

CJ Century Logistics Holdings Berhad

(7117 | CLH MK) Main | Transportation & Logistics

Anticipating Headwinds Ahead

KEY INVESTMENT HIGHLIGHTS

- **2QFY24 core PATAMI missed our expectation**
- **Freight volume decline may have affected demand for other logistics services**
- **Cessation of oil logistics operations during the reporting quarter**
- **Downward revision of earnings between -14% to -41%**
- **Downgrade to SELL with a revised TP of RM0.25**

Below expectations. CJ Century Logistics Berhad (CJ Century) reported a core PATAMI of RM1.0m for 2QFY24, resulting in a 6MFY24 core PATAMI of RM3.1m. This figure amounts to only 25% of our full-year estimates. Although revenue matched our projections, the shortfall was attributed to reduced margins.

Quarterly. Revenue from total logistics (-9.0%qoq, -17.7%yoy) decreased due to a reduced business volume contribution from its freight forwarding customers, which also impacted other logistics services. The Group reported that its high-margin oil logistics division, which involved the operations of 2 floating storage units near Port of Tanjung Pelepas (PTP) in Johor, ceased during the reporting quarter. This led to an operating loss of -RM0.6m for this division. The procurement logistics division also underperformed due to decreased export activities of the home & electrical appliances, leading to a revenue decline (-21.3%qoq, -4.8%yoy). As a result, core PATAMI (-42.4%qoq, -70.5%yoy) fell significantly due to diseconomies of scale.

Outlook. The weakness in the freight forwarding segment is likely due to a reduction in shipment volume from its South Korean-based customers, who collectively account for 30% to 35% of the revenue. A notable customer, CJ Bio, is reportedly a major contributor to the decline, as it faced increased competition from Chinese suppliers. This ongoing reduction could continue to negatively impact demand for the related logistics services. We are increasingly concerned about inefficiencies resulting from diseconomies of scale, which could persistently exert downward pressures on profit margins.

Downgrade to SELL. We have revised our earnings forecasts for FY24E/FY25F/FY26F downward by -41%/-15%/-14% respectively, to reflect anticipated lower margins. Accordingly, we have adjusted our target price from RM0.30 to **RM0.25** (based on 12x FY25F) and downgraded our recommendation from NEUTRAL to **SELL**. The stock is currently trading at 14.3x FY25F or in line with its 5-year historical mean. A key driver for earnings improvements would be a quicker rebound in shipment volume.


Downgrade to SELL
(Previously NEUTRAL)
Revised Target Price: RM0.25
(Previously RM0.30)

RETURN STATISTICS

Price @ 22 nd August 2024 (RM)	0.30
Expected share price return (%)	-16.7
Expected dividend yield (%)	0.0
Expected total return (%)	-16.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.3	-7.0
3 months	-10.6	-11.3
12 months	-30.6	-39.1

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	857.8	917.6	967.9
PBT	9.4	16.0	18.1
Core PATAMI	7.1	12.2	13.8
EPS (sen)	1.2	2.1	2.4
PER (x)	24.5x	14.3x	12.7x
DPS (sen)	0.4	0.6	0.7
Dividend yield (%)	1.2%	2.1%	2.4%

KEY STATISTICS

FBM KLCI	1,641.66
Issue shares (m)	581.89
Estimated free float (%)	27.92
Market Capitalisation (RM'm)	171.66
52-wk price range	RM0.29 - RM0.44
3-mth average daily volume (m)	0.68
3-mth average daily value (RM'm)	0.23
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: 2Q24 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q24	1Q24	2Q23	QoQ	YoY	6M24	6M23	YoY
Income Statement								
Revenue	183.9	215.1	211.0	-14.5%	-12.8%	399.1	430.5	-7.3%
Operating profit	3.3	5.1	7.5	-34.0%	-55.5%	8.4	14.8	-43.3%
Finance costs	-1.8	-1.8	-2.0	-3.2%	10.3%	-3.6	-3.6	0.0%
PBT	1.5	3.3	5.5	-53.8%	-72.1%	4.8	10.9	-55.7%
Tax expense	-0.4	-1.3	-1.7	66.1%	73.4%	-1.7	-3.3	47.5%
PATAMI	1.1	2.0	3.8	-46.4%	-71.6%	3.1	7.6	-58.7%
Core PATAMI	1.0	1.8	3.5	-42.2%	-70.5%	3.1	7.3	-57.2%
OP margin (%)	1.8%	2.3%	3.5%			2.1%	3.4%	
PBT margin (%)	0.8%	1.5%	2.6%			1.2%	2.5%	
Core PATAMI margin (%)	0.6%	0.8%	1.7%			0.8%	1.7%	
Effective tax rate (%)	-28.9%	-39.4%	-30.3%			-36.1%	-30.4%	

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2Q24	1Q24	2Q23	QoQ	YoY	6M24	6M23	YoY
Revenue								
Total logistics	107.7	118.3	130.9	-9.0%	-17.7%	226.0	270.9	-16.6%
Freight forwarding	39.7	42.0	50.8	-5.4%	-21.8%	81.7	107.5	-24.0%
Contract logistics	35.9	33.8	36.5	6.0%	-1.8%	69.7	74.2	-6.0%
Transportation	23.3	24.3	24.7	-4.3%	-5.9%	47.5	46.8	1.5%
Oil logistics	0.7	9.4	9.2	-92.7%	-92.5%	10.1	19.7	-48.5%
Others	8.1	8.8	9.6	-7.1%	-15.2%	16.9	22.8	-25.7%
Procurement logistics	76.2	96.8	80.1	-21.3%	-4.8%	173.1	159.6	8.4%
Operating Profit								
Total logistics	-0.6	0.8	3.1	-180.1%	-120.7%	0.2	6.1	-97.4%
Procurement logistics	5.5	4.3	4.4	26.4%	24.7%	9.8	8.9	9.8%

Source: CJ Century, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	930.4	736.5	857.8	917.6	967.9
EBITDA	79.9	60.1	53.7	61.7	65.2
PBT	37.5	16.3	9.4	16.0	18.1
PATAMI	28.2	11.8	7.1	12.2	13.8
Core PATAMI	27.4	10.8	7.1	12.2	13.8
EPS (sen)	4.7	1.9	1.2	2.1	2.4
PER (x)	6.4x	16.2x	24.5x	14.3x	12.7x

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
PPE	362.4	351.6	361.1	359.8	358.0
ROU assets	65.4	82.9	42.5	28.3	12.1
Non-current assets	452.1	458.9	428.1	412.5	394.5
Trade debtors	180.1	176.3	166.9	178.5	188.3
Cash	98.6	94.0	80.2	106.2	135.0
Current assets	316.2	294.3	325.2	337.0	353.0
Long-term debt	108.2	89.5	68.2	48.2	28.2
Non-current liabilities	120.3	108.5	87.2	67.2	47.2
Trade creditors	138.6	128.1	127.0	135.1	142.5
Short-term debt	53.2	44.1	53.2	53.2	54.2
Current liabilities	203.7	193.8	201.9	209.9	218.3
Share capital	300.0	300.0	300.0	300.0	300.0
Retained earnings	151.0	156.9	163.5	172.1	181.7
Equity	444.3	450.2	463.6	472.1	481.8

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	37.5	16.3	9.4	16.0	18.1
Depreciation & amortisation	35.1	37.6	38.2	40.6	43.0
Changes in working capital	37.8	7.7	-0.1	21.9	20.2
Operating cash flow	105.8	60.5	45.2	74.7	76.9
Capital expenditure	-3.9	-4.6	-25.0	-25.0	-25.0
Investing cash flow	-16.7	15.2	-25.0	-25.0	-25.0
Debt raised/(repaid)	0.4	-25.6	-20.0	-20.0	-19.0
Dividends paid	-2.9	-5.8	-2.1	-3.7	-4.1
Financing cash flow	-62.7	-63.2	-22.1	-23.7	-23.1
Net cash flow	26.5	12.5	-1.9	26.0	28.8
Beginning cash flow	43.1	69.6	82.1	80.2	106.2
Ending cash flow	69.6	82.1	80.2	106.2	135.0

Profitability Margins	2022A	2023A	2024E	2025F	2026F
OP margin	8.6%	8.2%	6.3%	6.7%	6.7%
PBT margin	4.0%	2.2%	1.1%	1.7%	1.9%
PATAMI margin	3.0%	1.6%	0.8%	1.3%	1.4%
Core PATAMI margin	2.9%	1.5%	0.8%	1.3%	1.4%

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