

CJ Century Logistics Holdings

1H19 In The Red

By Nikki Thang / nikkithang@kenanga.com.my

1H19 plummeted into losses of RM4.8m, due to widening expansion costs for its courier business and weaker total logistics operation. With the group's near-term outlook anticipated to remain clouded by persistent start-up losses and industry-wide margin compression, we cut FY19-20E earnings to losses of RM8.3m-RM3.6m. Maintain UP with lower TP of RM0.300 (from previously RM0.370) as we changed our valuation basis to PBV.

Missed expectations. CJCEN recorded 1H19 net loss of RM4.8m, which came in below expectations, against our and consensus' full-year earnings estimates of RM7.4m and RM7.5m, respectively. The drastic deviation is largely attributed to larger-than-expected losses for its last-mile delivery business and weaker total logistics business. No dividend was announced, as expected.

Back-to-back losses. YoY, 1H19 plunged into losses of RM4.8m, from net profit of RM5.4m in 1H18. The losses largely stemmed from: (i) widening start-up costs for its courier business, which further dampened the segment's losses before interest and tax (LBIT) to RM8.1m (versus RM3.1m in 1H18), and (ii) weaker total logistics business which saw EBIT margins compressed by 3.6ppts to 1.4%. However, revenue was higher by 34% to RM263.8m thanks to sturdier performance from its procurement logistics business (+75% YoY), likely due to higher export activities.

Sequentially, losses in 2Q19 widened to RM3.0m from RM1.8m in spite of an 8% jump in revenue, similarly due to the aforementioned reasons.

Challenging outlook ahead. We gathered that its upcoming multi-storey warehouse is slated to commence operations by the end of Sep 2019. At full capacity, the new warehouse is expected to boost capacity for its courier services to 150k parcels/day, from the current 10k parcels/day. We believe this is crucial for its courier business to eventually breakeven in 2021, should average volume of 100k parcels/day are achieved. Nevertheless, we opine that the company's near-term outlook will remain clouded due to the lack of major earnings catalysts underpinned by: (i) continual start-up losses from its courier business, and (ii) margin compression led by intensifying competition within the industry which is unlikely to recover in the near-term.

Maintain UNDERPERFORM with a lower Target Price of RM0.300. Post-results, we cut our FY19E-20E earnings to losses of RM8.3-RM3.6m after imputing more conservative margins for its total logistics business and larger losses for its courier business. That said, we also do not expect any dividend pay-out in these two years.

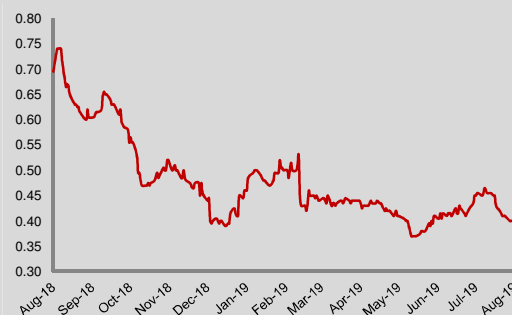
Due to earnings volatility, we are switching our valuation methodology to PBV basis. Our new TP is based on FY20E BV/share of 8.0 sen while we apply a PBV of 0.4x which is somewhat in-line with its 5-year historical trough levels. Our new TP is at a 20% discount to its DCF-driven TP of RM0.370. We believe our call and TP are justified given its bleak outlook with little earnings catalyst at this juncture.

Risks to our call are: (i) earlier-than-expected breakeven from courier business, and (iii) stronger-than-expected total logistics business.

UNDERPERFORM ↔

Price: **RM0.405**
Target Price: **RM0.300** ↓

Share Price Performance



KLCI	1,602.47
YTD KLCI chg	-5.2%
YTD stock price chg	3.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CLH MK Equity
Market Cap (RM m)	158.1
Shares outstanding	390.3
52-week range (H)	0.74
52-week range (L)	0.36
3-mth avg daily vol:	288,292
Free Float	53%
Beta	1.1

Major Shareholders

CJ Korea Express Asia	30.9%
Teow Choo Hing	12.2%
Datuk Syed Ahmad Khalid	3.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Revenue	401.0	426.5	446.2
EBIT	15.2	(7.1)	(0.8)
Profit Before Tax	13.6	(11.1)	(4.8)
Net Profit	9.8	(8.3)	(3.6)
Core Net Profit	8.8	(8.3)	(3.6)
Consensus NP		7.5	8.4
Earnings Revision (%)		-211.7	-144.8
Core EPS (sen)	2.1	(2.0)	(0.9)
Core NP growth (%)	0.0	N.A.	N.A.
BV/Share (RM)	0.8	0.8	0.8
PER (x)	18.9	N.A.	N.A.
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.2	0.4	0.4
DPS (sen)	0.8	0.0	0.0
Div Yield (%)	1.9	N.A.	N.A.

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Result Highlight								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	6M	6M	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue	136.7	127.1	7.6%	104.0	31.5%	263.8	196.7	34.1%
Direct operating expenses	(121.0)	(113.5)	6.6%	(88.3)	37.0%	(234.5)	(165.3)	41.8%
Gross profit	15.7	13.6	15.5%	15.7	0.2%	29.4	31.4	-6.6%
Net other operating expenses	(16.2)	(13.3)	22.0%	(11.3)	42.5%	(29.4)	(23.2)	26.6%
Results from operating activities	(0.4)	0.4	-216.0%	4.4	-109.8%	(0.1)	8.2	-100.7%
Net finance costs	(1.8)	(1.4)	24.3%	(0.5)	268.6%	(3.2)	(0.7)	396.8%
Profit before taxation	(2.2)	(1.1)	106.8%	3.9	-157.3%	(3.3)	7.5	-143.8%
Taxation	(0.8)	(0.7)	14.1%	(1.1)	-26.8%	(1.5)	(2.1)	-28.1%
Non-controlling interests	0.0	0.0	0.0%	0.0	18.2%	0.1	0.0	30.0%
Net Profit	(3.0)	(1.8)	69.3%	2.8	-209.7%	(4.8)	5.4	-189.4%
Gross margin (%)	11.5%	10.7%		15.1%		11.1%	16.0%	
Operating margin (%)	-0.3%	0.3%		4.2%		0.0%	4.2%	
PBT margin (%)	-1.6%	-0.8%		3.7%		-1.3%	3.8%	
Effective tax rate (%)	-35.7%	-64.7%		27.9%		-45.2%	27.5%	
Net profit margin (%)	-2.2%	-1.4%		2.7%		-1.8%	2.8%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	6M	6M	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Revenue								
Total logistics service	65.4	63.2	3.5%	63.0	3.8%	128.6	123.7	4.0%
Procurement Logistics Services	64.5	58.2	10.8%	39.3	64.1%	122.8	70.2	74.8%
Courier Services	6.8	5.7	19.8%	1.7	309.8%	12.4	2.8	N.A.
EBIT								
Total logistics service	0.5	1.3	-61.1%	3.3	-84.3%	1.9	6.2	-69.8%
Procurement Logistics Services	3.2	3.0	7.7%	2.7	20.0%	6.2	5.1	20.6%
Courier Services	(4.2)	(3.9)	5.3%	-1.6	154.9%	(8.1)	(3.1)	161.8%
EBIT margins								
Total logistics service	0.8%	2.1%		5.3%		1.4%	5.0%	
Procurement Logistics Services	5.0%	5.1%		6.8%		5.0%	7.3%	
Courier Services	-61.2%	-69.7%		-98.4%		-65.1%	-109.5%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
CJ CENTURY LOGISTICS HOLDINGS	0.405	158.1	Y	12/2019	6.4%	4.6%	-194.3%	-230.6%	18.9	N.A.	N.A.	0.5	0.5	-2.6%	0.0%	0.300	UP
MMC CORP BHD	1.09	3,319.1	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	21.8	26.0	24.8	0.3	0.3	1.9%	1.4%	1.10	MP
POS MALAYSIA BERHAD	1.51	1,182.0	Y	12/2019	-24.3%	29.1%	-200.7%	-75.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.4%	264.9%	1.25	UP
WESTPORTS HOLDINGS BHD	4.07	13,878.7	Y	12/2019	7.7%	4.5%	9.6%	5.6%	25.6	23.4	22.1	5.7	5.9	24.8%	3.2%	3.75	MP

Source: Bloomberg, Kenanga Research

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OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

