

Corporate Highlights

Results Note

Integrated Logistics

Back In The Black In FY12/10, Bumper 8.5sen Dividend



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

28 February 2011

Share Price : RM0.995
Fair Value : RM1.40
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 (%)
2010	119.9	11.4	6.0	nm	16.5	-	0.5	5.6	3.1	0.1	8.5
2011f	130.5	21.2	10.8	79.0	9.2	-	0.5	(2.8)	5.5	0.3	3.0
2012f	145.5	25.4	12.9	19.6	7.7	-	0.5	(9.0)	6.3	0.3	3.0
2013f	157.3	28.9	14.6	13.7	6.8	-	0.5	9.0	6.7	0.3	3.0

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

- ◆ **Bumper 8.5sen dividend.** Excluding a net exceptional gain of RM9.1m (RM13.7m gains from the disposal of its business in Malaysia and RM4.7m impairment on land use right in Shanghai), core FY12/10 net profit of RM11.4m came in within our expectations. ILB has declared a bumper dividend of 8.5sen, backed by the proceeds and profits from the disposal of its business in Malaysia.
- ◆ **Frestech/Xinfei warehouse complex ready by June 2011.** The construction of the greenfield RMB170m (RM85m) Frestech/Xinfei warehouse complex in Henan, China, has progressed well with full completion expected by June 2011. At present, three of the five warehouses within the 810,000 sq ft complex have been completed. The warehouses will be handed over to the tenant in stages from Apr 2011. Recall, the tenant is Frestech/Xinfei, a unit of Hong Leong Asia that is currently the second largest refrigerator and freezer maker in China. We understand that backed by a 5+5 year long-term lease agreement with Frestech/Xinfei, ILB's investment in the warehouse will have a pay-back period of 8-10 years. We project the new warehouse will contribute about a quarter of ILB's net profit from FY12/12.
- ◆ **Forecasts.** We are downgrading FY12/11-12 net profit forecasts by 5-10% as we now assume the maiden contribution from ILB's warehouse in Dubai to only come in in FY12/12 vis-à-vis FY12/11 previously.
- ◆ **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 reduced slightly from RM1.46 to RM1.40 based on 13x revised 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)	196.0
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.86-1.08
Major Shareholders:	(%)
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.7

FYE Dec	FY11	FY12	FY13
EPS Revision (%)	-5	-10	-
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.

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2009 12M	2010 12M	YoY Chg	Observations/Comments
Turnover	114.1	119.9	5%	
Warehousing	93.4	98.7	6%	Maiden contribution from Wujiang warehouse.
Transportation	20.7	21.2	2%	
EBIT	22.6	19.1	(16%)	Hurt by preliminary expenses incurred with regards to Frestech/Xinfei warehouse in Henan.
Net inc/(exp)	(6.2)	(6.1)	(1%)	
EI	0.0	(4.7)	nm	Impairment on land use right in Shanghai.
Associates	1.9	(2.8)	nm	
Pretax profit	18.4	5.5	(70%)	
Taxation	(6.9)	(6.5)	(5%)	
Discounted operation	(9.1)	21.7	nm	Operation in Malaysia.
Operation	(9.1)	7.9	nm	9M contribution in FY10. FY09 performance was hit by RM11.9m depreciation adjustment in 1QFY09 "to better reflect the economic values of certain equipment used in the transportation/logistics division".
EI	0.0	13.8	nm	Gains on disposal of business in Malaysia.
Minority interest	(6.6)	(0.2)	(97%)	
Net profit	(4.1)	20.5	nm	Underpinned a net exceptional gain and in the absence of lumpy negative adjustment for Malaysian operations.
EPS (sen)	(2.2)	10.8	nm	
Net profit ex-EI	(4.1)	11.4	nm	In the absence of lumpy negative adjustment for Malaysian operations.
EBIT margin	20%	16%	(4% pts)	Hurt by preliminary expenses incurred with regards to Frestech/Xinfei warehouse in Henan.
Pretax margin	16%	5%	(12% pts)	
Effective tax rate	37%	118%	81% pts	

No analysis on sequential performance of quarterly results in the absence of restated numbers for 1-3QFY12/10 post the disposal of ILB's business in Malaysia.

Table 3: 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 RM260m.
Henan (Frestech/Xinfei)	810	Under construction	Yes	Total project cost of RMB170m (RM85m).
Wujiang 2	240	Under planning	Yes	Total project cost of only RMB50m (RM25m), vis-à-vis RMB110-120m (RM55-60m) 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

Source: RHBRI, company

Table 4: Earnings Forecasts

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
Turnover	119.9	130.5	145.5	157.3
Turnover growth (%)	5.0	8.9	11.5	8.1
EBITDA	14.1	31.9	37.9	41.6
EBITDA margin (%)	11.8	24.5	26.1	26.5
Depreciation	-13.4	-10.2	-10.2	-10.2
Net Interest	-6.1	1.4	-2.4	-2.6
Associates	-2.8	6.0	8.0	8.0
EI	13.8	0.0	0.0	0.0
Pretax Profit	5.5	29.2	33.3	36.9
Tax	-6.5	-0.7	-0.6	-0.6
Discontinued op.	21.7	-	-	-
PAT	20.7	28.5	32.7	36.3
Minorities	-0.2	-7.3	-7.4	-7.4
Net Profit	20.5	21.2	25.4	28.9

Source: Company data, RHBRI estimates

Table 5: 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	280	520
Henan	450	810	810
Dubai	-	1,000	1,000

Source: RHBRI estimates

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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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