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

Corporate Highlights

Visit Note

13 March 2009

Integrated Logistics

I Will Survive!

Share Price	:	RM0.53
Fair Value	:	RM0.53
Recom	:	**Underperform** (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 (%)
2008	214.2	2.6	1.3	(78.6)	40.6	-	0.3	(4.8)	0.6	0.4	3.8
2009f	188.6	3.7	1.9	43.2	28.3	-	0.3	(1.5)	0.9	0.7	3.8
2010f	206.1	17.5	8.9	375.6	6.0	-	0.3	(5.9)	4.3	0.7	3.8
2011f	213.9	18.9	9.6	7.6	5.5	-	0.2	3.6	4.4	0.7	3.8

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

♦ **Fully prepared for the downturn.** ILB noticed sharp deterioration in business conditions in almost all markets it operates in or has presence during the last quarter of 2008. It believes operating conditions will continue to worsen over the next 1-2 quarters, at least. However, ILB believes that it has fully prepared itself for this and is on a much solid financial footing to take on the current global financial crisis, vis-à-vis the Asian financial crisis in 1997-98.

♦ **To complete Dubai warehouse.** ILB remains committed towards completing its new warehouse in Jebel Ali FTZ, Dubai, that is 20-25% completed at present. Meanwhile, its new warehouse projects in Yantian Port, Shenzhen and Yangshan Deep Seaport, Shanghai, China, will be put on hold pending more clarity in the global economic outlook.

♦ **Slower expansion at Foreversun.** The expansion plan of 30%-owned tank farm owner and operator in China called Foreversun will be scaled down due to the difficulty in securing funding. It will now largely be financed by internal cashflow.

♦ **Forecasts.** We now project ILB to report a net profit of RM3.7m in FY12/09 (vis-à-vis a net loss of RM2.7m we forecast previously), giving ILB the benefit of the doubt that its bread and butter warehouses in Shenzhen will remain in the black on the back of various cost-cutting and streamlining initiatives. FY12/10-11 net profits are fine-tuned up by 3-4%.

♦ **Risks.** These include: (1) Continued marginalisation of Malaysia as a manufacturing base for multi-national corporations; and (2) Prolonged recession in the global economy, and hence, the export sector in China.

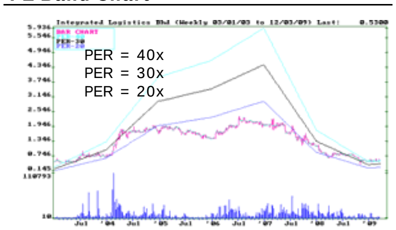
♦ **Investment case.** This lies in: (1) ILB's niche strength in the operation of supply chain management system vendor-managed inventory (VMI) to support the production of Lenovo's *ThinkPad* laptops and IBM's servers in China; and (2) Its long-term growth potential driven by new overseas warehouse projects in the pipeline. 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.

♦ **Maintain Underperform.** Indicative fair value is fine-tuned up by 2% from RM0.52 to RM0.53 based on 6x FY12/10 EPS, in line with our 1-year forward target PER for the transport and logistics sector.

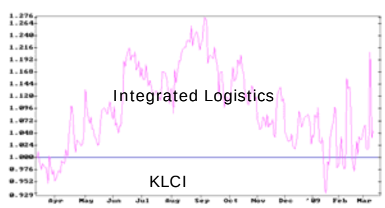
Issued Capital (m shares)	197.0
Market Cap(RMm)	104.4
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.50-0.89
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	+238	+3	+4
Var to Cons (%)	nm	nm	nm

PE Band Chart



Relative Performance To KLCI



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

I Will Survive!

- **Highlights.** Key takeaways from our recent meeting with the company are:
  1. ILB believes that it is on a much solid financial footing to take on the current global financial crisis, vis-à-vis the Asian financial crisis in 1997-98;
  2. To conserve cash, ILB will only carry on with its 50%-owned new warehouse project in Dubai while those in China will be put on the back burner for the time being; and
  3. The expansion plan at 30%-owned tank farm owner and operator Foreversun will also be scaled down due to the difficulty in securing funding.

- **Fully prepared for the downturn.** ILB noticed sharp deterioration in business conditions in almost all markets it operates in or has presence, including Malaysia, the region, China and the Gulf states, during the last quarter of 2008. It believes operating conditions will continue to worsen over the next 1-2 quarters, at least. However, ILB believes that it has fully prepared itself for this and is on a much solid financial footing to take on the current global financial crisis, vis-à-vis the Asian financial crisis in 1997-98.

- Based on our forecasts, ILB's net gearing will only go up from 0.4x as at end-FY12/08 to 0.7x over the next two years (vis-à-vis 1.1x during the Asian financial crisis). Similarly, its interest cover will only decline from 6.5x as at end-FY12/08 to 2.3-3.3x over the next two years (vis-à-vis 0.9x during the Asian financial crisis) (see Table 2). Our projected net gearing could come in lower while interest cover higher if ILB could during the period conclude disposal (via sale-and-leaseback or outright sale) of its matured warehouses in Malaysia and China. ILB has survived the Asian financial crisis. It certainly appears to us that it will live to tell the tale of the current global financial crisis.

Table 2: Selected Financial Data & Ratios

FY Dec	1998	2008	2009F	2010F
Net cash/(debt) (RMm)	(207.0)	(173.1)	(257.4)	(291.6)
Net gearing (x)	1.1	0.4	0.7	0.7
Interest cover (x)	0.9	6.5	2.3	3.3

Source: Company, RHBRI

- **To complete Dubai warehouse.** Despite the unfavourable macro picture, ILB and Dubai-based partner National Trading & Development Establishment (NTDE) (www.ntde.ae) remain committed towards completing the new AED230m (RM230m) warehouse in Jebel Ali FTZ, Dubai. NTDE remains committed towards taking up a substantial portion of space in the warehouse. Recall, NTDE needs the space for its fast moving consumer goods (FMGC) distribution business in the Gulf region. The business carries international brands such as Cadbury's, Davidoff, Häagen-Dazs and Lay's in the Gulf region.

- In terms of progress, the warehouse is now 20-25% completed. Due to the delays in obtaining certain approvals, it is now scheduled to be completed by mid-2010, vis-à-vis end-2009 initially. To recap, with a state-of-the-art european-made auto-raking system, the warehouse will boost an effective useable area of 1.3-1.5m sq ft, that is about equivalent to 1.4m sq ft of ILB's three warehouses in Futian FTZ, Shenzhen, combined. The key rationale behind ILB's foray into the warehousing sector in the Gulf state is to capitalise on a market that is still very much at its infancy with few players and limited supply, especially, large state-of-the-art warehouses. We do not expect material contribution from this 50%-owned venture during the forecast period.

- Meanwhile, to conserve cash, ILB's new warehouse projects in Yantian Port, Shenzhen and Yangshan Deep Seaport, Shanghai, China, will be put on hold pending more clarity in the global economic outlook.

- **Slower expansion at Foreversun.** Despite the still booming eastern petrochemical belt of China, and hence rising demand for its liquid chemical storage facilities, 30%-owned tank farm owner and operator Foreversun will scale down its expansion plan due to the difficulty in securing funding. The expansion plan of the company based in Jiangsu Province with a solid portfolio of clientele comprising oil majors such as BP, Shell and BASF, as well as China-based petrochemical companies, will now largely be financed by internal cashflow. We project Foreversun to contribute RM5-6m p.a. to ILB's PBT in FY12/09-11.

- **Forecasts.** We now project ILB to remain profitable with a net profit of RM3.7m in FY12/09 (vis-à-vis a net loss of RM2.7m we forecast previously), giving ILB the benefit of the doubt that its bread and butter warehouses in

Shenzhen will remain in the black on the back of various cost-cutting and streamlining initiatives. FY12/10-11 net profit forecasts are fine-tuned up by 3-4%.

- **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) ILB's niche strength in the operation of supply chain management system vendor-managed inventory (VMI) to support the production of Lenovo's *ThinkPad* laptops and IBM's servers in its warehouses in Shenzhen, China; and (2) Its long-term growth potential driven by new overseas warehouse projects in the pipeline (see Table 3). 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.
- **Maintain Underperform.** Indicative fair value is fine-tuned up by 2% from RM0.52 to RM0.53 based on 6x FY12/10 EPS, in line with our 1-year forward target PER for the transport and logistics sector.

Table 3: New Overseas Warehouse Projects

Location	Project Cost	Project Cost (RMm)	ILB's Stake (%)	Floor area ('000 sq ft)
Jebel Ali FTZ, Dubai	AED230m	230	50	1,300-1,500*
Yangshan Port, Shanghai (Ph 1)	RMB120m	60	70	500
Yantian Port, Shenzhen	RMB100m	50	70	500

**Effective, with auto-racking system*

Source: Company, RHBRI

Table 4: Earnings Forecasts

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
Turnover	214.2	188.6	206.1	213.9
Turnover growth (%)	12.3	-12.0	9.3	3.8
EBITDA	41.3	25.3	44.7	48.1
EBITDA margin (%)	19.3	13.4	21.7	22.5
Depreciation	-18.5	-17.0	-17.0	-17.0
Net Interest	-9.9	-7.1	-7.9	-10.6
Associates	0.1	5.0	5.4	6.0
EI	19.0	0.0	0.0	0.0
Pretax Profit	31.9	6.2	25.3	26.5
Tax	-7.1	-0.1	-0.8	-0.7
PAT	24.8	6.1	24.5	25.8
Minorities	-9.0	-2.4	-7.0	-6.9
Net Profit	15.9	3.7	17.5	18.9

Source: Company data, RHBRI estimates

Table 5: Forecast Assumptions

FYE Dec	FY09F	FY10F	FY11F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Dubai	-	-	1,000

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

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.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.