Corporate Highlights

Company Update

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

13 May 2010

Integrated Logistics

Hasta La Vista Malaysia

Share Price	:	RM0.99
Fair Value	:	RM1.30
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 (%)
2009	187.0	(17.7)	(9.0)	nm	nm	-	0.5	3.2	(4.7)	0.3	3.0
2010f	164.8	19.8	10.0	nm	9.9	-	0.5	1.4	5.0	Cash	2.0
2011f	130.5	22.4	11.4	13.2	8.7	-	0.5	19.3	5.4	Cash	2.0
2012f	136.5	23.4	11.9	4.5	8.3	-	0.5	14.6	5.4	Cash	2.0

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

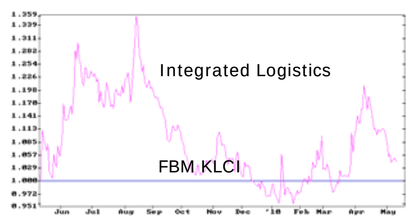
- **Disposal of Malaysian business to be completed by June 2010.** We believe it is a fair assumption that the disposal of ILB's Malaysian assets can be completed by June 2010 given that ILB has already secured most key approvals for the transaction, except for the shareholders' approval at an EGM scheduled for this Saturday. We expect the EGM to be a non-event.
- **Trading an old Bucephalus for a new one.** We liken ILB's disposal of its Malaysian business, to Alexander The Great parting with his celebrated war-horse Bucephalus. However, we are positive on the deal as it makes perfect business sense for ILB to trade a lethargic old horse (i.e. mature and low-yielding assets in Malaysia), for an energetic young one (i.e. high-growth and high-yielding assets, particularly, in China and the Gulf states).
- **A China play.** Upon the disposal, ILB will very much become a China-based company listed in Malaysia, operating six key warehouses in China. It is also building a new one in Dubai, planning for a second one in Wujiang, and according to our sources, planning for a new one in the eastern central part of China.
- **Forecasts.** We are cutting our FY12/10-12 topline forecasts for ILB by 22-40% on cessation of contributions from the Malaysian business, but raising FY12/10-12 net profit forecasts by 5-11% largely to reflect interest savings arising from the disposal proceeds.
- **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.
- **Maintain Outperform.** There have been a few positive developments for ILB on the China front: (1) The signing of idX, a US-based international interior design firm, as the tenant for ILB's entire new warehouse in Wujiang; (2) The successful listing of China associate Hengyang on the Catalist Board of SGX; and (3) The possibility of ILB embarking on a new warehouse project in the eastern central part of China, backed by a long-term tenancy signed with a multi-national corporation. Indicative fair value is raised by 5% from RM1.24 to RM1.30 based on 13x revised FY12/10 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.

Issued Capital (m shares)	197.0
Market Cap(RMm)	195.1
Daily Trading Vol (m shs)	0.2
52wk Price Range (RM)	0.695-1.15
Major Shareholders:	**(%)**
Takahashi & Tee TS	>40
Lembaga Tabung Haji	9.4

FYE Dec	FY09	FY10	FY11
EPS Revision (%)	+5	+11	+9
Var to Cons (%)	nm	nm	nm

Share Price Chart

Relative Performance To FBM KLCI



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Hasta La Vista Malaysia

- **Disposal of Malaysian business to be completed by June 2010.** In the circular to the shareholders dated 23 Apr 2010 in relation to the disposal of its Malaysian business, ILB stated that it expects the transaction to be completed by 30 Jun 2010. We believe this is a fair assumption given that ILB has already secured most key approvals for the transaction, except for the shareholders' approval at an EGM scheduled for this Saturday (15 May 2010). We expect the EGM to be a non-event. To recap, AWH Equity Holdings Sdn Bhd (AWH) has proposed to acquire ILB's entire Malaysian business held under Integrated Logistics Solutions Sdn Bhd (ILS) (except for a piece of 5.8-acre land in Shah Alam with a net book value of RM8m) for RM170m. AWH is controlled by businessmen Dato' Wan Ariff bin Wan Hamzah (70%) and Sidqi Ahmad Said bin Ahmad (30%) who are in the marine and oil & gas logistics/support service business via Syarikat Borcos Shipping Sdn Bhd.

- **Trading an old Bucephalus for a new one.** We liken ILB's disposal of its Malaysian business, to Alexander The Great parting with his celebrated war-horse Bucephalus. However, we are positive on the deal as it makes perfect business sense for ILB to trade a lethargic old horse (i.e. mature and low-yielding assets in Malaysia), for an energetic young one (i.e. high-growth and high-yielding assets, particularly, in China and the Gulf states). ILB's Malaysian business held under ILS has been an underperformer. It reported a normalised net loss of RM2.6m in FY12/08 and a net profit of RM0.1m in FY12/09 on continued marginalisation of Malaysia as a manufacturing base for multi-national corporations, resulting in falling demand for warehousing/logistics services in Malaysia.

- **Forecasts.** ILB expects RM14.4m gains from the disposal, translating to 7.3sen/share. Excluding the one-off gains, the disposal of ILS is still earnings-accretive. Post the disposal, *ceteris paribus*, we estimate that ILB will revert from a net debt and gearing of RM128.4m and 0.34x to a net cash of RM41.6m. Assuming completion on 30 Jun 2010, we are cutting our FY12/10-12 topline forecasts for ILB by 22-40% on cessation of contributions from the Malaysian business, but raising FY12/10-12 net profit forecasts by 5-11% largely to reflect interest savings arising from the disposal proceeds.

- **A China play.** Upon the disposal, ILB will very much become a China-based company listed in Malaysia, operating six key warehouses in China of which half are owned (i.e. Shenzhen 2 & 3 and Wujiang 1) and the other half on a sale-and-lease-back basis (i.e. Shenzhen 1 and Shanghai 1 & 2). ILB is also building a new warehouse in Dubai, planning for Wujiang 2, and according to our sources, planning for a new warehouse in the eastern central part of China, backed by a long-term tenancy signed with a multi-national corporation (see Table 2). ILB also holds a 20.3% stake in Hengyang Petrochemical Logistics Ltd (Bloomberg: HYNG SP) (Hengyang), a tank farm owner/operator in the Yangtze Delta region, listed on the Catalist Board of SGX. At the last traded price of S$0.52, ILB's stake is worth RM36.4m or 18.5sen per ILB share.

Table 2: Warehouses Under ILB's Stable

Warehouse	Floor Area ('000 sq ft)	Ownership	Remarks
Shenzhen 1	320	No^	-
Shenzhen 2	450	Yes	-
Shenzhen 3	640	Yes	-
Shanghai 1	180	No^^	-
Shanghai 2	210	No^^	-
Wujiang 1	280	Yes	-
Dubai (Jebel Ali FTZ)	1,300-1,500*	50%-owned	35% completion at present, full completion by end-2010, total project cost of RM240m.
Wujiang 2	240	Yes	Total project cost of only RMB30-40m (RM15-20m), vis-à-vis RMB110-120m (RM54-59m) of Wujiang 1 as bulk of the basic infrastructure cost has already been put in.
Eastern central part, China#	900#	Yes#	Total project cost of US$25m (RM80m)#

**Effective, with auto-racking system*

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

#According to RHBRI's independent sources

Source: RHBRI, company

- **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.

- **Maintain Outperform.** There have been a few positive developments for ILB on the China front: (1) The signing of idX, a US-based international interior design firm, as the tenant for ILB's entire new warehouse in Wujiang; (2) The successful listing of China associate Hengyang on the Catalist Board of SGX; and (3) The possibility of ILB embarking on a new warehouse project in the eastern central part of China, backed by a long-term tenancy signed with a multi-national. Indicative fair value is raised by 5% from RM1.24 to RM1.30 based on 13x revised FY12/10 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. At 13x 1-year forward PER, our valuation for ILB is fairly consistent with an average of 13.4x for the 20 closest issues to ILB by market capitalisation in the airfreight and logistics sector in Asia Pacific (Emerging) based on the Bloomberg survey.

Table 3: Earnings Forecasts

FYE Dec (RMm)	FY09a	FY10F	FY11F	FY12F
Turnover	187.0	164.8	130.5	136.5
Turnover growth (%)	-12.7	-11.9	-20.8	4.6
EBITDA	29.6	33.3	31.2	33.6
EBITDA margin (%)	15.8	20.2	23.9	24.6
Depreciation	-28.4	-13.6	-10.2	-10.2
Net Interest	-6.4	2.8	3.9	0.4
Associates	1.9	5.4	6.0	8.0
EI	13.6	0.0	0.0	0.0
Pretax Profit	10.4	27.9	30.9	31.8
Tax	-8.0	-0.7	-0.7	-0.6
PAT	2.5	27.2	30.2	31.1
Minorities	-6.6	-7.4	-7.8	-7.7
Net Profit	-4.1	19.8	22.4	23.4

Source: Company data, RHBRI estimates

Table 4: Forecast Assumptions

FYE Dec	FY10F	FY11F	FY12F
Floor space ('000 sq ft)			
Shenzhen	1,410	1,410	1,410
Shanghai	390	390	390
Wujiang	280	280	280
Dubai	-	1,000	1,000

Chart 1: ILB Technical View Point

- The share price of ILB reversed from the previous downtrend in Mar 2009, when it rebounded from a key support of RM0.515.

- The stock rode on the uptrend that was supported by both the 10-day and 40-day SMAs and reached a high of RM1.17.

- Thereafter, it was snapped with a correction move and eased back to the support near RM0.88.

- It staged another attempt on the RM1.17 key resistance level in Apr but managed to reach RM1.16, before seeing the return of selling momentum.

- Recently, the 10-day SMA has cut to below the 40-day SMA to suggest medium-term negative sentiment on the stock.

- If it fails to reclaim the 10-day SMA in the near term, it is likely to revisit the support level of RM0.88 soon. But we expect the level to buffer its downside for the medium term.

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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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