Corporate Highlights

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

Results Note

17 May 2010

Integrated Logistics

Back In The Black In 1QFY12/10

Share Price	:	RM1.02
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 /Syariah-Approved Stock By The SC *#Excluding EI* ** Consensus Based On IBES Estimates*

- **Better 2H ahead.** 1QFY12/10 net profit came in at only 16% of our full-year forecast. However, we consider the results within our expectation as we expect: (1) Stronger quarters ahead against a backdrop of an improving global economy; and (2) Huge interest savings from 2H onwards upon the completion of the disposal of its Malaysian business by 30 Jun 2010.
- **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 (see Table 4).
- **Forecasts.** Maintained.
- **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. 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.

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

Issued Capital (m shares)	197.0
Market Cap(RMm)	201.0
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	FY10	FY11	FY12
EPS Revision (%)	-	-	-
Var to Cons (%)	nm	nm	nm

Share Price Chart

Relative Performance To FBM KLCI

Please read important disclosures at the end of this report.

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Table 2: Earnings Review (YoY Cumulative)

FYE Dec (RMm)	2009 3M	2010 3M	YoY Chg	Observations/Comments
Turnover	43.9	47.1	7%	Drivenly largely by improved transportation topline.
By division				
Warehousing	29.7	30.1	1%	We believe improved performance in China was offset by weaker showing in Malaysia.
Transportation	14.3	17.1	19%	Increased volumes on economic recovery.
By country				
Malaysia	16.7	18.4	10%	We believe largely driven by transportation business.
China (incl. HK)	27.2	28.7	5%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
EBIT	(9.4)	6.1	nm	
Warehousing	0.1	4.4	>100%	We believe largely driven by increased occupancy rates, yields and handling incomes from warehouses.
Transportation	(8.7)	1.7	nm	Increased volumes and hence better economies of scale. There was a one-off RM11.9m depreciation adjustment in 1QFY09 (to better reflect the economic values of certain equipment used in the transportation/logistics division).
Others	(0.8)	(0.1)	(94%)	
Net inc/(exp)	(1.6)	(1.4)	(13%)	
EI	0.0	0.0	nm	
Associates	0.7	0.5	(34%)	
Pretax profit	(10.2)	5.2	nm	
Taxation	0.9	(0.9)	nm	
Minority interest	(0.1)	(1.1)	>100%	
Net profit	(9.4)	3.2	nm	Improved operating results. 1QFY12/09 performance was weighed down by the one-off RM11.9m depreciation adjustment.
EPS (sen)	(4.9)	1.7	nm	
Net profit ex-EI	(9.4)	3.2	nm	
EBIT margin	(21%)	13%	34% pts	
Pretax margin	(23%)	11%	34% pts	
Effective tax rate	9%	18%	9% pts	

Table 3: Earnings Review (QoQ)

FYE Dec (RMm)	2009 4Q	2010 1Q	QoQ Chg	Observations/Comments
Turnover	49.5	47.1	(5%)	Came off from peak period in 4Q.
By division				
Warehousing	31.3	30.1	(4%)	Came off from peak period in 4Q.
Transportation	18.2	17.1	(7%)	Came off from peak period in 4Q.
By country				
Malaysia	18.6	18.4	(1%)	
China (incl. HK)	31.0	28.7	(7%)	Came off from peak period in 4Q.
EBIT	(1.9)	6.1	nm	4QFY12/09 performance was dragged down by provisions/write-offs ahead of the disposal of Malaysian business.
Warehousing	(3.6)	4.4	nm	4QFY12/09 included provisions for and write-offs of disposal stamp duty and office renovation expenses incurred.
Transportation	2.7	1.7	(37%)	
Others	(1.0)	(0.1)	(95%)	
Net inc/(exp)	(1.3)	(1.4)	8%	
EI	13.6	0.0	nm	Gains from the sale-and-lease-back of warehouses in China in FY12/09.
Associates	0.3	0.5	41%	
Pretax profit	10.8	5.2	(52%)	4QFY12/09 results inflated by gains from the sale-and-lease-back of warehouses in China.
Taxation	(5.5)	(0.9)	(83%)	
Minority interest	(4.8)	(1.1)	(78%)	
Net profit	0.5	3.2	>100%	Low base in 4QFY12/09 due to abnormally high tax.
EPS (sen)	0.3	1.7	>100%	
Net profit ex-EI	(13.1)	3.2	nm	
EBIT margin	(4%)	13%	17% pts	In the absence of provisions/write-offs.
Pretax margin	22%	11%	(11% pts)	
Effective tax rate	51%	18%	(33% pts)	

Table 4: 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

Table 5: 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 6: 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

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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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