	Came off from peak period in 4Q.
Warehousing	na	25.3	nm	
Transportation	na	5.4	nm	
EBIT	2.4	3.3	36%	Low base in 4QFY10 due to lumpy preliminary expenses incurred with regards to Frestech/Xinfei warehouse in Henan.
Net inc/(exp)	(1.8)	(1.1)	(42%)	Reduced gearing after the disposal of Malaysian business.
Associates	(2.9)	0.0	nm	We believe there were certain one-off adjustments in 4QFY10 from associates.
Pretax profit	(2.4)	2.2	nm	Reduced or absence of preliminary expenses from Frestech/Xinfei warehouse in Henan and reduced interest expenses.
Taxation	(2.2)	(0.6)	(70%)	
Discounted operation	16.1	0.0	nm	Largely gains from the disposal of Malaysian business in 4QFY10.
Minority interest	2.0	(0.4)	nm	
Net profit	13.5	1.2	(91%)	High base in 4QFY10 largely due to lumpy gains from the disposal of Malaysian business.
EPS (sen)	7.2	0.6	(92%)	
EBIT margin	7%	11%	3% pts	Reduced or absence of preliminary expenses from Frestech/Xinfei warehouse.
Pretax margin	(7%)	7%	14% pts	Also helped by reduced interest expenses and absence of one-off adjustments from associates.
Effective tax rate	(91%)	29%	nm	

<b>Table 4: "Sum-Of-Parts" Valuation</b>			
<b>Project/Business</b>	<b>RMm</b>	<b>Methodology</b>	<b>Basis/Assumptions</b>
Operations ex-Dubai warehouse	209.4	PER	10x 1-year forward earnings
Dubai warehouse	148.3	DCF	50% share of NPV based on WACC of 7.7%
Land in Shah Alam	20.3	Market price	5.82 acres @ RM80 psf
Net cash/(debt)	(71.6)	-	As at 31 Dec 2010, adjusted for dividend paid and balance of investment in Dubai warehouse
Sum-of-parts valuation (RMm)	<b>305.9</b>		
Sum-of-parts valuation (RM/shr)	<b>1.55</b>		

Source: RHBRI estimates

**Table 5: Warehouses Under ILB's Stable**

Warehouse	Floor Area ('000 sq ft)	Status	Ownership	Remarks
Shenzhen 1	320	In operation	No <sup>^</sup>	-
Shenzhen 2	450	In operation	Yes	-
Shenzhen 3	640	In operation	Yes	-
Shanghai 1	180	In operation	No <sup>^ ^</sup>	-
Shanghai 2	210	In operation	No <sup>^ ^</sup>	-
Wujiang 1	280	In operation	Yes	Total project cost of RMB75m (RM38m)
Wujiang 2	390	Under construction	Yes	Total project cost of RMB67m (RM34m).
Dubai Logistic City	75 (pallet positions)	Under construction	50%-owned	Total project cost of AED260m (RM213m).
Henan (Frestech/Xinfei)	810	Under construction	Yes	Total project cost of RMB170m (RM85m).
North-Eastern China <sup>#</sup>	Sizeable	Under negotiation	Yes	Sizeable

<sup>^</sup> Sale-and-lease-back with Mitsui & Co Ltd, Japan

<sup>^ ^</sup> Sale-and-lease-back with Mapletree, Singapore

Source: RHBRI, company #Source: Independent sources

**Table 6: Earnings Forecasts**

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	119.9	130.5	147.8	148.2
Turnover growth (%)	5.0	8.9	13.2	0.3
EBITDA	14.1	31.9	37.0	37.5
EBITDA margin (%)	11.8	24.5	25.1	25.3
Depreciation	-13.4	-10.2	-10.2	-10.2
Net Interest	-6.1	-4.0	-6.3	-5.9
Associates	-2.8	6.0	8.8	13.1
EI	13.8	0.0	0.0	0.0
Pretax Profit	5.5	23.7	29.3	34.6
Tax	-6.5	-0.5	-0.5	-0.6
Discontinued op.	21.7	-	-	-
PAT	20.7	23.2	28.8	34.0
Minorities	-0.2	-6.3	-6.8	-7.1
Net Profit	20.5	16.9	22.0	26.9

Source: Company data, RHBRI estimates

**Table 7: Forecast Assumptions**

FYE Dec	FY11F	FY12F	FY13F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Wujiang	280	670	670
Henan	450	810	810
Dubai (pallet positions)	-	75,000	75,000

Source: RHBRI estimates

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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.



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Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

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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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