



INITIATION REPORT

16 Mar 2011

Table with 4 columns: Company Name, Market Price, Market Capitalisation, Board, Recommendation, Sector, Target Price, Stock Code/Name.

Analyst: Edmund Tham



Source: Century

BACKGROUND

Century Logistics Holdings Berhad was first listed under the "Trading/Services" sector of the Second Board of Bursa Malaysia during June 2001.

"Leading provider of supply chain solutions"

Century is based at Bandar Sultan Suleiman, near North Port in Port Klang, Selangor. The group is now a leading provider of supply chain solutions.

Century's unique model of value-added solutions encompass warehousing and distribution services that can be scaled and customized to the needs of customers based on the demands and delivery service requirements for their products.

With the innovative solutions offered, Century has evolved to managing the contract logistics of some clientele, where the group provides value propositions that improve operational efficiencies for the clientele and their end customers.

"Total logistics solutions"

The group has the technology and capabilities to offer their clients total logistics solutions. Their wide ranges of services include the following:

Table with 1 column: Services provided. List includes Supply Chain Management, International Freight Forwarding, Assembly and Procurement Services, Fuel Processing & Storage offshore, Key Account Management, Road Transportation & Distribution, Warehouse Management Services, Shipping, Chartering & Bunker Services, Project Handling & Management, Tax Exemptions Consultancy, Oil & Gas logistics.

Source: Century

Century's management is led by its group managing director (MD) Steven Teow Choo Hing. Steven was appointed to Century's Board of Directors back in July 1997 and is from an engineering background prior to joining the logistics sector.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/



logistics since 1991, when he set-up a bonded warehouse in Port Klang with several partners.

For its “**Third Party Logistics**” (3PL) business segment, Century provides services such as port and customs clearances, international sea and air freight forwarding, warehousing, container haulage and land transport. Century has a regional presence in Thailand, India and China and is also represented in 72 countries under its International Freight and Logistics Network.

Under its **Procurement and Assembly** business segment, Century handles international procurement, assembly, quality control, repackaging and distribution. This involves the assembly of high technology products such as LCD and LED television sets for various multi-national electrical and electronics customers.

In **Oil and Gas Logistics** business segment, Century currently provides floating storage and trans-shipment services for international oil trading companies. Century is a Ministry of Transport approved-operator for ship to ship transfers of fuel oil and crude oil. The group also provides supply chain management and vessel husbandry services and all this is in compliance to international maritime standards.

PERFORMANCE – FY10

Century had posted a record performance for its financial year ended 31st December 2010 (FY10) with a net profit after tax (NPAT) of RM30.6 million and revenue of RM270.4 million, representing increases of 41.2% and 28.2% respectively when compared to its previous financial year (FY09).

“Strong FY10 performance”

For its 4Q/FY10 ended 31st December 2010, the group recorded NPAT of RM8.4 million and revenue of RM63.7 million. These figures represent an increase of 13.7% and 11.6% respectively when compared to the corresponding 4Q/FY09.

The improvement in group y-o-y performance during 4Q/FY10 was mainly due to the higher total logistics activities and also the gain on sale of a property.

Comparing q-o-q, for 4Q/FY10 the group had reported revenue and NPAT of RM63.7 million and RM8.4 million respectively, compared to the revenue and NPAT of RM71.6 million and RM8.1 million respectively for the preceding 3Q/FY10. The decrease in revenue and NPAT by 10.9% and 4.2% respectively were mainly due to the lower export sales during 4Q/FY10.

12M/ 31 Dec	FY10	FY09	yov %
Rev (RMm)	270.4	211.0	28.2
EBIT (RMm)	39.8	27.9	42.4
NPAT (RMm)	30.6	21.7	41.2
EPS (sen)	37.3	26.6	40.6

4Q/ 31 Dec	4Q10	4Q09	yov %	3Q10	qoq%
Rev (RMm)	63.7	57.1	11.6	71.6	(10.9)
EBIT (RMm)	10.0	9.6	4.9	10.5	(4.2)
NPAT (RMm)	8.4	7.4	13.7	8.1	3.7
EPS (sen)	10.3	9.0	13.7	9.9	3.7

OUTLOOK/CORP. UPDATES

We remain optimistic on Century’s overall group performance during its FY11 ending 31st December 2011. Additionally, the group’s promising Procurement & Assembly and Oil & Gas Logistics business segments are expected to perform favourably during the year.

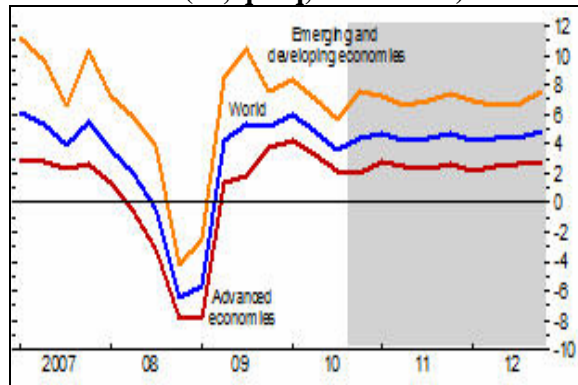
In its World Economic Outlook (WEO) report (January 2011), the International Monetary Fund (IMF) opined that global economic recovery has continued, though unevenly by regions. As expected, growth has been stronger in emerging economies, as compared to advanced economies. Global economic output is projected to expand by 4.5% in 2011, an upward revision of about 0.25% relative to IMF’s previous forecast in October 2010.

Global economic activity had expanded at an annualized rate of just over 3.5% in the third quarter of 2010. This positive performance was better than forecast earlier, owing to the



stronger-than-expected consumption in the United States and Japan. Growth in emerging and developing economies remained robust in the third quarter of 2011, buoyed by private demand, the still-accommodative policy stances, and resurgent capital inflows.

GDP Growth (% , q-o-q, annualized):



Source: IMF

“Economic conditions holding up”

The latest available Malaysian economic data (January 2011) revealed reasonably positive growth rates in y-o-y percentage terms, for instance: IPI (+1.0 y-o-y), and Manufacturing Sales (+7.7% y-o-y), Exports (+3.0% y-o-y) and Imports (+13.5% y-o-y). Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and manageable CPI of 2.4% (January 2011). Meanwhile, Bank Negara Malaysia (BNM) had last reaffirmed its accommodative overnight policy rate (OPR) of 2.75% in March 2011.

“Strong in contract logistics”

Century’s management continues to take measures to remain resilient in all economic situations, including focusing on providing value-added logistics solutions as well as maintaining cost efficiencies. The continued expansion of the customer base is a testament of Century’s supply chain solutions offering. Recognizing Century’s unique offering, some large companies have entrusted Century with their logistics needs, with contracts entered into on a mutually beneficial basis - contract logistics.

Century’s solid financial position and low gearing places the group in a position to maintain its strong results as well as embarking on possible strategic acquisitions to enhance its earnings growth.

The group is also focusing on increasing its participation in the oil and gas logistics activities, including diversification upstream and downstream of the sector. Century’s procurement logistics activities has continued to expand further from the export of television sets to the Syrian market, to contract manufacturing of various electrical and electronic appliances for customers in markets as diverse as Argentina, United Arab Emirates (UAE) and Bangladesh.

“Growing regionally”

Century’s business presence regionally would hold it in good stead. Global economic growth in the next few years would be spearheaded by Asian countries, such as China and India. As such, we view the group’s regional presence in a favourable way. Currently, less than 10% of its overall revenues are derived from its operations in Thailand, India and China. The group is also considering expanding into other neighbouring countries.

Nevertheless, there are notable risks to the logistics sector such as slowing global economic growth rates. The recent political uprisings in the Middle East/North Africa and major earthquake in Japan could also impact international trade to a certain extent. Factors such as foreign exchange fluctuations, lowly sovereign debt ratings in certain European countries and the sustained high unemployment levels in the US could also dampen business sentiment and trade levels.

In January 2011, Century had fully repaid a term loan facility amounting to RM20 million. The term loan facility was granted under a Primary Collateralized Loan Obligation Programme, where the original tenure of the facility was for 5 years and due in January 2012. The early repayment was fully funded by internally generated funds and will result in substantial

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/



interest savings and further reduction in the group's gearing levels.

In February 2011, the group had entered into a Sale and Purchase (S&P) agreement with Bandar Setia Alam S/B to purchase a piece of freehold land measuring approximately 65,340 square feet in area, within a commercial development known as Setia City at Precinct 1 of Setia Alam, for a purchase consideration of RM8.8 million. The intention of the acquisition is to develop the property into a commercial office building for the group's own use. However, should there be any space in excess to the group's current needs, then the excess space would be rented out.

VALUATION

In line with the positive performance for its FY10, Century declared a final single-tier dividend of 4 sen dividend per share (DPS), pending shareholders' approval at the next Annual General Meeting (AGM). Century had earlier paid 2 interim single-tier dividends totalling 5 sen, bringing the total single-tier dividend for its FY10 to 9 sen per share.

“Consistent dividend payout”

Given Century's strong earnings performance and its recent dividend payout track record (20-25% of net profits), we opine that Century could decide to give out an even higher DPS of 10 sen for its FY11.

With a relatively weak adjusted beta of 0.93 to the KLCI, Century has mirrored KLCI's performance this year (by -4.3% vs. -2.2% year-to-date (YTD)). Market conditions have also been volatile lately, impacted by the recent political uprisings in the Middle East/North Africa and major earthquake in Japan. Nevertheless, as Century is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Undemanding valuations”

Based on our forecast of Century's FY11 EPS and a conservative estimated P/E of 5 times, we set a **FY11-end Target Price (TP) of RM2.44**. This TP represents an attractive 36.3% upside from its current market price. Our TP for Century reflects a P/BV of just 1.0 times over its FY11F BV/share. Meanwhile, the local transportation service sector's average P/E and P/BV is 14.0 times and 1.4 times, respectively.

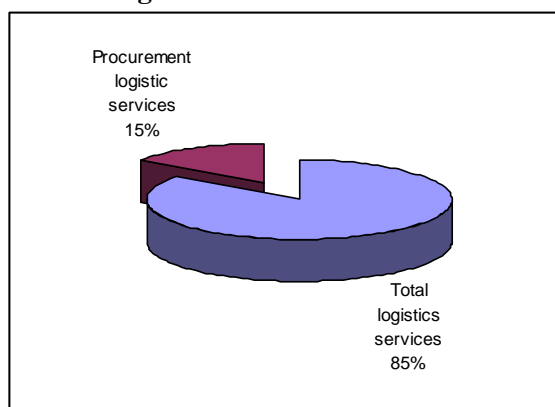
We like Century due to its diversified business model, growth strategy, undemanding P/E and P/BV valuations, solid dividend yield and strong ROE. With a strong management team, minimal gearing levels, tight cost-control and efficient operational structure, Century is well poised to have a good year ahead.

Century: 6-month Share Price

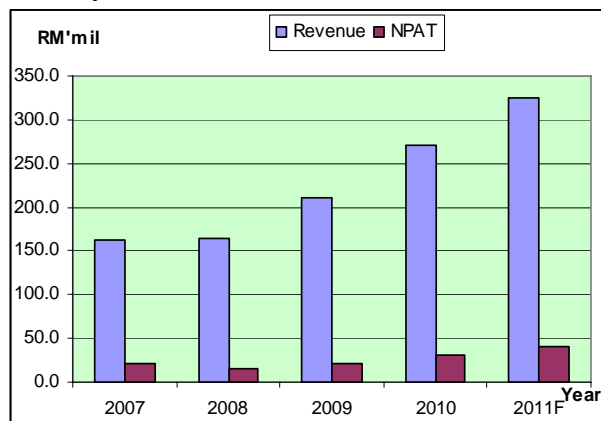


Source: NextView

Century: Breakdown of FY10 revenue by business segment



Source: Century

**Century: Revenue and NPAT trend**

Source: Century

**KEY FINANCIALS**

Key Stock Statistics	2011F
EPS (sen)	48.8
P/E (x)	3.7
Dividend/Share (sen)	10.0
NTA/Share (RM)	2.41
Book Value/Share (RM)	2.45
Issued Capital (mil shares)	82.0
52-weeks share price (RM)	1.45 – 2.07
Major Shareholders:	%
Phua Sin Mo	24.5
Teow Choo Hing	10.2
Teow Choo Chuan	6.0



Per Share Data	2008	2009	2010	2011F
Book Value (RM)	1.69	1.91	2.13	2.45
Earnings (sen)	18.1	26.6	37.3	48.8
Dividend (sen)	5.0	6.0	9.0	10.0
Payout Ratio (%)	23.3	22.6	24.1	20.5
PER (x)	9.9	6.7	4.8	3.7
P/Book Value (x)	1.1	0.9	0.8	0.7
Dividend Yield (%)	2.8	3.4	5.0	5.6
ROE (%)	10.7	13.9	17.5	19.9
Net Gearing (cash) (x)	0.21	0.31	0.24	0.13



P&L Analysis (RM mil)	2008	2009	2010	2011F
Year end: Dec 31				
Revenue	163.9	211.0	270.4	324.3
Operating Profit	20.4	28.9	39.8	50.8
Depreciation	(9.9)	(10.4)	(10.9)	(11.4)
Interest Expenses	(3.8)	(3.6)	(3.8)	(4.1)
Pre-tax Profit	17.1	25.5	36.0	46.7
Effective Tax Rate (%)	19.5	15.1	15.5	14.8
Net Profit	14.8	21.7	30.6	40.0
Operating Margin (%)	12.4	13.7	14.7	15.7
Pre-tax Margin (%)	10.4	12.1	13.3	14.4
Net Margin (%)	9.0	10.3	11.3	12.3

*RM1 par value

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/