

**RESULTS REPORT**

13 May 2011

<b>Century Logistics Holdings Berhad</b>		<b>Market Price:</b>	RM1.96
		<b>Market Capitalisation:</b>	RM161.4m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	BUY	<b>Sector:</b>	Trading/Services
<b>Target Price:</b>	RM2.56	<b>Stock Code/Name:</b>	7117 / CENTURY

Analyst: Edmund Tham

**KEY FINANCIALS**

<b>Key Stock Statistics</b>	<b>2011E</b>
Earnings/Sh. (sen)	42.6
P/E Ratio (x)	4.6
Dividend/Share (sen)	9.5
NTA/Share (RM)	2.41
Book Value/Share (RM)	2.45
Issued Capital (mil shares)	82.3
52-weeks share price (RM)	1.45 – 2.08
<b>Major Shareholders:</b>	%
Phua Sin Mo	26.0
Teow Choo Hing	11.3
Teow Choo Chuan	6.3
Jaafar bin Mohamad	6.2

<b>Per Share Data</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
Book Value/Sh. (RM)	1.69	1.91	2.13	2.45
Earnings/Sh. (sen)	18.1	26.6	37.3	42.6
Dividend/Sh. (sen)	5.0	6.0	9.0	9.5
Payout Ratio (%)	23.3	22.6	24.1	22.3
P/E Ratio (x)	10.8	7.4	5.2	4.6
P/Book Value (x)	1.2	1.0	0.9	0.8
Dividend Yield (%)	2.6	3.1	4.6	4.8
ROE (%)	10.7	13.9	17.5	17.4
Net Gearing (or Cash) (x)	0.21	0.31	0.24	0.15

<b>P&amp;L Analysis (RM mil)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
<b>Year end: Dec 31</b>				
Revenue	163.9	211.0	270.4	316.8
Operating Profit	20.4	28.9	39.8	48.6
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	44.5
Effective Tax Rate (%)	19.5	15.1	15.5	22.1
Net Profit	14.8	21.7	30.6	35.1
Operating Margin (%)	12.4	13.7	14.7	15.3
Pre-tax Margin (%)	10.4	12.1	13.3	14.0
Net Margin (%)	9.0	10.3	11.3	11.1

\*RM1 par value

**PERFORMANCE – 1Q/FY11**

<b>1Q/31 Mar</b>	<b>1Q11</b>	<b>1Q10</b>	<b>yoy %</b>	<b>4Q10</b>	<b>qoq%</b>
Rev (RMm)	66.8	59.8	11.6	63.7	4.8
EBIT (RMm)	8.9	8.7	2.4	10.0	(11.7)
NPAT (RMm)	6.4	6.6	(2.5)	8.4	(23.4)
EPS (sen)	7.8	8.0	(2.5)	10.2	(23.4)

On an annualized basis, Century's 1Q/FY11 (quarter ended 31<sup>st</sup> March 2011) results were lower than our earlier expectations. Nevertheless, 1Q is typically a slow quarter for the group due to the seasonal factors – the shorter month of February and the Chinese New Year holiday period.

**“Q1 – typically a slow quarter”**

Century posted 1Q/FY11 revenue of RM66.8 million, which was better by 11.6% y-o-y and 4.8% q-o-q. The increase in revenue was mainly due to the increased business activities from new and existing customers resulting in higher total logistics activities. However, the group's net profit after tax and minority interest (NPATMI) declined by 2.5% y-o-y to RM6.4 million due to the higher tax charge incurred during 1Q/FY11.

**“New logistics accounts”**

The group's 1Q/FY11 NPATMI had declined by 23.4% from RM8.4 million in the preceding 4Q/FY10. This was largely due to 4Q/FY10 figures included an extraordinary item (the gain of disposal of a property of RM2.4 million).

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## OUTLOOK/CORP. UPDATES

We remain optimistic on Century's overall group performance during its FY11 ending 31<sup>st</sup> 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.

### “Steady economic conditions”

The latest available Malaysian economic data (March 2011) revealed reasonably positive growth rates in y-o-y percentage terms, for instance: IPI (+2.4 y-o-y), and Manufacturing Sales (+14.1% y-o-y), Exports (+7.8% y-o-y) and Imports (+12.1% 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 3.0% (March 2011). Meanwhile, Bank Negara Malaysia (BNM) had raised its overnight policy rate (OPR) of 2.75% to 3.0% and the statutory reserve requirement (SRR) of 2% to 3% to rein-in inflationary pressures.

With improvements in the operating environment, Century's management continues to take the necessary measures to remain resilient, including focusing on providing value-added logistics solutions as well as maintaining cost efficiencies. The continued expansion of the group's customer base for its supply chain solutions is encouraging.

### “Expansion of offerings”

Century's solid financial position and low gearing enables the group to maintain strong results as well as embarking on strategic

acquisitions to enhance its earnings growth. The group plans to expand its supply chain solutions offering, and are also focusing on increasing its participation in the oil and gas logistics activities, including diversification upstream and downstream of the sector.

Century's model of value-added solutions encompasses warehousing and distribution services that can be scaled and customized to the needs of customers. With that, Century has evolved to managing the contract logistics of discerning clientele, where the value propositions are to improve operational efficiencies. In oil and gas logistics, Century currently provides floating storage and trans-shipment services for international oil trading companies. Century also provides procurement logistics services to various multi-national electrical and electronics customers. The group is currently operating abroad in China, India and Thailand.

## VALUATION/CONCLUSION

During the just-concluded Annual General Meeting (AGM), Century's shareholders have approved the declaration of a Single Tier Final Dividend of 4.0 sen per share for FY10 31<sup>st</sup> December 2010, bringing the total dividend for FY10 2010 to 9.0 sen per share. The final dividend will be paid on 10<sup>th</sup> June 2011. The total dividends for FY10 leads to a 24.1% dividend payout ratio and 4.6% dividend yield, based on Century's current market price.

### “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 9.5 sen for its FY11.

With an adjusted beta (correlation factor) of 0.82 to the KLCI, Century (+4.8%) has slightly outperformed the KLCI (1.4%) this year. Market conditions have also been volatile in recent months, impacted by the political uprisings in

the Middle East/North Africa and the major Tohoku tsunami/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 an estimated P/E of 6 times (within its historical range), we set a **FY11-end Target Price (TP) of RM2.56**. This TP represents an attractive 30.5% 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 27.7 times and 1.24 times, respectively.

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

Nevertheless, there are possible notable risks to the logistics sector such as a slowing global economic growth rates. The recent political uprisings in the Middle East/North Africa and the major Tohoku disaster 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 sentiment and trade levels.

### Century: Share Price



Source: NextView

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