

Equity Beat

11 March 2010

Sector Update

Port and Logistics Sector

NEUTRAL

Busy port before calm waters

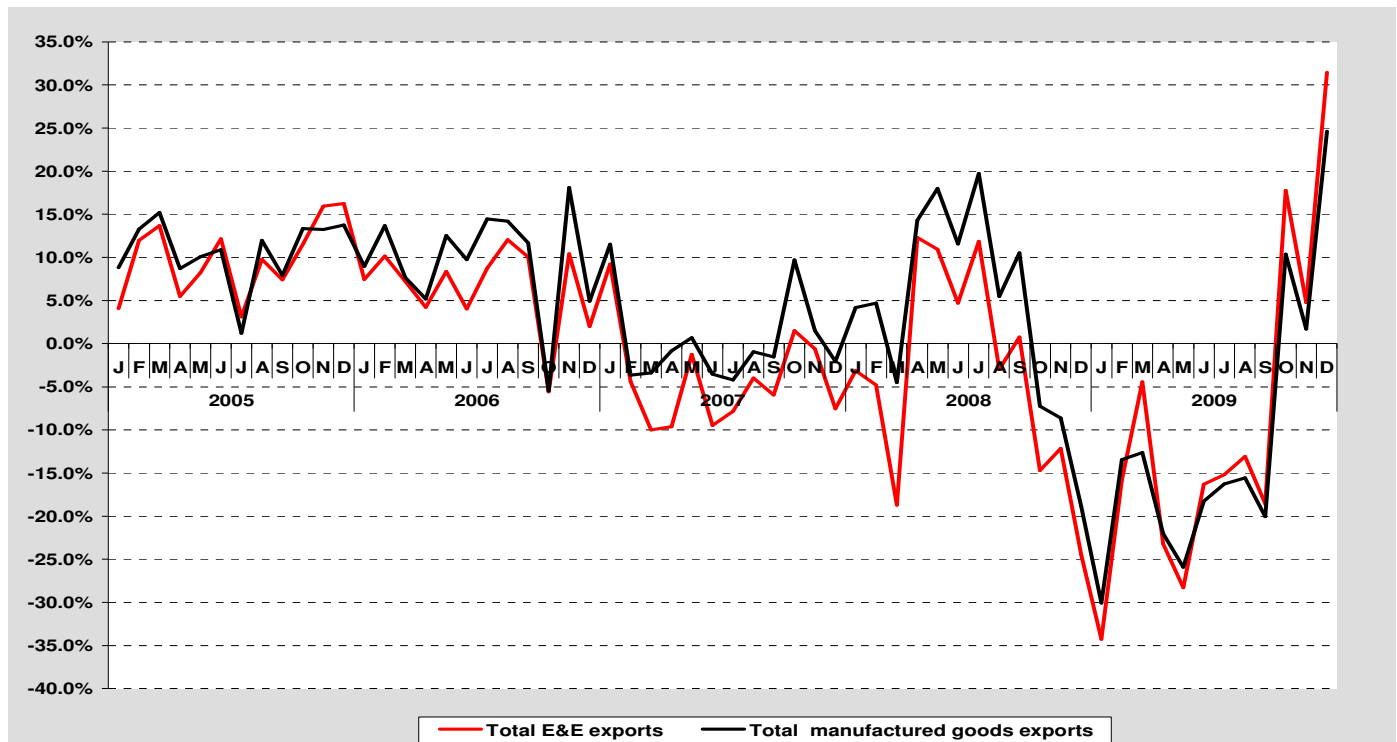
- Recent updates show that recovery is taking hold as Malaysia recorded a growth in exports led by Electrical & Electronics (E&E) products. The exports of manufactured goods in December 2009 increased 24.6% yoy to RM41.62b, while in January 2010 saw total exports (including commodities export) jumping to RM54.45b, an increase of 37.0% yoy.
- As expected the rebound in exports contributed to the good quarterly performance of ports and logistics companies. The logistics companies were also fortunate thanks to low container shipping rates.
- Although Malaysia's exports are expected to grow between 6% to 7% in 2010, we are NEUTRAL on the transportation sector as growth will moderate in 2H10 and shipping rates increase. While we expect the demand for E&E exports to be sustainable until 2011, growth is likely to moderate in 2H10 as restocking activities revert to its normal level. Growth will also revert to single-digit in 2H10 due to the high base effect in 2H09.
- We expect shipping rates to increase in 2010 in tandem with an increase in trading activity. While this is positive for the liners, it will not be benign to ports and logistic players. The rates were very low in 2009 due to fall in demand and overcapacity. In addition, there would be a supply side adjustment due to increased ship scrapping, cancellation of new ship buildings and almost stagnant new orders.
- We maintain our NEUTRAL call for NCB (TP: RM3.35) and TRADING SELL for MISC (TP: RM7.50). We also maintain our BUY call for Century (Revised TP: RM2.25 from RM2.32)

SECTOR PERFORMANCE IN 2008 & 2009

E&E sector was the main catalyst for Malaysia's strong performance in 2008. Malaysia was not spared from the economic crisis that first started in the US and EU. Prior to the crisis, Malaysia's export performance was strongly backed by not only export earnings from higher prices of commodities but also strong demand for manufacturing exports. This can be seen from Graph 1 below, where Malaysia's manufactured goods export grew on average 9.3% yoy from January to September 2008, peaking at 19.7% yoy in July. Electrical and Electronics (E&E) sector was the main catalyst as it contributes to an average of 60.6% of total manufactured goods exports since 2005. Indeed, if taken we examine for the last two years, 2008 and 2009, E&E exports contributed to more than half of total manufactured goods exports.

The economic crisis had a great impact on exports, especially E&E exports. The global economic crisis, which started in 2007, hits its most critical stage during September 2008. As the fallout of the crisis, originating in the US becoming more widespread, we start seeing the impact to Malaysian exports of manufactured goods in 4Q08. The strong growths during the 1Q08 to 3Q08 were reversed with exports declining by 14.7% yoy in October 2008. From Graph 1 below, we can see that the exports continued to decline until October 2009, hitting a bottom 30.1% yoy decline in January 2009. As with the growth of exports led by growth in the E&E sector, the same can be said with the decline with E&E leading the decline of Malaysian exports of manufactured goods for the period 4Q08 to 3Q09, falling as low as 34.3% in the month of January 2009.

Graph 1 : Total Manufactured Goods Exports and Total E&E Exports YoY Growth



Source: BNM

Breakdown of Exports of Manufactured Goods

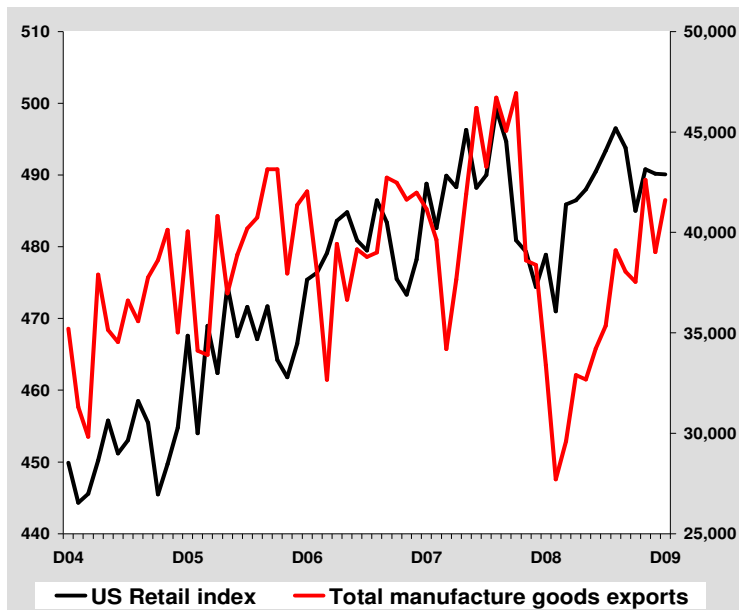
	2008			2009		
	Export (RM million)	Contribution	YoY Growth	Export (RM million)	Contribution	YoY Growth
Semi con	89,819	18.3%	-7.1%	92,972	21.6%	3.5%
Electronic equip. & parts	106,113	21.6%	-9.3%	86,115	20.0%	-18.8%
Consumer elec.	21,388	4.3%	29.9%	18,794	4.4%	-12.1%
Industrial & comm. elec.	31,088	6.3%	4.7%	23,986	5.6%	-22.8%
Elec. Industrial	25,382	5.2%	4.5%	21,905	5.1%	-13.7%
Household elec.	3,491	0.7%	-1.3%	3,125	0.7%	-10.5%
Transport equipment	9,530	1.9%	16.1%	10,353	2.4%	8.6%
Food, Bev, Tobacco	19,173	3.9%	37.6%	16,146	3.8%	-15.8%
Textiles	10,911	2.2%	2.6%	9,378	2.2%	-14.0%
Natural prod.	25,057	5.1%	10.9%	22,921	5.3%	-8.5%
Petro & chemicals	72,076	14.7%	21.6%	56,015	13.0%	-22.3%
Non-metal prod.	5,312	1.1%	34.8%	5,245	1.2%	-1.2%
Metal	29,257	5.9%	10.9%	22,644	5.3%	-22.6%
Furniture	8,960	1.8%	6.2%	7,835	1.8%	-12.6%
Others	34,372	7.0%	5.4%	32,994	7.7%	-4.0%
Total	491,930	100.0%	3.8%	430,429	100.0%	-12.5%

Source: BNM

The US is a major market for E&E exports, even though it comes in at no. 3. It is no surprise that the crisis that originated in the US would have such an adverse impact to our export sector. Even though the US only accounts to 10.9% of total exports in 2009, ranking only third behind Singapore and China, it has to be noted that the 10.9% accounts only to direct exports. The US is also a major trading partner to Singapore and China and it is possible that Malaysian exports of E&E components such as semi-conductors to these two countries are for the assembly of products to be exported to the US. Hence, Malaysian products are “indirectly” exported to the US. Therefore, we would be using ICSC US Retail Chain Store Sales Index (US Retail Index) and inbound port data as an indicator to examine the performance and the outlook of the port and logistics sector.

US Retail Index started declining during the critical stage of crisis. The US Retail index (Graph 2) started its decline in August 2008 as the economic crisis is about to enter its critical stage. The decline reached its lowest in two years in January 2009, declining 2.4% yoy, and this corresponded with Malaysia's 30.1% yoy decline in total exports of manufactured goods. This is the lowest exports that Malaysia has experience since February 2004. This decline in exports was led by the decline in the E&E exports with low demand due to the crisis. Moving in tandem with the recovery of US retailers from February 2009 onwards, Malaysia's exports of manufactured goods increased steadily to reach its highest for 2009 in October, with manufactured goods exports totaling RM42.6 billion.

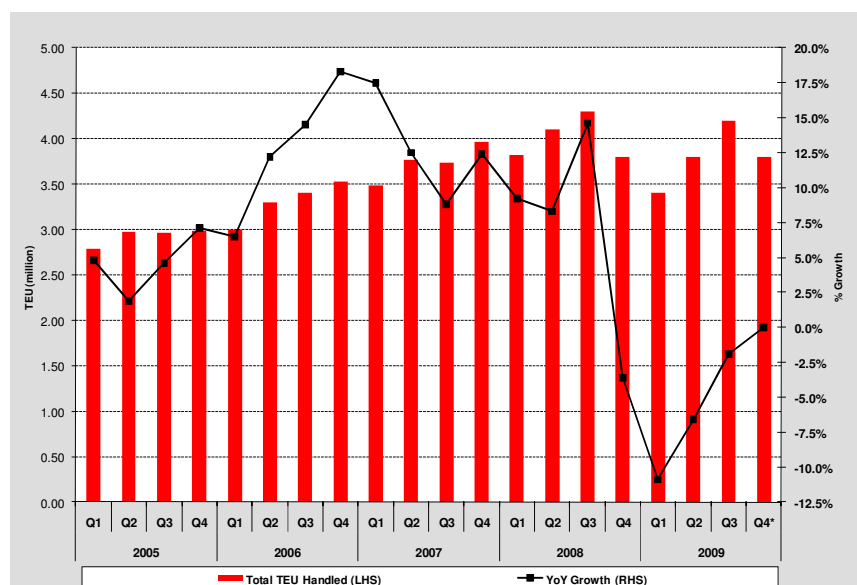
Graph 2 : US Retail Index and Malaysia Manufactured Goods Total Exports



Source: BNM, Bloomberg

Rebounding of exports in 2Q09 onwards. As mentioned above, 4Q08 to 3Q09 saw a large decline in Malaysian exports due to the declining US retails. The subsequent rebound in US retails had resulted in a recovery in Malaysian export sector, having recovered from a total export value of RM27,710m in January 2009 to register a total export value of RM41,624m in December 2009. It is possible that the export recovery is due to restocking activities as manufacturing companies and retailers were caught unexpectedly at the pace of recovery. Twenty equivalent units (TEU, a measure of container volume) handled in all Malaysian ports also registered an increased from its lowest since the start of the crisis of 3.4 million TEU in 1Q09, to register 4.2 million TEU in 3Q09. As data are yet to become available for 4Q09, for the sake of simplicity, we are assuming that there would be 0% yoy growth from 4Q08 as we do not expect that the TEU handled to drop significantly and the performance to be no worse than 1Q09.

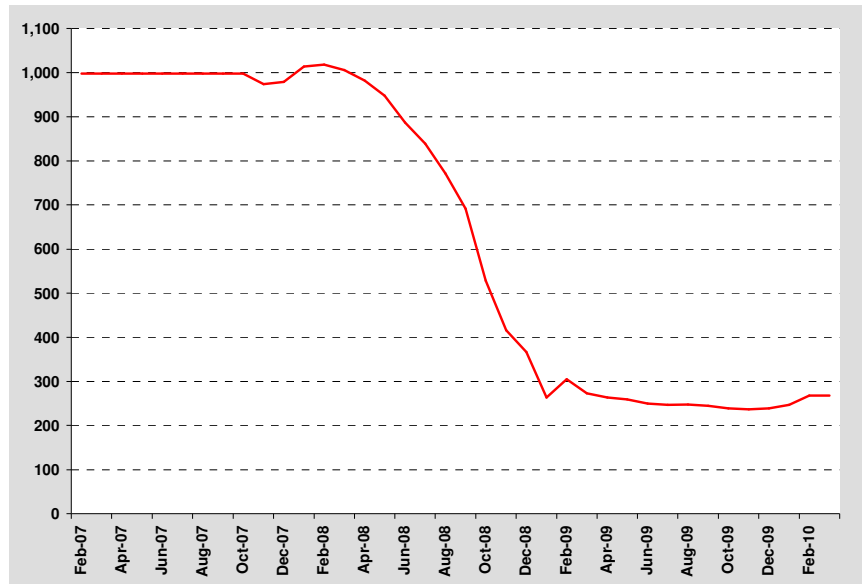
Graph 3 : Total TEU handled in All Ports and YoY Growth



Source: Ministry of Finance, MIDFR

Container ship rates remain low. The rebound of exports in 4Q09 suggests that the global economy is on a recovery path. An additional factor that would have an impact on logistics companies earnings are the liner shipping rates or the container shipping rates. We are using the container ship time charter assessment index (CTEX) as an indicator. It is currently at its lowest level (below 300), which started its decline since 2008. This suggests that either i) low demand in goods, resulting in logistics/container shipping companies having to lower rates, ii) oversupply of container ships, resulting in fierce competition. We believe the current levels are due to a mixture of both. While the economic crisis had caused rates decline due to lower demands, the oversupply is causing the rates to remain low even as recovery is causing export growth.

Graph 4 : Container Ship Time Charter Assessment Index



Source: Bloomberg

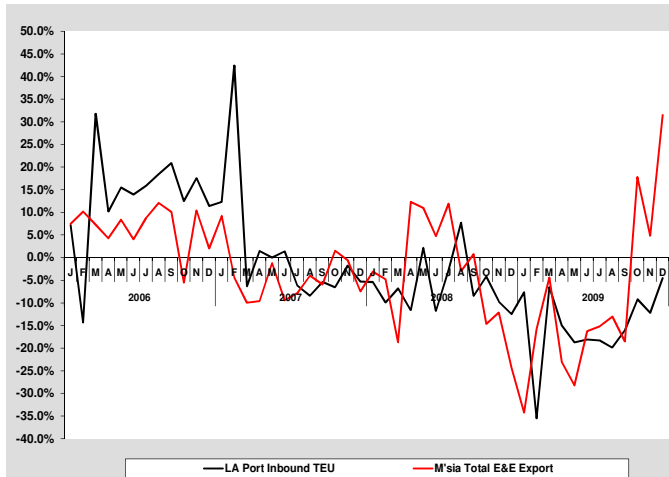
SECTOR PROSPECTS

Malaysia's January 2010 exports performance was good. The government recently announced that exports (including commodities) for January 2010 rose 37.0% yoy to RM52.45 billion. The increase in exports was led by E&E products which increased by 55.6% yoy. Exports to the US also increased in January 2010 by 2.4% yoy, mainly attributed to higher exports of E&E products.

Exports performance is expected to continue in 1H10. The export data rebounded strongly in 4Q09 with a 31.3% yoy growth in December 2009. Looking at the US' LA Port inbound TEU growth also shows an uptrend in the yoy growth. This suggests that the exports sector will benefit tremendously as the global economy recovery becomes firmer. In addition, the US Retail Index is also showing an uptrend as it starting to reach its pre-crisis levels. We expect the strong exports to continue into 2010, especially the E&E exports. Using US housing market predictor (source: Moody Economics) to gauge the retail sentiments in the US, we expect that the demand for E&E exports will continue towards 2011. However, we expect the growth would be moderated in 2H10 onwards as restocking activities would have already taken place. Also, we do not expect the export growth in 2H10 to be in double digits as seen currently due to the high base in 2H09.

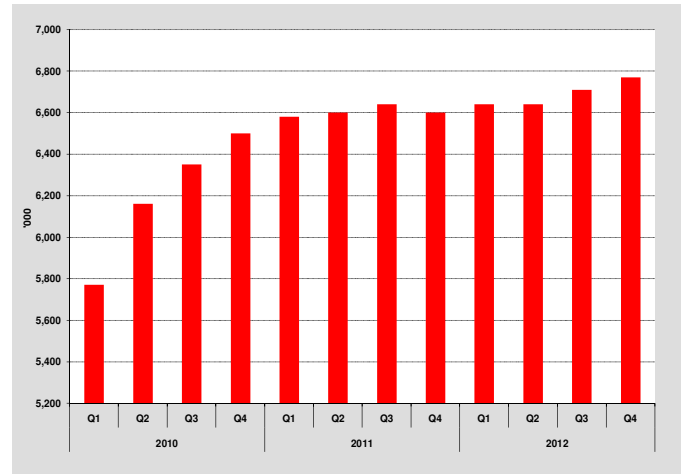
Shipping rates to increase in line with the boost in trade activities. We expect the shipping rates to increase in 2010 as there would be an increase in trading activity. As mentioned above the CTEX indicated that rates were very low in 2009 due to fall in demand and overcapacity. However, as demand picks up in 2010, the rates would have to increase. On the supply side, we expect that there would be some adjustments. This is due to the increased ship scrapping, cancellation of new ship buildings and almost stagnant new orders..

Graph 5 : Port of LA Inbound TEU and M'sia Total E&E Export YoY Growth



Source: BNM, Port of LA

Graph 6 : US Home Sales Forecast



Source: Moody Economics

COMPANY PERFORMANCE

Ports are mostly to gain from the expected upsurge in exports in 1H10. NCB, the operator of North Port saw its throughput traffic rebound in 3Q09 and 4Q09 with 3.3%yoy and 11.5%yoy growth respectively. Although its FY09 port revenue contracted 9.0% yoy, to RM612.2m, this was mainly due to the traffic contraction in 1H09 while the world was in the midst of a recession. However, FY09 port profit was RM148.1m, an increase of 2.7% yoy. For FY10, we are forecasting port revenue to increase by 10% to RM673.6m as we expect the throughput traffic is going to grow in tandem with the export growth.

NCB's haulage business was profitable even though registering lower revenue. While NCB's port business rebounded last quarter, its haulage business saw an 18.9% yoy decline (RM229.7m) in its FY09 revenues, which was badly affected by the exports decline in 1H09. Its FY09 haulage profit was RM9.0m (147.3% yoy increase). Given the revenue decline, it suggests better operating efficiencies and better margins, enjoyed by low container rates in FY09. We are forecasting a profit of RM12.2m for its haulage business in FY10.

Strong growth for 3PL provider Century Logistics. Century Logistics on the other hand saw strong growth of 28.7% (RM210.9m) in its FY09 revenue. Its FY09 net profit of RM20.9m was attributed to i) increase in its customer base and ii) higher demand for its floating storage units (FSU) in its oil and gas division. As a third party logistics (3PL) provider, it is possible that the lower container ship rates was also a factor in its good performance as it could have either i) increased its margins or ii) pass any savings to customer, hence expanded its customer base.

MISC suffered from the low liner shipping rates. MISC's integrated liner logistics business posted a 9MFY09 loss of RM955.4m, as it was affected by the global shipping overcapacity and insufficient demand which have pushed liner shipping rates into unprofitable territory, and the Asia-Euro trade route which was badly affected by the economic downturn. Its decision to exit from the Asia-Euro route from 1 January 2010 should help MISC with some cost saving. In addition, MISC would also benefit from the increase in exports and the expected increase in liner shipping rates which follow an increase in trade activities, and supply side adjustments.

NEUTRAL ON THE TRANSPORTATION SECTOR

Growth to moderate in 2H10, shipping rates expected to increase. Although Malaysia's exports are expected to grow between 6% to 7% in 2010, based on comments by the Minister, we are **NEUTRAL** on the transportation sector. We expect the growth to be coming mostly in 1H10 underpinned by the following:

- inventories restocking,
- low shipping rates (benefitting logistics companies)

- low base in 1H09.

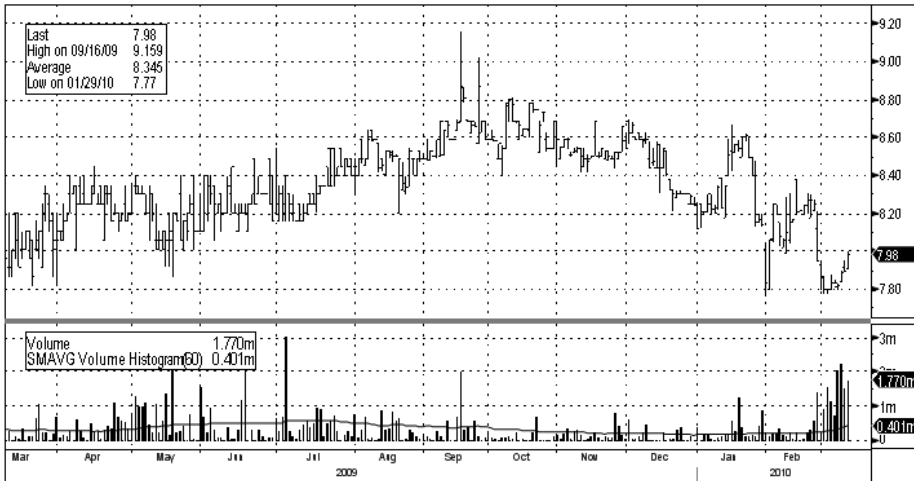
However, we expect growth to moderate in 2H10 with inventory levels normalizing and due to the higher base in 2H09. In addition, we expect liner shipping rates to start increasing due to an increase in trading activities and supply side adjustments.

Recommendations. Given that exports would moderate in 2H10 and an expected moderation in the global economy's growth, we maintain our **TRADING SELL** for **MISC (TP: RM7.50)** and **NEUTRAL** call for **NCB (TP: RM3.35)**. We also maintain our **BUY** call for **Century (Revised TP: RM2.25 from RM2.32)** as we expect Century to carry on its strong performance especially in its oil and gas division. However, Century's downward revision of its target price reflects our expectations as mentioned above.

Stocks	Recm'dation	Price (as at 10 Mar 2010)	Target Price	EPS (sen)		EPS (% change)		PER		DPS		Yield	
				09	10	09	10	09	10	09	10	09	10
MISC	TRADING SELL	7.98	7.50	37.8	37.4	-41.8	-1.1	21.1	21.3	35.0	15.0	4.4	1.9
NCB	NEUTRAL	3.40	3.41	30.0	34.1	-9.1	13.6	11.3	10.0	21.0	17.9	6.2	5.3
Century	BUY	1.70	2.25	27.4	29.3	30.5	5.8	6.2	5.8	6.0	6.5	3.5	3.8

Source: Bloomberg and MIDFR

MISC



NCB



Century



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.