Corporate Highlights

Results Note

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

24 February 2009

Integrated Logistics

Sharp Deterioration In Operating Conditions In 4QFY12/08

Share Price	:	RM0.55
Fair Value	:	RM0.52
Recom	:	**Underperform** (Downgraded)

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 (%)
2008	214.2	2.6	1.3	(78.6)	42.1	-	0.3	(2.9)	0.7	0.6	3.6
2009f	241.1	(2.7)	(1.4)	nm	nm	-	0.3	(2.0)	(0.8)	0.7	3.6
2010f	249.8	17.1	8.7	nm	6.3	-	0.3	2.6	4.8	0.6	3.6
2011f	250.4	18.2	9.2	6.5	6.0	-	0.3	2.6	4.9	0.5	3.6

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

- **In the red in 4Q.** Excluding RM19m exceptional gain from the sale and lease back of warehouses in Shanghai, adjusted FY12/08 net profit of only RM2.6m came in way below our expectation of RM15.8m. The variance against our forecast came largely from RM7.2m operating loss registered in 4Q. We believe ILB's had suffered steep plunge in handling volumes at its warehouses in China, on the back of the sharp downturn of China's export sector during the final quarter of 2008.
- **Forecasts.** We now project ILB to report a net loss of RM2.7m in FY12/09 (vis-à-vis a RM19.6m net profit we forecast previously), while FY12/10 net profit is reduced by 30% as we believe the downturn in China's export sector will persist at least over the next 12-18 months.
- **Risks.** These include: (1) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations, further hurting the demand for warehouses in Malaysia; and (2) Prolonged recession in the global economy, and hence, the export sector in China.
- **Investment case.** This lies in: (1) Its niche strength in the operation of supply chain management system vendor-managed inventory (VMI) to support the production of Lenovo/IBM's *ThinkPad* laptops and IBM's servers in China; and (2) Its long-term growth potential driven by four new overseas warehouse projects in the pipeline (see Table 4). However, rental yields and values of its properties, largely warehouses, will remain under tremendous pressure over the short term on the back of the global economic recession.
- Indicative fair value is cut by 13% from RM0.60 to RM0.52 based on 6x FY12/10 EPS (rolled forward from FY12/09), in line with our 1-year forward target PER for the transport and logistics sector. Downgrade from Market Perform to **Underperform**.

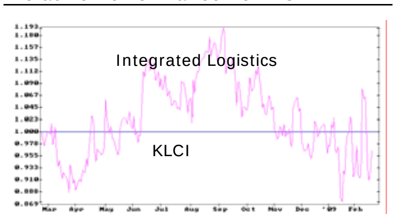
RHBRI	Vs.	Consensus
	Above	-
	In Line	✍
✓	Below	-

Issued Capital (m shares)	197.0
Market Cap(RMm)	108.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-0.89
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	-114	-30	-
Var to Cons (%)	nm	nm	nm

Share Price Chart

Relative Performance To KLCI



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Please read important disclosures at the end of this report.

RHB

Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2007 12M	2008 12M	YoY Chg	Observations/Comments
Turnover	190.8	214.2	12%	Improved topline performance across the board during the first nine months of the year.
By division				
Warehousing	115.3	126.9	10%	We believe largely due to improved performance from the warehouses in Malaysia and Shanghai, having signed up new tenants to fill up vacant space.
Transportation	75.5	87.4	16%	
Others	0.0	0.0	nm	
By country				
Malaysia	95.4	85.6	(10%)	We believe due to lower rental rates for local warehouses, particularly, those in the Port Klang area.
China (incl. HK)	95.4	128.6	35%	Improved performance from warehouses in Shanghai, as well as, we believe, impact from previous M&A activities.
EBIT	20.0	22.1	10%	
Warehousing	27.5	27.7	1%	Growth in the first nine months was cancelled out by steep decline in 4Q.
Transportation	4.9	(2.3)	nm	We believe hurt by higher fuel cost.
Others	(12.5)	(3.3)	(73%)	FY07 number included certain provisions.
Net inc/(exp)	(7.3)	(9.2)	26%	
EI	0.0	19.0	nm	Gain from the sale and lease back of warehouses in Shanghai.
Associates	1.9	0.1	(97%)	
Pretax profit	14.9	31.9	>100%	Inflated by RM19m gain from the sale and lease back of warehouses in Shanghai.
Taxation	(1.8)	(7.1)	>100%	
Minority interest	(4.9)	(9.0)	83%	
Net profit	8.2	15.9	93%	Inflated by EI gain.
EPS (sen)	4.5	8.1	80%	
EBIT margin	10%	10%	(0% pt)	
Pretax margin	8%	15%	7% pts	
Effective tax rate	12%	22%	11% pts	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2008 1Q	2008 2Q	2008 3Q	2008 4Q	QoQ Chg	Observations/Comments
Turnover	48.2	53.6	59.7	52.9	(11%)	The logistics sector experienced a sharp downturn in line with the steep deterioration in the global economy during the last quarter of 2008.
By division						
Warehousing	29.1	31.3	33.9	32.6	(4%)	Hit by slowdown in the domestic and export sectors, both in Malaysia and China.
Transportation	19.1	22.3	25.7	20.3	(21%)	
Others	0.0	0.0	0.0	0.0	0%	
By country						
Malaysia	20.3	22.0	24.4	18.9	(23%)	
China (incl. HK)	27.9	31.5	35.2	34.0	(4%)	Hit by a sharp slowdown in China's export sector. 4Q was supposed to be the strongest quarter during the year.
EBIT	7.1	9.2	10.1	(4.2)	nm	
Warehousing	7.0	9.0	10.4	1.3	(88%)	Weak overhead absorption on reduced volumes.
Transportation	0.8	0.9	0.4	(4.3)	nm	We believe hurt by higher fuel cost.
Others	(0.7)	(0.8)	(0.7)	(1.2)	81%	
Net inc/(exp)	(1.8)	(2.3)	(2.7)	(2.4)	(10%)	
EI	0.0	0.0	0.0	19.0	nm	Gain from the sale and lease back of warehouses in Shanghai.
Associates	0.4	0.2	(1.2)	0.7	nm	Inclusive of share of RM1.5m loss of an associate from property disposal in 3Q.
Pretax profit	5.6	7.1	6.2	13.0	>100%	Inflated by RM19m gain from the sale and lease back of warehouses in Shanghai.
Taxation	(0.6)	(1.2)	(3.2)	(2.1)	(36%)	
Minority interest	(1.2)	(1.4)	(1.5)	(4.9)	>100%	
Net profit	3.8	4.5	1.5	6.1	>100%	Inflated by EI gain.
EPS (sen)	1.9	2.3	0.8	3.1	>100%	
EBIT margin	15%	17%	17%	(8%)	(25% pts)	
Pretax margin	12%	13%	10%	25%	14% pts	
Effective tax rate	11%	17%	52%	16%	(36% pts)	

Table 4: New Overseas Warehouse Projects

Location	Project Cost	Project Cost (RMm)	ILB's Stake (%)	Floor area ('000 sq ft)
Jebel Ali FTZ, Dubai	AED230m	200	50	1,300-1,500*
Yangshan Port, Shanghai (Ph 1)	RMB120m	55	70	500
Wujiang, China (Ph 1)	RMB50m	23	45.5	200
Yantian Port, Shenzhen	RMB100m	45	70	500
Total		**323**		**2,500-2,700**

**Effective, with auto-racking system*

Source: Company, RHBRI

Table 5: Earnings Forecasts

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	214.2	241.1	249.8	250.4
Turnover growth (%)	12.3	12.6	3.6	0.2
EBITDA	41.3	28.4	59.8	61.3
EBITDA margin (%)	19.3	11.8	24.0	24.5
Depreciation	-18.5	-27.7	-29.1	-30.6
Net Interest	-9.9	-8.9	-13.5	-12.0
Associates	0.1	7.0	9.7	9.7
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	-1.3	26.9	28.4
Tax	-7.1	0.3	-2.4	-2.5
PAT	24.8	-1.0	24.5	25.8
Minorities	-9.0	-1.6	-7.4	-7.6
Net Profit	15.9	-2.7	17.1	18.2

Source: Company data, RHBRI estimates

Table 6: Forecast Assumptions

FYE Dec	FY09F	FY10F	FY11F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
China – New*	200	500	500
Dubai	0	0	0

**Yantian/Yangshan/Wujiang*

IMPORTANT DISCLOSURES

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the 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 KLCI benchmark (+/- five percentage points) over the next 6-12 months.

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

Industry/Sector Ratings

Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.