

22 March 2023

SWIFT Haulage

Packed and Stacked with More in Store

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We obtained a first-hand impression of SWIFT's fastest-growing segment, i.e. warehousing (including e-fulfilment services), during our visit to its warehouses and storage yard in Port Klang two days ago. Well-known local and global names and brands such as Watsons, Sime Darby, ZTE and BMW that we encountered during the visit speak for SWIFT's strong growth prospects. We maintain our forecasts, TP of RM1.00 and OUTPERFORM call.

We visited SWIFT's operations in Kawasan Perindustrian Bandar Sultan Sulaiman, Port Klang, comprising: (i) two small load carrier warehouses, i.e. PKA and PKB (PKB also houses SWIFT's e-fulfilment services); (ii) an automotive warehouse and yard (fully-owned after buying out JV partner German logistics giant BLG recently); and (iii) a trucking command centre (see Page 2).

Warehousing is SWIFT's key growth area. In FY22, warehousing contributed to 13% of group turnover, up from 11% three years ago. At present, the overall occupancy rate at its warehouses is a strong 90%, driven by robust demand from its major customers, especially those operating in the space of e-commerce, paper milling, commodity trading and petrochemical products.

Banking on e-commerce growth. SWIFT guided that the demand for e-fulfilment services is still robust post-pandemic, managing over 1,000 units/day at 80% of utilisation capacity compared to over 100% utilisation during the pandemic.

Underscoring the importance of e-commerce for businesses, the e-Economy SEA 2022 report by Google, Temasek and Bain & Company said approximately 43% of merchants in Malaysia believed that they could not have survived Covid-19 without digital platforms. Retailers saw a surge in their online channels with many taking measures to improve their digital infrastructure, and embracing new mediums and platforms as consumers switched to online purchases, mainly out of necessity. During that period which lasted over two years, most retailers revamped their operations and boosted their digital channels to tap into the growing online customer base.

Post-pandemic, despite shoppers returning to physical stores, e-commerce remains popular, with the Malaysian digital economy expected to continue growing at double digits, hitting USD35b in gross merchandise value (GMV) in 2025.

Riding on strong demand for passenger vehicles. SWIFT manages to garner a slice of action in the resilient local passenger vehicle market via its BLG Swift automotive warehouse and storage yard. The facility also provides pre-delivery inspection services. SWIFT said the utilisation of the facility has already returned to pre-pandemic levels. In 2019, the monthly average for vehicles storage units was 2,000 units, 2020 at 100 units, 2021 at 50 units, 2022 at 300 units and currently, month-to-date March 2023, it is already reaching 700 units. The completely knocked-down (CKD) units mostly originated from Inokom Corporation vehicle production factory in Kulim, Kedah, while imported completely built-up (CBU) units come through Westports. Various government incentives in promoting the use of battery electric vehicles (BEV) have boosted the demand for CBU units, especially EVs from BYD which has a target of 3,000 units a year. This in turn sustains the volume for SWIFT's storage and pre-delivery inspection services.

OUTPERFORM ↔

Price : RM0.475
Target Price : RM1.00 ↔

Share Price Performance



KLCI	1,406.55
YTD KLCI chg	-5.9%
YTD stock price chg	-1.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWIFT MK Equity
Market Cap (RM m)	418.6
Shares outstanding	881.3
52-week range (H)	0.82
52-week range (L)	0.43
3-mth avg daily vol:	3,384,919
Free Float	51%
Beta	N/A

Major Shareholders

Persada Bina Sdn Bhd	38.1%
KWAP	9.0%
Loo Hooi Keat	1.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	644.8	709.4	795.9
EBITDA	143.8	170.6	177.2
PBT	64.0	79.0	84.2
Net Profit	50.5	62.8	67.0
Core Net Profit	57.0	62.8	67.0
Consensus (NP)	-	58.4	63.7
Earnings Revision	-	-	-
Core EPS (sen)	6.4	7.1	7.5
Core EPS (%)	7.3	10.1	6.6
NDPS (sen)	2.0	2.2	2.3
BVPS (RM)	0.74	0.79	0.84
PER (x)	7.4	6.7	6.3
PBV (x)	0.6	0.6	0.6
Net Gearing (x)	0.9	1.1	0.9
Net Div. Yield (%)	4.2	4.6	4.9

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SWIFT's facilities in Kawasan Perindustrian Bandar Sultan Sulaiman, Port Klang			
Facility	Type	Area (sq ft)	Brief Description
PKA & PKB	Small Load Carrier	200,000	<p>Ambient temperature for storing general cargoes, with bonded (secured area licensed by Customs) and non-bonded areas.</p> <p>We are pleasantly surprised to see various products of local and international brands such as Watsons, ZTE and Kian Joo Can Factory stacked up at dedicated areas for each customer.</p> <p>There are dedicated areas for e-fulfilment operations as well as for less-than-container-load (LCL) transport services. The areas are monitored by overhead CCTV. We understand that the footage will be the point of reference in the event of any dispute on damaged goods.</p> <p>Under the e-fulfilment services in PKB, SWIFT fulfils e-commerce purchases on behalf of its customers such as Hermo (https://www.hermo.my/), which comprise e-commerce platform operators (who serve their own customers consisting of online retailers) and independent online retailers. SWIFT utilises a warehouse management system software (WMS) to facilitate e-fulfilment service functions, including inventory management, optimising the retrieval of goods from storage, and label printing which are also integrated with the e-commerce platforms. Finally, parcels destined for the same region are consolidated into consignments for pick-ups by third-party last-mile delivery service providers (such as GDEX, and Pos Malaysia).</p>
BLG Swift Warehouse & Storage Yard	Automotive Warehouse & Storage Yard	274,000	Storage of passenger vehicles (including pre-delivery inspection services) pending transit, i.e. from factories (for CKD units) and from ports (for CBU units) to showrooms of car dealers. Its main customers are Sime Darby, Auto Bavaria and BMW Malaysia which distribute the vehicles of BMW, MINI, BYD, Hyundai, Land Rover and Porsche.
Trucking Command Centre	-	-	<p>Monitors >1,500 prime movers throughout Malaysia and cross-borders (Thailand & Singapore) via a live geo-location GPS fleet tracking system.</p> <p>SWIFT said that it is developing a mobile application for drivers to make information more accessible to them and reduce the dependence on manual overwatch.</p>

Source: Kenanga Research, Company

Note that our projection implies that 2023 new vehicles total industry volume (TIV) will be sustained at the record 2022 level of 720k units vs a more conservative forecast of 650k (-9.8%) by the Malaysian Automotive Association (MAA) underpinned by: (i) a pause in OPR hikes, (ii) stable new car prices, thanks to the deferment of new excise duty regulations (that could have resulted in prices of locally assembled vehicles increasing by 8%-20%), and (iii) a healthy industry booking backlog of 350k units as at end-Jan 2023 (which is nearly half of our 2023 TIV projection of 720k units).

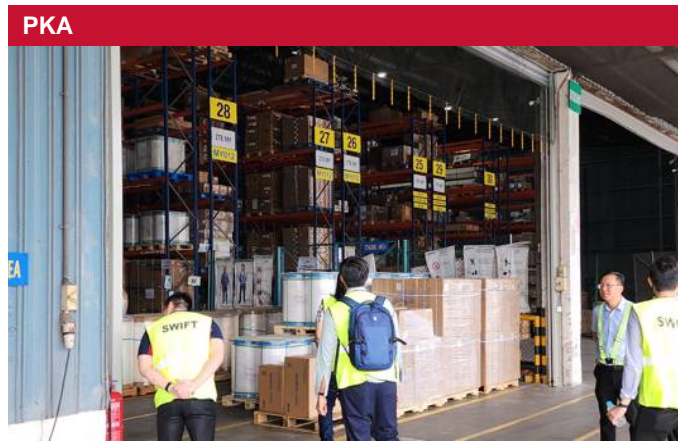
Still in expansion mode. SWIFT has completed the expansion of its warehouses in Tebrau (from 108k sq ft to 308k sq ft), Seberang Prai (from 113k sq ft to 222k sq ft), and building a warehouse in Port Klang Free Zone (178k sq ft), as well as commenced warehouse management and transportation services in Pengerang for Petronas (c.1.17m sq ft). It is in the midst of expanding its cold chain warehouse in Sabah (from 27k sq ft to 57k sq ft, completion by 2QCY23), Westports' on-dock depot (5 acres for 4,000 TEUs, completion by 2QCY23), a warehouse in Mak Mandin, Penang (150k sq ft, completion by 1QCY24), and Pulau Indah, Selangor (250k sq ft, completion by 1QCY24).

We maintain our forecasts and **OUTPERFORM** call with a TP of RM1.00 based on FY23F PER of 14x which is in line with the average forward PER of local logistics companies (i.e. TASCOS, and TNLOGIS). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

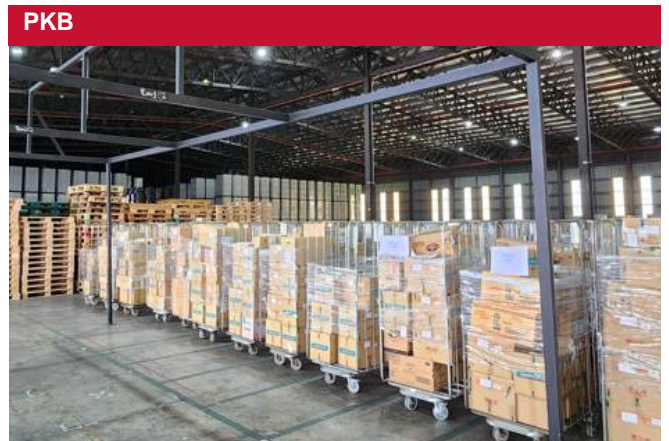
We like SWIFT for: (i) its leading position in the Malaysia haulage market commanding close to 10% share, (ii) its value-adding integrated offerings resulting in a superior pre-tax profit margin of 10% compared to the industry average of 4%, and (iii) the tremendous growth potential of its warehousing business, riding on the booming domestic e-commerce.

Risks to our call include: (i) sustained high fuel cost, (ii) global recession hurting the demand for transportation service, and (iii) delays in its primary warehousing expansion plan.

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Source: Kenanga Research



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Source: Kenanga Research



Source: Kenanga Research

E-fulfilment Operations in PKB

Receiving, storing and managing online retailers' goods



Source: Company, Kenanga Research

Retrieving goods from storage using WMS system



Packing and labelling parcels for delivery



Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	OP	5.06	6.00	18.58%	2,327.6	Y	12/2023	31.3	32.0	21.8%	2.2%	16.2	15.8	1.3	8.1%	17.4	3.4%
POS MALAYSIA BHD	UP	0.550	0.460	-16.36%	430.5	Y	12/2023	(6.9)	(2.1)	-153.3%	-129.9%	N.A.	N.A.	0.5	-6.8%	-	-
SWIFT HAULAGE BHD	OP	0.475	1.00	110.53%	418.6	Y	12/2023	7.1	7.7	11.6%	8.0%	6.6	6.2	0.6	9.4%	2.2	4.6%
WESTPORTS HOLDINGS BHD	MP	3.69	3.65	-1.08%	12,582.9	Y	12/2023	20.6	21.7	9.3%	5.5%	17.9	17.0	3.6	20.9%	15.5	4.2%
SECTOR AGGREGATE					15,759.7					-27.6%	-28.5%	13.6	13.0	1.5	7.9%		3.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Services Quality & Safety	★	★	★		
	Cybersecurity & Data Privacy	★	★	★	★	
	Customer Experience	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★	★	
	Waste Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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