

Outthink. Outperform.

## Rolling out parcel delivery services

We met up with the management of Century Logistics recently. Management is targeting to add 50 trucks for the parcel delivery business by end of this year. The parcel delivery services will likely commence operations beginning of next year, providing a new revenue stream to the company. We expect parcel delivery services to contribute around RM12m/25m/38m to the top-line for 2018E/19E/20E. The strong reputation of CJ Korea Express also helps Century to source for new customers for the integrated logistics segment. Maintain BUY with 12M TP of RM1.70, providing upside of 35%.

### Parcel delivery services to commence operations early-2018

The major shareholder of Century, CJ Korea Express (CJ Korex) is targeting to become the Top 5 global logistics company over the next 5 years. Management has guided that CJ Korex plans to grow Century into a major player in parcel delivery services. By end of this year, Century is adding 50 trucks and plans to engage third-party agents to reach the smaller towns within Malaysia. Small branches will be set up locally to facilitate the parcel delivery business. Over the next 3 years, Century intends to have 500 trucks and 50 branches for the parcel delivery services. Although Century is a new kid on the block in last-mile delivery service, the expertise and technology provided by CJ Korex will ensure the smooth running of the parcel delivery segment.

### Potential new customers for integrated logistics segment

Having the backing of a global integrated logistics provider like CJ Korex, Century stands a higher chance to win bids of larger companies or MNCs. Century has served major MNCs like F&N, Celcom, Philips and Haier for many years. Nonetheless, the logistics business is becoming more competitive as other logistics companies like Tiong Nam are expanding their capacity. Having CJ Korex as a major shareholder is a feather in their cap when Century bids for new businesses in the future. Furthermore, CJ Korex plans to work closely with Century to strengthen the latter's core logistics offerings via operational consolidation to expand and achieve scale.

### Maintain BUY with unchanged TP of RM1.70

We like Century for i) its new revenue stream from parcel delivery service, ii) potential new customers from integrated logistics segment and iii) stable revenue streams from oil logistics and procurement logistics segment. Maintain BUY with an unchanged TP of RM1.70, providing potential upside of 35% from current level.

### Earnings & Valuation Summary

| FYE 31 December       | 2015A | 2016A | 2017E | 2018E | 2019E |
|-----------------------|-------|-------|-------|-------|-------|
| Revenue (RMm)         | 297.9 | 300.3 | 304.6 | 328.5 | 361.5 |
| EBITDA (RMm)          | 41.6  | 38.7  | 43.6  | 47.6  | 55.4  |
| Pretax profit (RMm)   | 40.9  | 25.5  | 31.3  | 33.1  | 37.2  |
| Net profit (RMm)      | 31.9  | 20.1  | 25.6  | 27.0  | 30.4  |
| EPS (sen)             | 8.1   | 5.1   | 6.5   | 6.9   | 7.8   |
| PER (x)               | 14.5  | 23.0  | 18.1  | 17.1  | 15.2  |
| Core net profit (RMm) | 22.5  | 22.5  | 25.6  | 27.0  | 30.4  |
| Core EPS (sen)        | 5.8   | 5.7   | 6.5   | 6.9   | 7.8   |
| Core EPS growth (%)   | 39.6  | (0.3) | 13.9  | 5.5   | 12.5  |
| Core PER (x)          | 20.5  | 20.6  | 18.1  | 17.1  | 15.2  |
| Net DPS (sen)         | 5.2   | 3.9   | 2.6   | 2.8   | 3.1   |
| Dividend Yield (%)    | 4.4   | 3.3   | 2.2   | 2.3   | 2.6   |
| EV/EBITDA (x)         | 11.1  | 11.4  | 12.4  | 12.0  | 10.9  |
| Chg in EPS (%)        |       |       | -     | -     | -     |
| Affin/Consensus (x)   |       |       | 1.1   | 1.0   | 0.9   |

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

## Company Update

# Century

CLH MK

Sector: Transport &amp; Logistics

RM1.26 @ 7 August 2017

BUY

Upside: +35.0%

Price Target: RM1.70

Previous Target: RM1.70



## Price Performance

|             | 1M    | 3M    | 12M   |
|-------------|-------|-------|-------|
| Absolute    | -7.4% | +3.3% | +41.6 |
| Rel to KLCI | -8.3% | +2.4% | +32.5 |

## Stock Data

|                          |             |
|--------------------------|-------------|
| Issued shares (m)        | 392.6       |
| Mkt cap (RMm)/(US\$m)    | 494.7/115.5 |
| Avg daily vol - 6mth (m) | 2.4         |
| 52-wk range (RM)         | 0.84-1.44   |
| Est free float           | 76.9%       |
| BV per share (RM)        | 0.79        |
| P/BV (x)                 | 1.59        |
| Net cash/ (debt) (RMm)   | 22.2        |
| ROE (2017E)              | 9.0%        |
| Derivatives              | No          |
| Shariah Compliant        | Yes         |

## Key Shareholders

|                  |       |
|------------------|-------|
| CJ Korea Express | 30.7% |
| Teow Choo Hing   | 11.1% |
| Bin Syed Ahad    | 3.6%  |

Source: Affin Hwang, Bloomberg

Koh Sin Yee  
(603) 2146 7536  
sinyee.koh@affinhwang.com



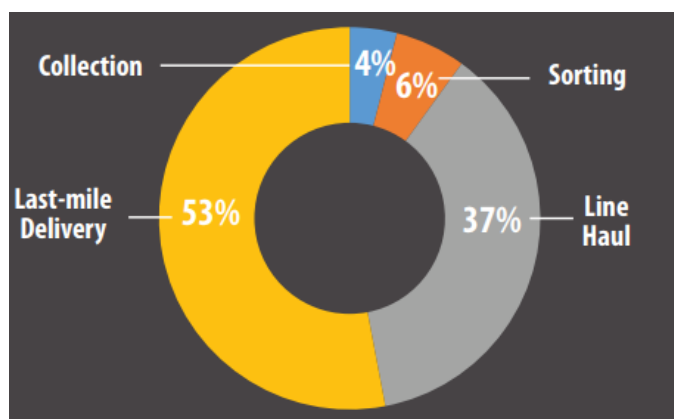
## Challenges of last mile delivery services

The e-commerce phenomenon is not a new one, but the speed at which it is now accelerating is of great importance. Consumers expect goods to be delivered in a shorter amount of time; thus, logistics companies have to always remain efficient and shorten the delivery time to compete with their competitors.

The difficulties in providing last-mile delivery service are exacerbated with poor road conditions, lack of infrastructure, congestion in urban areas and the tyranny of distance in remote areas. Hence, having the expertise from CJ Korex to help Century to venture into last-mile delivery services is an added advantage.

Apart from efficiency, cost minimization is also important as the “last-mile” segment of the delivery services represents more than 50 percent of the total logistics cost, according to a report by LogiSYM.

**Fig 1: Costs breakdown of last-mile delivery services**



\*LogiSYM (The Logistics & Supply Chain Management Society)

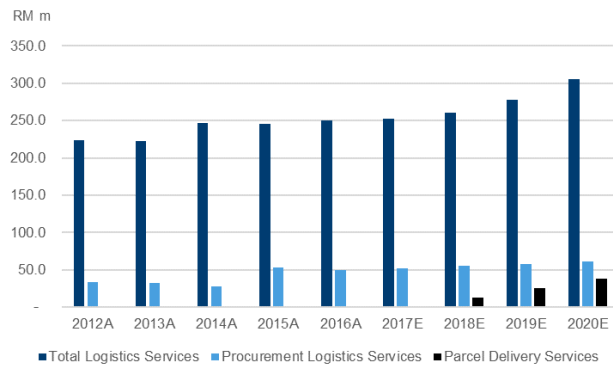
The logistics for the “last-mile” part involves employees going door-to-door to deliver the parcels. Some of the challenges faced by employees include incorrect address and lack of nearby parking, which further adds on to operational cost. Hence, the higher costs of the “last-mile” part eats into the profit of logistics companies.

In order to solve the problems and minimize cost related to the “last-mile” part, Century plans to engage network agents in the whole of Malaysia. The company plans to have 50 branches over the next 3 years. CJ Korex, which has years of experiences in parcel delivery services, is providing TES (technology, engineering, system and solution) to Century to facilitate the process of developing into a major player in the parcel delivery services in Malaysia.

## Securities

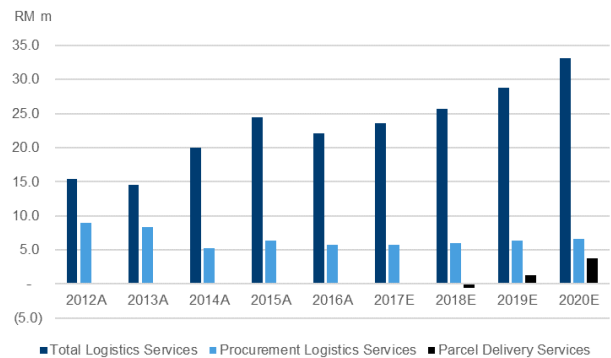


Fig 2: Segmental revenue breakdown (RM m)



Source: Affin Hwang estimates

Fig 3: Operating profit breakdown (RM m)



Source: Affin Hwang estimates

We are expecting the operating margin from the parcel delivery segment to improve gradually from 5.0% in FY2019E to 10% in FY2020E and 15% in the subsequent years. We expect the parcel delivery services to remain a small segment in the first year and contribution to the bottom-line to be marginal as it takes time for management to source for new customers. Moreover, Century might have to price their products attractively for new customers to try out its parcel delivery services.

The parcel delivery services typically command higher margins compared to the conventional logistics services. We are expecting the operating margins for the total logistics and procurement logistics segments to hover around 11-12% in the coming years. However, we expect the margins for the parcel delivery segment to improve gradually to 15% between 2019-21E due to i) economies of scale and ii) better pricing.

## Integration of existing logistic business and last-mile delivery services

The development of the logistics for the “last-mile” part will also benefit Century’s existing logistic business. CJ Korex is involve in every area of logistics business including contract logistics, marine transport, parcel delivery, international express and forwarding.

CJ Korex plans to work closely with Century to strengthen the latter’s core logistics offerings via operational consolidation to achieve scale and expansion in client base. The synergies of this two business segments allow Century to expand its logistics network, which in turn allows the company to source for new business opportunities and increase earnings.

## Progress of new warehouse

Century is allocating RM150m for the next two years for the three-storey warehouse, purchase of delivery trucks, new IT system and warehouse equipment. Approximately RM100m of the capital allocation will be utilized for the construction of the new multi-storey warehouse and office, whilst approximately RM4.5m will be used to purchase 50 trucks this year. The capital spending will be funded using internally generated funds and borrowings.



Outthink. Outperform.

Management is targeting for the warehouse to commence operations in 4Q 2018. The ground floor of the warehouse will be used for the sorting and storage of parcel delivery services, whilst the second and third floors will be used for the existing business. With the expansion of the new multi-storey warehouse in 2018, Century is set to increase its storage footprint by 16% to 2.7m sq ft, thus enhancing its appeal as one of Malaysia's largest storage solutions provider.

### Recent new contracts secured

Management has recently secured two more contracts for the total logistics segment this year. We think Century will have higher chances to win bids from larger companies in the future, given that the company has the backing of a Korean conglomerate.

### 2Q17 results preview

Century is announcing its 2Q17 results tentatively on August 17<sup>th</sup>. Management has guided that its oil logistics segment will provide stable cash flow, but management does not plan to add any vessel. Therefore, any increase in revenue will be from the other two segments, namely integrated logistics and procurement logistics. We are also expecting EBITDA margins to improve slightly from 13.4% in 2016 to 14.3% in 2017E due to the company's constant effort in increasing efficiency.

Over the next few years, the conventional business and the parcel delivery services will grow hand-in-hand, underpinned by a larger network and increasing capacity.

### Valuations and Recommendation

We derive our TP of RM1.70 using a DCF methodology. We apply a WACC of 8.6% (risk free rate of 4.0% and equity risk premium of 6.0%). Maintain BUY with an upside potential of 35%.

Fig 4: DCF calculations

| Period                 | 1      | 2      | 3      | 4     | 5     | 6     | 7     | 8     | 9     | 10    | Terminal value |
|------------------------|--------|--------|--------|-------|-------|-------|-------|-------|-------|-------|----------------|
| FYE                    | 2017E  | 2018E  | 2019E  | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E |                |
| Free cash flow to firm | (19.5) | (18.2) | (18.0) | 21.8  | 26.1  | 55.4  | 61.8  | 69.1  | 77.2  | 86.4  | 1,331.6        |
| Terminal growth        | 2.0%   |        |        |       |       |       |       |       |       |       |                |
| Sum of PV of FCF       |        |        |        |       |       |       |       |       |       |       |                |
| PV of Terminal Value   |        |        |        |       |       |       |       |       |       |       |                |
| Enterprise value       |        |        |        |       |       |       |       |       |       |       |                |
| Add: Net cash/(debt)   |        |        |        |       |       |       |       |       |       |       |                |
| Equity value           |        |        |        |       |       |       |       |       |       |       |                |
| Equity value per share | 1.70   |        |        |       |       |       |       |       |       |       |                |

Source: Affin Hwang estimates

# CENTURY – FINANCIAL SUMMARY

## Profit & Loss Statement

| FYE 31 Dec (RMm)              | 2015A       | 2016A       | 2017E       | 2018E       | 2019E       |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue                       | 297.9       | 300.3       | 304.6       | 328.5       | 361.5       |
| Operating expenses            | (256.3)     | (260.0)     | (261.0)     | (280.8)     | (306.0)     |
| <b>EBITDA</b>                 | <b>41.6</b> | <b>40.3</b> | <b>43.6</b> | <b>47.6</b> | <b>55.4</b> |
| Depreciation                  | (10.8)      | (10.9)      | (14.3)      | (16.5)      | (19.0)      |
| EBIT                          | 30.7        | 27.7        | 29.3        | 31.1        | 36.4        |
| Net interest income/(expense) | (2.8)       | (1.4)       | (0.8)       | (1.1)       | (2.6)       |
| Associates' contribution      | -           | -           | -           | -           | -           |
| El                            | 9.4         | (2.4)       | -           | -           | -           |
| <b>Pretax profit</b>          | <b>40.9</b> | <b>25.5</b> | <b>31.3</b> | <b>33.1</b> | <b>37.2</b> |
| Tax                           | (9.0)       | (5.3)       | (5.6)       | (6.0)       | (6.7)       |
| Minority interest             | -           | (0.1)       | (0.1)       | (0.1)       | (0.1)       |
| <b>Net profit</b>             | <b>31.9</b> | <b>20.1</b> | <b>25.6</b> | <b>27.0</b> | <b>30.4</b> |

## Balance Sheet Statement

| FYE 31 Dec (RMm)                   | 2015A        | 2016A        | 2017E        | 2018E        | 2019E        |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| PPE                                | 267.2        | 257.9        | 304.6        | 353.7        | 407.0        |
| Other non-current assets           | 1.4          | 1.4          | 1.4          | 1.4          | 1.4          |
| <b>Total non-current assets</b>    | <b>268.7</b> | <b>259.4</b> | <b>306.0</b> | <b>355.2</b> | <b>408.5</b> |
| Cash and equivalents               | 19.4         | 18.7         | 19.0         | 20.0         | 19.8         |
| Inventory                          | 3.3          | 3.9          | 3.7          | 4.0          | 4.3          |
| Trade receivables                  | 7.4          | 2.6          | 4.8          | 5.1          | 5.6          |
| Other current assets               | 139.8        | 150.2        | 149.8        | 150.4        | 151.1        |
| <b>Total current assets</b>        | <b>170.0</b> | <b>175.4</b> | <b>177.3</b> | <b>179.5</b> | <b>180.9</b> |
| Trade payables                     | 17.5         | 18.0         | 18.7         | 20.1         | 21.9         |
| Short term borrowings              | 20.9         | 18.8         | 17.6         | 17.6         | 17.6         |
| Other current liabilities          | 33.9         | 36.7         | 39.0         | 41.9         | 45.6         |
| <b>Total current liabilities</b>   | <b>72.3</b>  | <b>73.5</b>  | <b>75.3</b>  | <b>79.6</b>  | <b>85.1</b>  |
| Long term borrowings               | 49.8         | 69.4         | 51.8         | 81.8         | 111.8        |
| Other long term liabilities        | 26.8         | (10.6)       | 38.3         | 38.9         | 39.8         |
| <b>Total long term liabilities</b> | <b>76.6</b>  | <b>58.8</b>  | <b>90.0</b>  | <b>120.7</b> | <b>151.6</b> |

|                            |              |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Shareholders' Funds</b> | <b>288.8</b> | <b>301.5</b> | <b>316.8</b> | <b>333.1</b> | <b>351.3</b> |
|----------------------------|--------------|--------------|--------------|--------------|--------------|

## Cash Flow Statement

| FYE 31 Dec (RMm)                | 2015A         | 2016A         | 2017E         | 2018E         | 2019E         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| PAT                             | 31.9          | 20.2          | 25.7          | 27.1          | 30.5          |
| Depreciation & amortisation     | 10.8          | 10.9          | 14.3          | 16.5          | 19.0          |
| Working capital changes         | 7.3           | (1.1)         | 1.4           | 3.8           | 4.8           |
| Others                          | (5.7)         | 2.6           | -             | -             | -             |
| <b>Cashflow from operations</b> | <b>44.4</b>   | <b>32.7</b>   | <b>41.4</b>   | <b>47.5</b>   | <b>54.3</b>   |
| Capex                           | (41.8)        | (2.3)         | (60.9)        | (65.7)        | (72.3)        |
| Others                          | 1.8           | (13.2)        | -             | -             | -             |
| <b>Cash flow from investing</b> | <b>(40.0)</b> | <b>(15.5)</b> | <b>(60.9)</b> | <b>(65.7)</b> | <b>(72.3)</b> |
| Debt raised/(repaid)            | 12.4          | (18.8)        | 30.0          | 30.0          | 30.0          |
| Equity raised/(repaid)          | 4.5           | 6.7           | -             | -             | -             |
| Dividends paid                  | (20.4)        | (15.3)        | (10.2)        | (10.8)        | (12.2)        |
| Others                          | 4.6           | 3.8           | -             | -             | -             |
| <b>Cash flow from financing</b> | <b>(8.1)</b>  | <b>(31.2)</b> | <b>19.8</b>   | <b>19.2</b>   | <b>17.8</b>   |
| <b>Free Cash Flow</b>           | <b>2.6</b>    | <b>30.4</b>   | <b>(19.5)</b> | <b>(18.2)</b> | <b>(18.0)</b> |

Source: Company, Affin Hwang forecasts

## Key Financial Ratios and Margins

| FYE 31 Dec (RMm)           | 2015A    | 2016A    | 2017E  | 2018E  | 2019E  |
|----------------------------|----------|----------|--------|--------|--------|
| <b>Growth</b>              |          |          |        |        |        |
| Revenue (%)                | 8.2      | 0.8      | 1.4    | 7.8    | 10.0   |
| EBITDA (%)                 | 18.2     | (7.0)    | 12.9   | 9.1    | 16.4   |
| Core net profit (%)        | 39.6     | (0.3)    | 13.9   | 5.5    | 12.5   |
| <b>Profitability</b>       |          |          |        |        |        |
| EBITDA margin (%)          | 14.0     | 13.4     | 14.3   | 14.5   | 15.3   |
| PBT margin (%)             | 13.7     | 8.5      | 10.3   | 10.1   | 10.3   |
| Net profit margin (%)      | 10.7     | 6.7      | 8.4    | 8.2    | 8.4    |
| Effective tax rate (%)     | 22.0     | 20.9     | 18.0   | 18.0   | 18.0   |
| ROA (%)                    | 7.3      | 4.6      | 5.3    | 5.1    | 5.2    |
| Core ROE (%)               | 7.8      | 7.4      | 8.1    | 8.1    | 8.6    |
| ROCE (%)                   | 8.7      | 5.6      | 6.3    | 5.9    | 6.0    |
| Dividend payout ratio (%)  | 63.9     | 76.2     | 40.0   | 40.0   | 40.0   |
| <b>Liquidity</b>           |          |          |        |        |        |
| Current ratio (x)          | 2.4      | 2.4      | 2.4    | 2.3    | 2.1    |
| Op. cash flow (RMm)        | 44.4     | 32.7     | 41.4   | 47.5   | 54.3   |
| Free cashflow (RMm)        | 2.6      | 30.4     | (19.5) | (18.2) | (18.0) |
| FCF/share (sen)            | 0.7      | 7.7      | (5.0)  | (4.6)  | (4.6)  |
| <b>Asset management</b>    |          |          |        |        |        |
| Inventory turnover (days)  | 6.1      | 7.1      | 5.0    | 5.0    | 5.0    |
| Receivables turnover (day) | 77.7     | 84.8     | 89.3   | 89.3   | 89.3   |
| Payables turnover (days)   | 29.9     | 30.0     | 31.5   | 31.5   | 31.5   |
| <b>Capital structure</b>   |          |          |        |        |        |
| Net Gearing (x)            | net cash | net cash | 0.3    | 0.3    | 0.4    |
| Interest Cover (x)         | 11.1     | 19.9     | 36.1   | 29.4   | 14.2   |

## Quarterly Profit & Loss

| FYE 31 Dec (RMm)     | 1QFY16     | 2QFY16      | 3QFY16     | 4QFY16      | 1QFY17     |
|----------------------|------------|-------------|------------|-------------|------------|
| Revenue              | 69.5       | 82.6        | 73.5       | 74.6        | 71.0       |
| Op costs             | (60.4)     | (71.9)      | (65.0)     | (62.8)      | (61.2)     |
| <b>EBITDA</b>        | <b>9.2</b> | <b>10.7</b> | <b>8.6</b> | <b>11.8</b> | <b>9.8</b> |
| Depn and amort       | (2.8)      | (2.7)       | (2.7)      | (2.7)       | (2.6)      |
| EBIT                 | 6.3        | 7.9         | 5.9        | 9.2         | 7.2        |
| Net int income/(exp) | (0.7)      | 0.1         | (0.7)      | (0.2)       | (0.3)      |
| El                   | -          | -           | -          | (2.4)       | -          |
| Inc from associates  | -          | -           | -          | -           | -          |
| <b>Pretax profit</b> | <b>5.7</b> | <b>8.0</b>  | <b>5.3</b> | <b>6.6</b>  | <b>6.8</b> |
| Tax                  | (1.2)      | (2.6)       | (1.2)      | (0.3)       | (2.0)      |
| MI                   | -          | -           | -          | -           | -          |
| <b>Net profit</b>    | <b>4.5</b> | <b>5.4</b>  | <b>4.0</b> | <b>6.3</b>  | <b>4.9</b> |
| Core net profit      | 4.5        | 5.4         | 4.0        | 8.7         | 4.9        |
| <b>Margins (%)</b>   |            |             |            |             |            |
| EBITDA               | 13.2       | 12.9        | 11.6       | 15.9        | 13.8       |
| PBT                  | 8.2        | 9.7         | 7.2        | 8.9         | 9.6        |
| PAT                  | 6.4        | 6.6         | 5.5        | 8.4         | 6.8        |



## Equity Rating Structure and Definitions

|                  |  |
|------------------|--|
| <b>BUY</b>       | Total return is expected to exceed +10% over a 12-month period   |
| <b>HOLD</b>      | Total return is expected to be between -5% and +10% over a 12-month period   |
| <b>SELL</b>      | Total return is expected to be below -5% over a 12-month period  |
| <b>NOT RATED</b> | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months          |
| <b>NEUTRAL</b>     | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| <b>UNDERWEIGHT</b> | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months        |

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (express or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest arising as a result of publication and distribution of investment research reports. Under no circumstances shall the Company, its associates and/or any person related to it be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Any opinions or estimates in this report are that of the Company, as of this date and subject to change without prior notice. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company and/or any of its directors and/or employees may have an interest in the securities mentioned therein. The Company may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences and hence an independent evaluation is essential. Investors are advised to independently evaluate particular investments and strategies and to seek independent financial, legal and other advice on the information and/or opinion contained in this report before investing or participating in any of the securities or investment strategies or transactions discussed in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

The Company's research, or any portion thereof may not be reprinted, sold or redistributed without the consent of the Company.

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:  
Affin Hwang Investment Bank Berhad (14389-U)  
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,  
69, Jalan Raja Chulan,  
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700  
F : + 603 2146 7630  
research@affinhwang.com

www.affinhwang.com