Sin-Kung Logistics Bhd

Lifting off

ACE Market
Transportation & Logistics Sector
Not Rated
IPO Price: RM0.13
Fair Value: RM0.14

Valuation / Recommendation

We derive an FV of RM0.14 for Sin-Kung, based on a **14x FY25 EPS forecast of 1.0sen**. We believe the company deserves a premium valuation above its local peers (9-11x PE), given its niche in the logistics business (specialising in airport-to-airport road feeder services) and superior margins. A stronger rebound in air cargo traffic and/or recovery in the E&E sector will be key catalysts driving the stock's performance in the near term, before new warehousing capacity comes onstream by 2026.

Investment Highlights

Growth driven by rebound in air cargo traffic. Sin-Kung Logistics Bhd (Sin-Kung) derives its sales from trucking services (72-81% in FY20-23), and counts major airlines and freight forwarders as its key customers. As such, it is not surprising that Sin-Kung's revenue is closely correlated with the movement of air cargo traffic in Malaysia. We share MAVCOM's view that Malaysia air cargo traffic is likely to rebound from 2024 onwards, driven by a slew of factors, including 1) Upturn in the global technology cycle; 2) Potential recovery in China; and 3) A more stable economic outlook, supported by the end of central banks' monetary tightening cycle. Overall, we believe this should drive the positive outlook for Sin-Kung, which underpins our 10-14% p.a. revenue growth forecast for FY24-26F.

Doubling warehouse capacity by 2026. Revenue for the warehousing business segment has jumped from RM2.8m in FY20 (6% of sales), to RM8.2m in FY23 (16% of sales), supported by new warehouse acquisitions over the years. Upon completion of the new Valdor Warehouse construction in 2026, the addition of 192k pallets will double Sin-Kung's existing annual capacity. This new warehouse is strategically located in Seberang Perai and will primarily serve customers in the northern region of Peninsular Malaysia (likely from the E&E sector).

Superior margins, less vulnerable to fuel subsidy rationalisation. Sin-Kung commands above-average operating margins (25.6% in 2023) compared to other local peers in the logistics sector (3.5%-19.0%). This is perhaps due to the high-value items typically being transported via air freight, where speed and reliability are crucial. We believe the company is well prepared for the eventual implementation of fuel subsidy rationalisation by the government, as there should not be any significant issues for the company to pass on the cost increase to its customers, in our view.

Risk factors for Sin-Kung include (1) changes in the performance of the air freight industry; and (2) Fluctuations in diesel prices.

FY Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	56.7	52.0	57.6	65.8	72.1
EBITDA (RM m)	21.3	18.1	22.4	27.0	30.5
PAT (RM m)	12.3	6.4	10.0	12.4	14.1
PAT Margin (%)	21.8	12.3	17.3	18.8	19.5
EPS (sen)	1.2	0.6	0.8	1.0	1.2
EPS Growth (%)	(14.9)	(48.1)	29.5	24.2	13.8
BV Per Share (sen)	5.4	6.0	8.0	9.0	10.2
PE (x)			15.7	12.6	11.1
Net Gearing (x)	0.3	0.7	0.3	0.4	0.4
ROE (%)			10.3	11.4	11.5

Business Overview

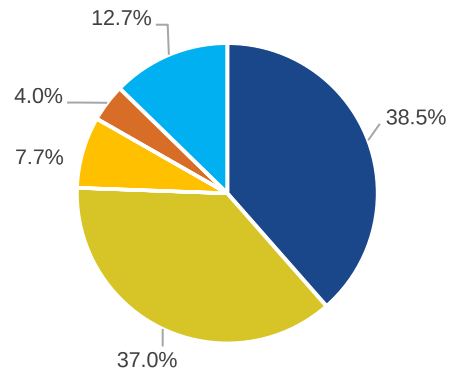
Sin-Kung Logistics is an integrated logistics service provider principally involved in the provision of trucking services with a focus on airport-to-airport road feeder services.

Listing Details	
Listing date	15 May 2024
New shares (m)	200.0
Offer for sale (m)	103.5
Funds raised (RM m)	26.0

Post Listing	
Ordinary shares (m)	1,200.0
Market cap (RM m)	156.0
Free float	25.5
P/E (FY24F)	15.7

Top 3 Shareholders	
Lille Management	29.8%
Alan Ong Lay Wooi	29.8%
Angeline Ong Lay Shee	14.9%

Utilisation of Proceeds	RM m
Expansion of warehousing and distribution services	10.0
Repayment of bank borrowings	9.7
Purchase of commercial vehicles	2.0
Working capital	1.1
Listing expenses	3.3



Source: Company, Mercury Securities

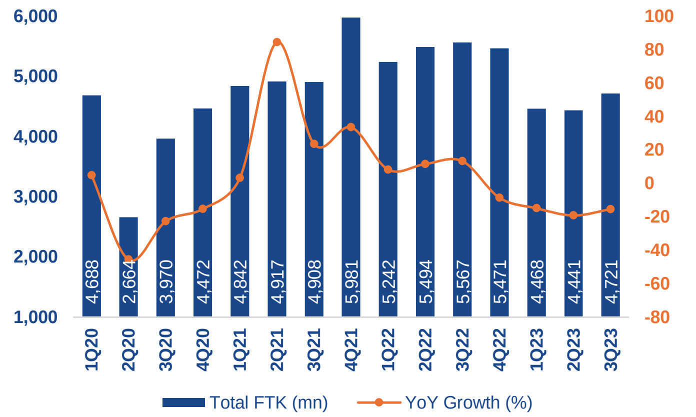
Financial Highlights and Valuation

Rebound in air-cargo traffic. Sin-Kung largely derives its sales from the provision of trucking services (72-81% over FY20-23) and counts major airlines and international freight forwarders in the region as its key customers. As such, it is not surprising that Sin-Kung's revenue is closely correlated with the movement of air cargo traffic in Malaysia. See Figure 1 below (FTK = Freight Tonne Kilometres)

From 2020 to 2022, Sin-Kung's revenue has grown by 8-21%, underpinned by: 1) Growth in demand for e-commerce cargo; 2) Robust growth in the E&E sector; and 3) Higher demand for transporting pharmaceutical goods (vaccines, gloves, and masks). However, this saw some weakness in 2023, as air cargo traffic was generally affected by weakened external demand, slower global growth, and ongoing geopolitical crises.

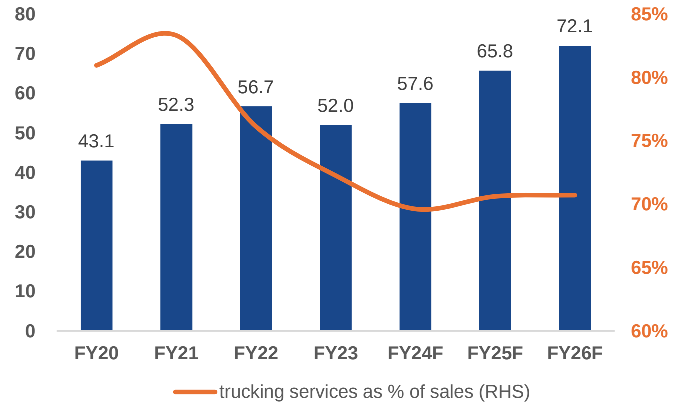
We share MAVCOM's view that Malaysia air cargo traffic is likely to rebound from 2024 onwards, driven by a slew of factors, including 1) Upturn in the global technology cycle; 2) Potential recovery in China; and 3) A more stable economic outlook, supported by the end of central banks' monetary tightening cycle. Overall, we believe this should drive the positive outlook for Sin-Kung, which underpins our 10-14% p.a. revenue growth forecast for FY24-26F.

Figure 1: Malaysia's air cargo volume, by total FTK (m)



Source: MAVCOM, CargoIS

Figure 2: Trucking services as % of revenue, FY20-26

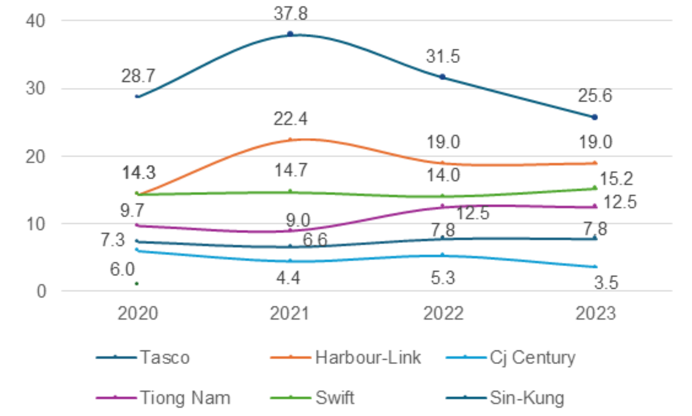


Source: Company, Mercury Securities

Growing warehousing business. A key business that Sin-Kung has also been focusing on growing is warehousing services. Revenue for this business segment has jumped from only RM2.8m in FY20 (6% of sales), to RM8.2m in FY23 (16% of sales), supported by new warehouse acquisitions over the years. Upon completion of the new Valdor Warehouse construction in 2026, the addition of 192k pallets will double Sin-Kung's existing capacity. This new warehouse is strategically located in Seberang Perai and will primarily serve customers in the northern region of Peninsular Malaysia (likely from the E&E sector).

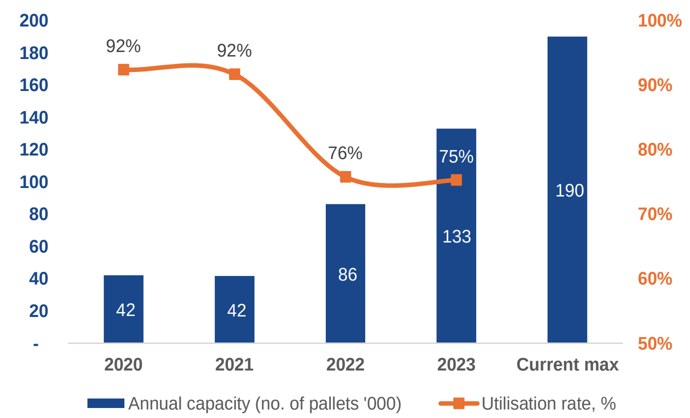
Superior margins for premium services. Thanks to the niche of its logistics business (specialising in airport-to-airport road feeder services), Sin-Kung can command above-average operating margins (25.6% in 2023) compared to other local peers in the logistics sector (3.5%-19.0%). This is perhaps due to the high-value items typically being transported via air freight (pharmaceutical, medical, semiconductor products, etc.), where speed and reliability are crucial. We believe the company is well prepared for the eventual implementation of fuel subsidy rationalisation by the government, as there should not be any significant issues for the company to pass on the cost increase to its customers, in our view.

Figure 3: Sin-Kung's operating margin vs. peers, %



Source: Companies, Bloomberg

Figure 4: Warehousing capacity & utilisation rate



Source: Company

We forecast RM10-14m PAT for FY24-26. Anchored by the air cargo traffic rebound and increasing contribution from the warehouse business, we expect Sin-Kung to achieve a higher net profit of RM10-14m over FY24-26F. We opine that Sin-Kung could achieve higher growth beyond FY26 once its new Valdor Warehouse is completed.

Balance sheet. Sin-Kung plans to use part of the proceeds from the IPO to repay bank borrowings, reducing its net gearing level from 0.7x to 0.3x post-listing. Given negative free cash flow and additional drawdown of bank borrowings to finance the construction of Valdor Warehouse, we expect Sin-Kung's net gearing level to remain at around 0.4x in FY24-26F.

Dividend policy. Given the considerable capex requirement for constructing its Valdor Warehouse (total of about RM71m over FY24-26), we do not expect Sin-Kung to declare any dividend payout in the near term.

RM0.14 FV based on 14x FY25 EPS. Based on the IPO price of RM0.13, Sin-Kung will trade at 15.7x PE to our FY24 earnings forecast. With decent earnings growth, its PE valuation should moderate to 12.6x/11.1x by FY25-26F. We believe Sin-Kung can sustain a premium valuation above its local peers (9-11x PE), given its niche in the logistics business (specialising in airport-to-airport road feeder services) and superior margins. We derive an FV of RM0.14 for Sin-Kung, based on a 14x FY25 EPS forecast of 1.0sen.

Peer Comparison (as at 25 Apr 2024)

Company	Bloomberg Ticker	Share Px (RM)	Mkt Cap	EPS Growth (%)		P/E (x)		P/B		ROE (%)		Net Dividend Yield (%)	
			RM m	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Tasco	Tasco MK	0.83	664	(29.3)	15.4	10.1	8.8	1.1	1.0	11.0	11.0	3.4	3.4
CJ Century Logistics	CLH MK	0.33	192	(57.9)	83.2	16.3	8.9	0.4	-	2.6	4.7	-	3.0
Swift Haulage	SWIFT MK	0.51	449	27.9	(32.8)	7.0	10.4	0.6	-	9.5	6.7	1.6	3.3
Simple Average				**(19.8)**	**21.9**	**11.1**	**9.4**	**0.7**	**1.0**	**7.7**	**7.5**	**2.5**	**3.3**

Source: Bloomberg

Company Background

An integrated logistics player. Sin-Kung is an integrated logistics service provider principally involved in the provision of trucking services, with a focus on airport-to-airport road feeder services. The company also provides container haulage services, warehousing, and distribution services. As of April 2024, Sin-Kung owns 461 commercial vehicles. Among these, 302 are allocated for trucking services, while 145 are dedicated to container haulage services. The remaining 14 vehicles serve express delivery (3 vehicles) and cargo escort purposes (11 vehicles). See Figure 5 below for a detailed breakdown.

Trucking services - Airport-to-airport (52% of FY23 sales). Sin-Kung offers domestic and cross-border airport-to-airport road feeder services across Peninsular Malaysia, Singapore, and Thailand. The company regularly serves domestic markets including routes between Subang Airport, KLIA, and Penang International Airport. Meanwhile, its regular cross-border services largely involve routes between Singapore Changi Airport and key domestic airports in Malaysia, as mentioned above.

Trucking services - Point-to-point (20% of FY23 sales). Sin-Kung offers point-to-point trucking services on a full-truckload and less-than-truckload basis to customers requiring transportation services for domestic, import, and export cargo. The pick-up and drop-off points can include the customer's premises (e.g., warehouses, factories, or shopping malls), Sin-Kung's own warehouses, airports, and seaports. Key customers for this service comprise local and international freight forwarders and cargo owners (i.e., manufacturers, wholesalers, and traders).

Provision of container haulage services (10% of FY23 sales). Sin-Kung also provides services for transporting containers between Port Klang and the customer's specified location in Peninsular Malaysia or the company's warehouse. Key customers for container haulage services are generally local and international freight forwarders.

Warehouse and distribution services (16% of FY23 sales). Sin-Kung operates five warehouses that offer storage and handling, pick-and-pack, and distribution services. Its warehouses are located in Shah Alam (49k sq ft), Bukit Mertajam (53k sq ft), Butterworth (6k sq ft), Bukit Minyak (24k sq ft), and Port Klang (40k sq ft). As part of its future expansion plan, Sin-Kung is constructing a new warehouse in Seberang Prai (completion by 2026) with a total built-up area of approximately 164k sq ft. This new warehouse will be able to store up to 192k pallets annually, doubling its current total capacity of 190k.

Figure 5 : Breakdown of Sin-Kung's commercial vehicles fleet

Commercial vehicle	Number of units	Business segment
Box trailer	105	Trucking
Prime mover (trucking)	99	Trucking
Box truck	95	Trucking
Box truck with tail lift	1	Trucking and express delivery
Crane truck	1	Trucking
Open truck	1	Trucking
Container trailer	124	Container haulage
Prime mover (container haulage)	20	Container haulage
Sidelifter	1	Container Haulage
Cargo escort vehicle	11	Cargo escort
Delivery van	3	Express delivery

Source: Company, Mercury Securities

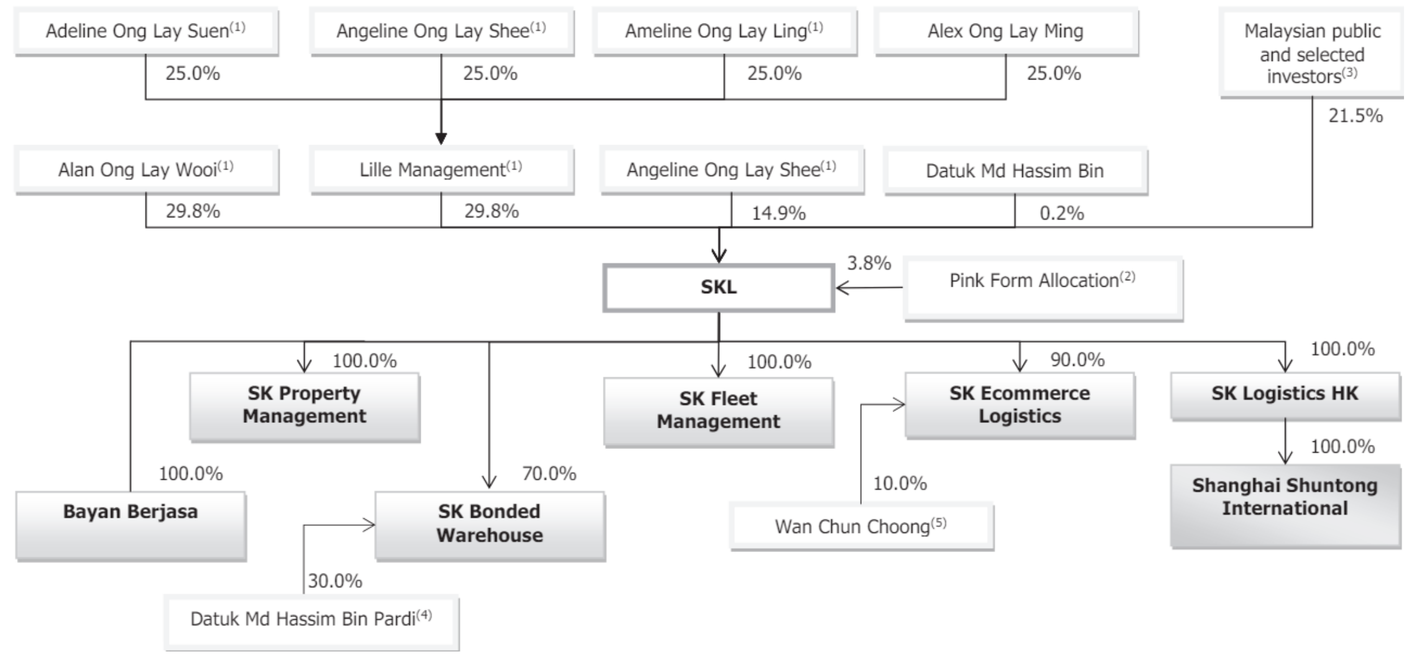
Figure 6: Key Management Team

Name and Designation	Age	Profile
Alan Ong Lay Wooi Managing Director	41	• Appointed as Executive Director in 2003 and Managing Director in 2015. • Involved in overseeing business operations and formulating strategic directions to drive the business. • 22 years of experience working in the logistics industry.
Angeline Ong Lay Shee Executive Director	35	• Oversees the information technology division as well as insurance-related matters. • Appointed as Executive Director in 2013. • 17 years of experience working in the logistics industry.
Adeline Ong Lay Suen Executive Director	34	• Oversees the warehouse division. • Appointed as Executive Director in 2022. • Bachelor of Business and Commerce from Monash University, Malaysia. • Graduate Diploma in Accounting from Deakin University, Australia.
Ameline Ong Lay Ling General Manager	32	• Oversees the transport, safety, security, compliance, human resources, and administrative divisions. • Bachelor of Business and Commerce from Monash University, Malaysia.
See Ai Lian Financial Controller	30	• Oversees the company's finance and accounting divisions. • Certified Accounting Technician Programmed from Sunway College. • Member of the ACCA and Chartered Accountant of MIA.

Source: Company

A family business. Sin-Kung was established in 1994 by Mr Ong Leng Jin, the late father of MD Alan Ong, along with two other late founders. Mr Alan Ong has been working in Sin-Kung since 2002 before succeeding his late father and assuming the role of Managing Director in 2015. He plays a crucial role in supervising the company's business operations and is tasked with setting strategic directions to facilitate the company's development, growth, and expansion. His siblings are assisting him in various divisions within the company - Angeline Ong, Adeline Ong, and Ameline Ong.

Figure 7: Group Structure Post Listing



Source: Company, Mercury Securities

Future Plans & Business Strategies

New warehouse expansion to be completed by 2026. Sin-Kung entered into a SPA in June 2023 to purchase the Valdor Office and Warehouse (164k sq ft with a total capacity of 192k pallets annually) for a total sum of RM70.6m. Once completed by 4Q2026, this new warehouse (located in Seberang Perai) will primarily serve customers in the northern region of Peninsular Malaysia. The company has obtained an RM63.6m bank loan to finance this purchase, while the remaining purchase consideration will be funded through internally-generated funds (RM4m) and IPO proceeds (RM3m).

Increasing its fleet of commercial vehicles. Sin-Kung owns and operates 461 commercial vehicles, including trucks, prime movers, trailers, delivery vans, and cargo escort vehicles, for its business operations. Based on its estimated requirements, the company intends to purchase 100 commercial vehicles by 2025 as part of its strategy to continue growing the trucking and container haulage business.

Key Risks

Changes in the air freight industry. Sin-Kung's trucking services focus on airport-to-airport road feeder services, and demand moves in tandem with the performance of the air freight industry. The company is susceptible to global events that may impact the global aviation industry and, subsequently, the air freight industry. Trucking services accounted for approximately 72% of the company's revenue in 2023.

Fluctuation in global fuel prices. Based on 2023 financials, diesel costs accounted for approximately 34% of Sin-Kung's total purchases of supplies and services. If diesel prices increase due to global fuel fluctuation or the Malaysian Government's diesel subsidy cuts, operating costs will increase, hurting the company's profitability. Sin-Kung could mitigate this by fully passing on the cost increase to its customers, but there is no assurance it can 100% successfully do so.

Changes in economic, political, and regulatory. Sin-Kung operates in Peninsular Malaysia, Singapore, and Thailand. Unfavourable changes in political conditions, financial conditions, and trade restrictions may cause a decline in demand for its services.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
Retail Offering				
Eligible Persons	-	45.0	45.0	3.8
Malaysian Public (Bumiputera)	-	30.0	30.0	2.5
Malaysian Public (Non-Bumiputera)	-	30.0	30.0	2.5
Institutional Offering				
Bumiputera investors approved by the MITI	55.0	95.0	150.0	12.5
Other institutional and selected investors	48.5			4.0
Total	103.5	200.0	303.5	25.3

Source: Company

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MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my