Malaysia

MARKET DATELINE ● PP 7767/09/2011(028730)

Corporate Highlights

Results Note

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

23 May 2011

Integrated Logistics

Weak 1QFY12/11, But Stronger 2H Ahead

Share Price	:	RM0.95
Fair Value	:	RM1.55
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 (%)
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.

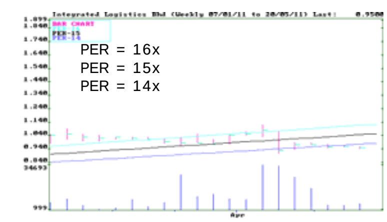
- **A China/Dubai play now, maintain Outperform.** With the disposal of its business in Malaysia, ILB has now become a high-growth logistics company listed in Malaysia but with operations in China and Dubai. Indicative fair value is RM1.55 based on "sum of parts" (see Table 4).

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
Major Shareholders:	**(%)**
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

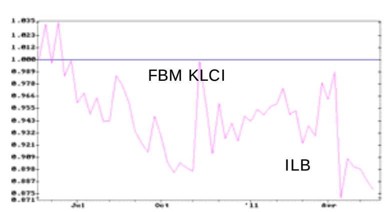


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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2010 3M	2011 3M	YoY Chg	Observations/Comments
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)	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2010 4Q	2011 1Q	QoQ Chg	Observations/Comments
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	

Table 4: "Sum-Of-Parts" Valuation

Project/Business	RMm	Methodology	Basis/Assumptions
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)	**305.9**		
Sum-of-parts valuation (RM/shr)	**1.55**		

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^	-
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	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#	Sizeable	Under negotiation	Yes	Sizeable

^Sale-and-lease-back with Mitsui & Co Ltd, Japan *^^ 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

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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