

CJ Century Logistics Holdings Berhad

(7117 | CLH MK) Main | Transportation & Logistics

Maintain BUY

Trade Challenges Loom

Revised Target Price: RM0.55
(from RM0.95)

KEY INVESTMENT HIGHLIGHTS

- **2QFY23 core PATAMI missed our expectation**
- **Reduced freight activities due to global trade slowdown**
- **E&E product exports grew amid recovering export markets**
- **Downward revision of earnings by -23% to -46%**
- **Maintain BUY with a revised TP of RM0.55**

Below expectations. CJ Century Logistics Berhad (CJ Century) reported core PATAMI of RM3.5m in 2QFY23, resulting in a cumulative core PATAMI of RM7.3m for 1H FY23. This fell short of projections, representing only 23%/30% of our/consensus full-year estimates. The negative deviation was primarily due to lower-than-expected profit margins.

Quarterly. The core PATAMI of RM3.5m (-53.0%yoy) saw a decline of over half mainly due to a lower contribution from the Total Logistics Services (TLS) segment. This resulted from the correction in market freight rates and a decrease in shipment volume, further compounded by increased operating expenses. The drop was partly cushioned by the Procurement Logistics Services (PLS) segment, which saw a rise in assembly volume and exports of electronics and electrical (E&E) products. On a quarter-on-quarter basis, core PATAMI fell by -6.2%qoq primarily due to the reduced freight volume.

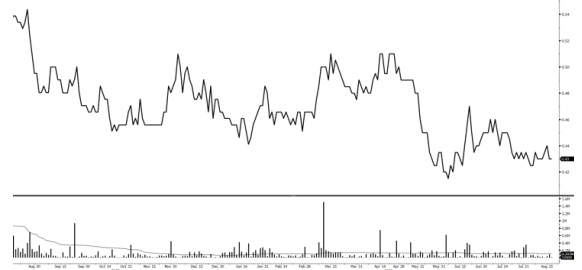
Outlook. The TLS segment, particularly freight forwarding, is expected to face challenges in FY23E due to the slowdown in South Korea's trades. The country's July exports fell by -16.5%yoy in Jul-23, marking the sharpest decline in over three years. Notably, South Korean clients contribute 30%-35% of the company's revenue. This impact is further heightened by the global freight rates returning to normal levels. However, the PLS segment is set to stay strong with China's reopening ensuring a steady supply of electronic components. Growth in exports of E&E products to Vietnam and Indonesia (key destinations for CJ Century) is expected as their economies recover, with Vietnam's GDP up +4.1%yoy and Indonesia's GDP up +5.2%yoy in 2QCY23.

Maintain BUY. Reflecting a decrease in profit margins, we have lowered our earnings estimates for FY23E/FY24F/FY25F by -46%/-24%/-23%. We derived a lower TP of **RM0.55** (from RM0.95) based on revised 12x FY24E EPS (-0.5SD below historical mean). We have lowered the target multiple from 16x due to the expectation of a decline in earnings and the challenges posed by the slowdown in global trade. Despite this, the management aims for a +10% freight volume growth next year by leveraging its parent's (CJ Logistics) network, while also planning a -3% to -5% reduction in non-salary operating costs through solar panel installation at its two distribution centres and speeding up the adoption of tech-based logistics solutions. The stock is trading at a -51% discount to its 5-year historical mean. Overall, we maintain our **BUY** call on the stock.

RETURN STATISTICS

Price @ 17 th August 2023 (RM)	0.43
Expected share price return (%)	+27.9
Expected dividend yield (%)	+2.0
Expected total return (%)	+29.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.4	-7.4
3 months	-3.4	-11.7
12 months	-22.5	-18.8

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	915.0	965.4	1,002.6
Operating profit	29.3	42.5	44.1
PBT	22.2	36.4	39.0
Core PATAMI	16.9	27.7	29.7
EPS (sen)	2.9	4.7	5.1
DPS (sen)	0.9	1.4	1.5
Dividend yield (%)	2.0%	3.3%	3.5%

KEY STATISTICS

FBM KLCI	1,447.98
Issue shares (m)	581.89
Estimated free float (%)	26.99
Market Capitalisation (RM'm)	250.21
52-wk price range	RM0.41 - RM0.56
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	0.04
Top Shareholders (%)	
CJ Korea Express Asia PL	55.09
Teow Hing Choo	8.33
Syed Ahmad Khali	2.43

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CJ CENTURY: 2Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q23	1Q23	2Q22	QoQ	YoY	6M23	6M22	YoY
Income Statement								
Revenue	211.0	219.6	252.9	-3.9%	-16.6%	430.5	495.7	-13.2%
Operating profit	7.5	7.3	12.3	2.3%	-39.1%	14.8	27.6	-46.3%
Finance costs	-2.0	-1.9	-2.0	-6.8%	-2.0%	-3.9	-3.9	0.6%
PBT	5.5	5.4	10.3	0.7%	-47.0%	10.9	23.7	-53.9%
Tax expense	-1.7	-1.7	-3.1	0.1%	46.8%	-3.3	-7.1	53.4%
PATAMI	3.8	3.7	7.2	1.8%	-47.0%	7.6	16.5	-54.3%
Core PATAMI	3.5	3.7	7.5	-6.2%	-53.0%	7.3	16.9	-57.0%
OP margin (%)	3.5%	3.3%	4.9%			3.4%	5.6%	
PBT margin (%)	2.6%	2.5%	4.1%			2.5%	4.8%	
Core PATAMI margin (%)	1.7%	1.7%	3.0%			1.7%	3.4%	
Effective tax rate (%)	-30.3%	-30.6%	-30.2%			-30.4%	-30.1%	

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q23	1Q23	2Q22	QoQ	YoY	6M23	6M22	YoY
Revenue								
Total logistics	130.9	140.0	183.0	-6.5%	-28.5%	270.9	380.4	-28.8%
Freight forwarding	50.8	56.7	98.6	-10.3%	-48.4%	107.5	207.4	-48.2%
Contract logistics	36.5	37.6	48.7	-2.9%	-25.0%	74.2	92.6	-19.9%
Transportation	24.7	22.1	15.9	11.7%	55.6%	46.8	31.9	46.9%
Oil logistics	9.2	10.5	8.9	-11.9%	3.5%	19.7	21.2	-7.1%
Others	9.6	13.2	10.9	-27.0%	-11.8%	22.8	27.4	-17.0%
Procurement logistics	80.1	79.5	70.0	0.6%	14.4%	159.6	115.3	38.4%
Operating Profit								
Total logistics	3.1	3.0	9.5	2.3%	-67.4%	6.1	22.9	-73.2%
Procurement logistics	4.4	4.5	3.5	-3.3%	26.7%	8.9	5.5	62.7%

Source: CJ Century, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	843.0	930.4	915.0	965.4	1,002.6
Operating profit	38.1	45.6	29.3	42.5	44.1
PBT	28.8	37.5	22.2	36.4	39.0
PATAMI	19.0	28.2	16.9	27.7	29.7
Core PATAMI	21.3	28.7	16.9	27.7	29.7
EPS (sen)	3.6	4.9	2.9	4.745	5.1
PER (x)	11.8x	8.7x	14.9x	9.1x	8.5x
DPS (sen)	0.0	1.5	0.9	1.4	1.5
Dividend yield (%)	0.0%	3.5%	2.0%	3.3%	3.5%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	376.2	362.4	362.0	361.1	359.8
ROU assets	73.7	65.4	50.4	34.4	17.5
Non-current assets	475.9	452.1	436.6	419.8	401.6
Trade debtors	222.5	180.1	178.0	187.8	195.0
Cash	54.6	98.6	71.1	105.7	139.0
Current assets	302.9	316.2	326.8	349.8	374.3
Long-term debt	126.9	108.2	88.2	68.2	48.2
Non-current liabilities	141.4	120.3	100.3	80.3	60.3
Trade creditors	163.2	138.6	135.8	142.6	148.1
Short-term debt	36.1	53.2	53.2	53.2	53.2
Current liabilities	215.9	203.7	200.2	207.1	212.5
Share capital	300.0	300.0	300.0	300.0	300.0
Retained earnings	125.7	151.0	162.8	182.2	203.0
Equity	421.6	444.3	462.9	482.2	503.0

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	28.8	37.5	22.2	36.4	39.0
Depreciation & amortisation	36.5	35.1	35.4	36.8	38.2
Changes in working capital	4.8	37.8	-5.7	18.5	14.2
Operating cash flow	54.3	105.8	46.6	83.0	82.1
Capital expenditure	-10.0	-3.9	-20.0	-20.0	-20.0
Investing cash flow	-2.7	-16.7	-20.0	-20.0	-20.0
Debt raised/(repaid)	-16.7	0.4	-20.0	-20.0	-20.0
Dividends paid	0.0	-2.9	-5.1	-8.3	-8.9
Financing cash flow	-47.4	-62.7	-25.1	-28.3	-28.9
Net cash flow	4.2	26.5	1.5	34.7	33.2
Beginning cash flow	38.9	43.1	69.6	71.1	105.7
Ending cash flow	43.1	69.6	71.1	105.7	139.0

Profitability Margins	2021A	2022A	2023E	2024F	2025F
OP margin	4.5%	4.9%	3.2%	4.4%	4.4%
PBT margin	3.4%	4.0%	2.4%	3.8%	3.9%
PATAMI margin	2.2%	3.0%	1.8%	2.9%	3.0%
Core PATAMI margin	2.5%	3.1%	1.8%	2.9%	3.0%

Source: CJ Century, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology