

Corporate Highlights

News Update

Integrated Logistics

Disposes Of Shanghai Warehouse Land For RM30m Cash



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

3 June 2011

Share Price : RM0.935
Fair Value : RM1.70
Recom : **Outperform**
(Maintained)

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

Bloomberg: ILB MK

FYE	Turnover (RMm)	Net		Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	P/CF (x)	ROE (%)	Net	
		Profit# (RMm)	EPS# (sen)							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	10.9	-	0.5	(2.2)	4.5	0.3	3.2
2012f	147.8	22.5	11.4	33.4	8.2	-	0.5	4.0	5.7	0.2	3.2
2013f	148.2	28.1	14.3	24.6	6.6	-	0.4	9.7	6.7	0.2	3.2

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

◆ **Selling warehouse land in Shanghai deep seaport.** ILB's 70%-owned core operating unit in China is disposing of a unit that owns a 13.3-acre land parcel in Shanghai Yangshan deep seaport for RMB64m (RM29.7m) cash. First acquired in 2009, ILB was supposed to build on the land a 3-storey consolidation and distribution warehouse to cash in on the fast growing Shanghai Yangshan deep seaport. However, the project was held back by the global financial crisis in 2008/09. ILB now holds the view that it makes more sense to reinvest the proceeds in "other synergistic logistics projects with higher yields and potential capital appreciation". The net proceeds and gains from the disposal are estimated at RMB59.5m (RM27.6m or 15sen per ILB share) and RMB10.2m (RM4.7m or 2.4sen per ILB share) respectively.

◆ **No issue.** We have no qualms about the disposal as we feel that, to a certain extent, ILB has been spreading itself thin with three greenfield warehouse projects in hands, i.e. one in Dubai and two in China (Henan and Wujiang 2). The disposal will enable ILB to channel human as well as financial resources towards developing on-going and potential projects with higher returns. *Ceteris paribus*, the disposal will reduce ILB's net debt and gearing of RM31m and 0.09x as at 31 Mar 2011 to a negligible RM3.4m and 0.01x.

◆ **Forecasts.** FY12/12-13 net profit forecasts are raised by 3-5%, having reflected interest savings from the disposal proceeds.

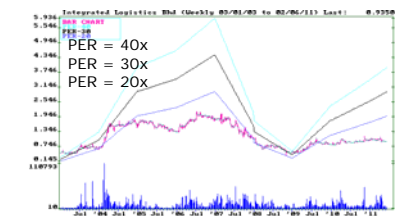
◆ **Risks.** These include: (1) A major slowdown in the global economy, and hence China's export sector; (2) Prolonged unrest in the Middle East and North Africa (MENA); and (3) Rising costs in China, particularly, labour.

◆ **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. We are raising our indicative fair value based on "sum of parts" by 10% from RM1.55 to RM1.70, having imputed the disposal proceeds that reduce ILB's net debt (see Table 2).

Issued Capital (m shares)	197.0
Market Cap (RMm)	184.2
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 (%)	-	+3	+5
Var to Cons (%)	nm	nm	nm

PE Band Chart



Relative Performance To FBM KLCI



Joshua CY Ng
(603) 92802151
joshuang@rhb.com.my

Please read important disclosures at the end of this report.

Table 2: "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)	(44.0)	-	As at 31 Dec 2010, adjusted for: (1) Dividend paid; (2) Balance of investment in Dubai warehouse; and (3) RM27.6m net proceeds from the disposal of Yangshan land.
Sum-of-parts valuation (RMm)	334.0		
Sum-of-parts valuation (RM/shr)	1.70		

Source: RHBRI estimates

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	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 4: 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	-5.6	-4.5
Associates	-2.8	6.0	8.8	13.1
EI	13.8	0.0	0.0	0.0
Pretax Profit	5.5	23.7	30.0	36.0
Tax	-6.5	-0.5	-0.5	-0.6
Discontinued op.	21.7	-	-	-
PAT	20.7	23.2	29.5	35.4
Minorities	-0.2	-6.3	-7.0	-7.3
Net Profit	20.5	16.9	22.5	28.1

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	670	670
Henan	450	810	810
Dubai (pallet positions)	-	75,000	75,000

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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