

22 November 2019

# CJ Century Logistics Holdings

## 9MFY19 In The Red; Cease Coverage

By Nikki Thang / [nikkithang@kenanga.com.my](mailto:nikkithang@kenanga.com.my)

**NOT RATED**

Price: **RM0.375**  
Target Price: **RM0.300** ↔

**9MFY19 earnings plunged into losses of RM6.1m, which is within expectation, no thanks to widening expansion costs for its courier business and weaker total logistics operation. We remain cautious over its near-term outlook which looks to be clouded by persistent start-up losses and industry-wide margin compression. As we are ceasing active coverage, the stock is now a NOT RATED with our last TP of RM0.300.**

**Within our expectation.** CJCEN posted 9MFY19 net loss of RM6.1m, which came in line with our full-year forecast at 73% but missed consensus' estimate of RM3.5m losses. We believe the shortfall to expectations is largely attributed to larger-than-expected losses for its last-mile delivery business. No dividend was announced, as expected.

**YoY,** 9MFY19 earnings plummeted into losses of RM6.1m, from net profit of RM9.1m in 9MFY18. The losses are largely attributed to: (i) widening start-up losses for its courier business, which widened the segment's losses before interest and tax (LBIT) to -RM12.4m (versus -RM4.9m in 9MFY18), and (ii) lower contribution from its total logistics business which saw EBIT margin compressed by 2.7ppt to 2.3%, no thanks to lower oil logistics activities. Despite that, group revenue rose by 21% to RM380.1m, which was driven by stronger performance from its procurement logistics business (+51% YoY), likely due to higher export activities.

**Sequentially,** losses in 3QFY19 narrowed to -RM1.3m from -RM3.0m on the back of stronger total logistics business which rose to EBIT of RM2.6m (vs. RM0.5m in 2QFY19). This is despite an 8% decline in revenue QoQ, which was dampened by weaker procurement logistics business (-26% QoQ).

**Outlook plagued by uncertainties.** We gathered that the group's multi-storey warehouse has already commenced operations by the end of Sep 2019. At full capacity, the new warehouse is expected to boost the sorting capacity for its last-mile delivery business to 200k parcels/day, from the current 25k parcels/day. We believe that the new facility plays a crucial part for the eventual breakeven for its courier business by 2021 should an average volume of c.100k parcels/day are achieved. However, the group's near-term outlook is likely to remain clouded, underpinned by: (i) continual expansion losses from its courier business, coupled with (ii) industry-wide margin compression led by intensifying competition which is unlikely to recover in the near-term.

**Cease coverage.** Overall, we remain cautious over the group's alarming earnings volatility against the backdrop of an unfavourable business landscape. *Post-results, we made no changes to our earnings forecasts.* Seeing a lack of institutional investors' interests and the reshuffling of our research resources, we are ceasing active coverage for now. Should sentiment or outlook improve, we may seek to resume coverage in the future. The stock is now a NOT RATED (from UNDERPERFORM previously), with our last TP of RM0.300, pegged to 0.4x PBV.

### Share Price Performance



KLCI	1,592.19
YTD KLCI chg	-5.8%
YTD stock price chg	-3.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CLH MK Equity
Market Cap (RM m)	146.3
Shares outstanding	390.3
52-week range (H)	0.54
52-week range (L)	0.36
3-mth avg daily vol:	153,260
Free Float	79%
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)
<b>Core Net Profit</b>	<b>8.8</b>	<b>(8.3)</b>	<b>(3.6)</b>
Consensus NP		-3.5	3.4
Earnings Revision (%)		-	-
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)	17.5	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 (%)	2.0	0.0	0.0

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<b>Result Highlight</b>								
<b>FY Dec (RM m)</b>	<b>3Q FY19</b>	<b>2Q FY19</b>	<b>Q-o-Q Chg</b>	<b>3Q FY18</b>	<b>Y-o-Y Chg</b>	<b>9M FY19</b>	<b>9M FY18</b>	<b>Y-o-Y Chg</b>
<b>Revenue</b>	116.2	136.7	-15.0%	116.3	-0.1%	380.1	313.1	21.4%
Direct operating expenses	(100.9)	(121.0)	N.A.	(99.3)	N.A.	(335.4)	(264.6)	N.A.
Gross profit	<b>15.3</b>	<b>15.7</b>	-2.5%	<b>17.1</b>	-10.1%	<b>44.7</b>	<b>48.5</b>	-7.8%
<b>Net other operating expenses</b>	(14.6)	(16.2)	N.A.	(11.4)	N.A.	(44.0)	(34.7)	N.A.
<b>Results from operating activities</b>	<b>0.7</b>	<b>(0.4)</b>	N.A.	<b>5.6</b>	-87.0%	<b>0.7</b>	<b>13.8</b>	-95.1%
<b>Net finance costs</b>	(2.3)	(1.8)	N.A.	(0.4)	N.A.	(5.5)	(1.1)	N.A.
<b>Profit before taxation</b>	<b>(1.5)</b>	<b>(2.2)</b>	N.A.	<b>5.2</b>	N.A.	<b>(4.8)</b>	<b>12.7</b>	N.A.
<b>Taxation</b>	0.3	(0.8)	N.A.	(1.5)	N.A.	(1.2)	(3.5)	N.A.
<b>Non-controlling interests</b>	0.0	0.0	38.5%	0.0	5.9%	0.1	0.1	18.9%
Net Profit	<b>(1.3)</b>	<b>(3.0)</b>	N.A.	<b>3.7</b>	N.A.	<b>(6.1)</b>	<b>9.1</b>	N.A.
Core Net Profit	<b>(1.3)</b>	<b>(3.0)</b>	N.A.	<b>3.7</b>	N.A.	<b>(6.1)</b>	<b>9.1</b>	N.A.
Gross margin (%)	13.2%	11.5%		14.7%		11.8%	15.5%	
Operating margin (%)	0.6%	-0.3%		4.9%		0.2%	4.4%	
PBT margin (%)	-1.3%	-1.6%		4.5%		-1.3%	4.1%	
Effective tax rate (%)	19.6%	-35.7%		27.9%		-24.6%	27.7%	
Net profit margin (%)	-1.1%	-2.2%		3.2%		-1.6%	2.9%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FY Dec (RM m)</b>	<b>3Q FY19</b>	<b>2Q FY19</b>	<b>Q-o-Q Chg</b>	<b>3Q FY18</b>	<b>Y-o-Y Chg</b>	<b>9M FY19</b>	<b>9M FY18</b>	<b>Y-o-Y Chg</b>
<b>Revenue</b>								
Total logistics service	60.1	65.4	-8.1%	70.5	-14.7%	188.7	194.2	-2.8%
Procurement Logistics Services	47.8	64.5	-26.0%	42.8	11.6%	170.6	113.0	50.9%
Courier Services	8.3	6.8	22.8%	3.0	177.1%	20.8	5.8	N.A.
<b>EBIT</b>								
Total logistics service	2.6	0.5	390.6%	3.6	-29.8%	4.4	9.8	-54.9%
Procurement Logistics Services	2.8	3.2	-12.7%	3.8	-26.7%	9.0	8.9	0.4%
Courier Services	-4.3	-4.2	3.1%	-1.8	136.0%	-12.4	-4.9	152.3%
<b>EBIT margins</b>								
Total logistics service	4.3%	0.8%		5.2%		2.3%	5.0%	
Procurement Logistics Services	5.9%	5.0%		8.9%		5.3%	7.9%	
Courier Services	-51.4%	-61.2%		-60.3%		-59.6%	-84.1%	

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	0.375	146.3	Y	12/2019	6.4%	4.6%	-194.3%	-230.6%	17.5	N.A.	N.A.	0.5	0.5	-2.6%	0.0%	0.300	N.R.
MMC CORP BHD	0.995	3,029.8	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	19.9	23.7	22.6	0.3	0.3	1.9%	1.5%	1.10	MP
POS MALAYSIA BERHAD	1.44	1,127.2	Y	12/2019	-24.3%	29.1%	-200.7%	-75.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.4%	2.8%	1.25	UP
WESTPORTS HOLDINGS BHD	4.28	14,594.8	Y	12/2019	11.4%	8.2%	15.2%	11.0%	27.0	23.4	21.1	6.0	6.2	26.1%	3.2%	4.15	MP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)