Briefing Note | Thursday, 18 August 2022

Swift Haulage Berhad

(5303 | SWIFT MK) Main | Transportation & Logistics

***Maintain* BUY**

***Unchanged* Target Price: RM1.18**

Brighter outlook in the coming quarters

KEY INVESTMENT HIGHLIGHTS

- **Weaker contribution from the haulage business due to lower port throughput in 1HFY22**
- **Land transportation segment fetched higher rates thanks to the festivities and trips with longer routes**
- **Underutilisation of the extended Tebrau warehouse due to labour shortage**
- **Forward earnings estimates remain unchanged**
- **Maintain BUY with an unchanged TP of RM1.18**

Performance of the transportation business. In 1HFY22, the gateway container throughput at most of the main ports saw a decline between -1.0% to -7.0% (Figure 1). This was attributed to the following: (i) Omicron wave, (ii) lockdowns in China (especially Shanghai) and (iii) Russia-Ukraine crisis. Swift has handled 293,368 TEUs in 1HFY22 (2QFY22: 147,998 TEUs or +1.8%qoq) which was slightly lower considering the marginal decline in this segment's revenue by -0.6%yoy. However, the weakness was more than offset by the land transportation segment with catered to 85,725 trips (2QFY22: 42,118 trips or -3.4%qoq) as it fetched higher rates due to the festivities and longer routes for the trips on the back of more cross border activities. This segment saw its revenue surging by +19.3%yoy during said period.

Updates on warehousing capacity expansion. The total available warehousing space as at 1HFY22 was higher by +20.0% at 1,077,012 sq ft from FY21 after the extension (+309,000 sq ft). The dip in total utilisation rate to 89.1% was because of the underutilisation of the new extended Tebrau warehouse due to labour shortage. Contribution from its 3rd party warehouse management at the Petronas Refinery and Petrochemical Corporation (PRPC), Pengerang is expected to be more meaningful from 4QFY22 onwards and Swift is looking into tendering for the land transportation services by end of this year as currently those are still based on spot contracts. Further details on this segment are outlined in Table 1.

Proposed acquisition. Swift is acquiring Watt Wah Petroleum Haulage Pte. Ltd. – a Singaporean petroleum hauler with over 20 years of experience. Based on its FY21 PAT of SGD0.4m/RM1.3m, the deal is valued at 25x (including shareholder's loan) which we think is justified given its close to 90% market share, servicing oil majors including Chevron, ExxonMobil and Shell. We expect the earnings contribution to be offset by higher interest expense due to the refinancing of c. SGD8.0m/RM25.9m worth of shareholder's loan. Post-acquisition, we expect the Group's gearing ratio to be raised to 0.86x from 0.82x.

RETURN STATISTICS	
Price @ 18th August 2022 (RM)	0.58
Expected share price return (%)	+>100.0
Expected dividend yield (%)	+3.6%
Expected total return (%)	**+>100.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	26.1	18.8
3 months	17.2	-14.1
12 months	n.a.	n.a.

KEY STATISTICS	
FBM KLCI	1,516.62
Syariah compliant	Yes
F4BGM Index	-
ESG Grading Band (Star Rating)	-
Issue shares (m)	889.81
Estimated free float (%)	52.26
Market Capitalisation (RM'm)	514.30
52-wk price range	RM0.42 - RM1.13
Beta vs FBM KLCI (x)	n.a.
Monthly velocity (%)	0.00
Monthly volatility (%)	n.a.
3-mth average daily volume (m)	3.79
3-mth average daily value (RM'm)	1.99
Top Shareholders (%)	
Persada Bina Sdn Bhd	38.11
KWAP	8.97
Bluefin Bidco Ltd	7.81

MIDF Research Team
research@midf.com.my

Disposal of land. The Group will be disposing its 518,364 sq ft land in Bandar Sultan Sulaiman, Klang to TPC Land Sdn Bhd for a cash consideration of RM38.4m. The one-off gain from the disposal after taxes is estimated to be RM3.0m. Assuming the finalisation of the deal in 2QFY23, the interest savings could prompt an upward revision of our FY23F/FY24F earnings estimates by +2.1%/+2.0%, while its gearing ratio would be lower at 0.76x from 0.82x.

Introduction of EV trucks. Swift is collaborating with Volvo Malaysia Sdn. Bhd. (Volvo) to promote and introduce Malaysia's first electric prime mover. Volvo will be launching the EV trucks globally by 4QFY22 and Swift could be receiving its first EV truck as early as 3QFY23. The trucks which have an estimated range of about 300km-400km would be priced about 2x-3x more than the current prime movers (priced between RM350k-RM400k). According to the management, this is viable for the short-haul container haulage trips and they are estimating fuel cost savings of about RM2,000/month based on the current diesel price (RM2.15/l). On top of getting the waiver of the excise duty for CBU EVs until end-FY23, these assets are eligible for the Green Investment Tax Allowance (GITA) assets incentive. We believe this initiative is a step in the direction towards achieving its sustainability goals, though the replacement might be gradual and will be done over the longer-term (if the project proves to be feasible) considering its large vehicle fleet of c.1,546 prime movers currently.

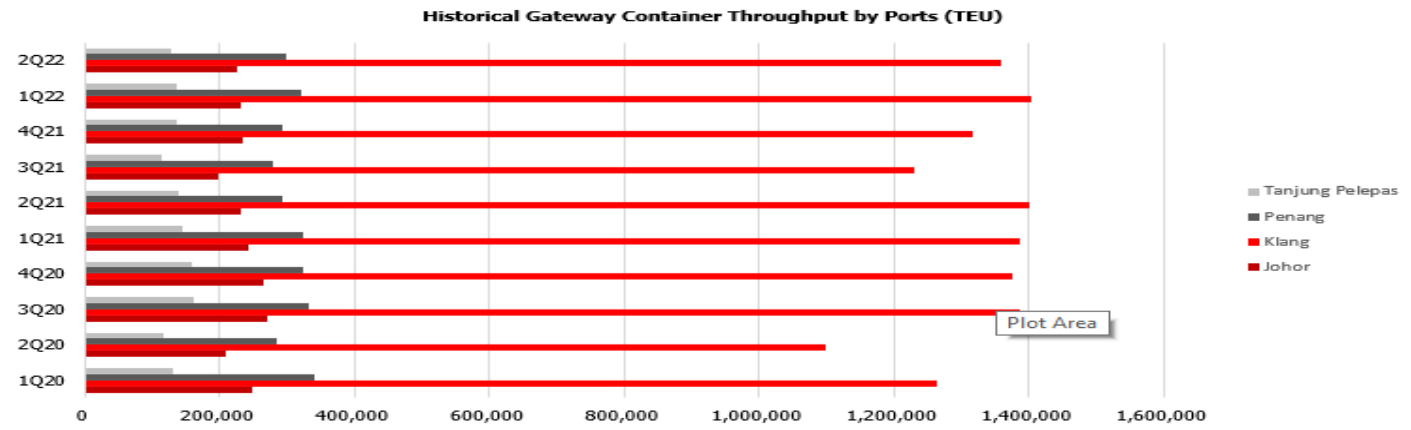
Maintain BUY. We make no changes to our earnings estimates, hence we maintain our **BUY** call on Swift with an unchanged TP of **RM1.18** (FY23F pegged to PER of 17x). We like the Group due to the following: (1) leading player in the container haulage business (9% market share in terms of TEUs), (2) superior profit margins due to its large in-house assets and cost advantages from its in-house supporting services (PBT margin of c.11% vs. industry average of c.4%) (3) resiliency in earnings due to its dependency on imports and exports and (4) it being insulated from the volatility of freight rates. Downside risks include: (1) lower-than-expected take up/utilisation rates for its new and extended warehouses and (2) weaker gateway port throughput due to the lingering supply chain disruptions.

INVESTMENT STATISTICS

Income Statement	FY2020A	FY2021A	FY2022E	FY2023F	FY2024F
Revenue	555.8	592.8	643.9	716.1	735.3
Gross profit	185.7	188.2	201.5	221.8	227.9
EBITDA	137.6	149.7	156.5	164.7	168.5
EBIT	83.5	92.3	99.1	105.8	108.2
PBT	54.4	65.9	74.1	81.6	85.0
PATAMI	41.7	50.6	58.5	61.6	64.2
Core PATAMI	38.9	51.9	58.5	61.6	64.2
EPS (sen)	5.3	5.8	6.6	6.9	7.2
PER (x)	10.9x	9.9x	8.8x	8.4x	8.0x
DPS (sen)	n.a.	1.8	2.0	2.1	2.2
Dividend yield (%)	n.a.	3.1%	3.4%	3.6%	3.7%

Sources: Company, MIDFR

FIGURE 1: HISTORICAL GATEWAY PORT THROUGHPUT AT THE MAIN PORTS



Sources: Ministry of Transport Malaysia, MIDFR

TABLE 1: WAREHOUSE CAPACITY EXPANSION PLAN

Location of Warehouse	Capacity (sq ft)	Status
Own & operate		
Tebrau	307,753	Extended by +200,000 sq ft and commenced its operations in 1QFY22. Utilisation rate of the extended warehouse currently stood at c.60% and it is expected to reach 80%-90% by 3QFY23.
Seberang Prai	213,000	Extended by +222,000 sq ft and commenced its operations in 2QFY22. Utilisation rate of the extended warehouse currently stood at 100%.
PKFZ	178,000	Construction has been completed. Targeted date to obtain the Certificate of Completion and Compliance (CCC) is by end-August and expected to commence its operations by end-3QFY22. Guided for its utilisation rate to be c.50% by 4QFY22.
Management of 3rd party warehouse		
Pengerang	1,170,000	The refinery has started production in end-July and it is expected to give meaningful contribution from 4QFY22 onwards. The production at the PRPC was guided to be c.50% by end-FY22 and c.80% in FY23.
Joint venture		
Sabah (cold chain)	26,700	The construction to extend the capacity by +29,665 sq ft has started and it is expected to commence its operations by 1QFY23.

OPERATING STATISTICS

	2Q22	1Q22	QoQ	1H22
Container Haulage				
TEU	147,998	145,370	1.8%	293,368
Avg. revenue/TEU (RM)	RM482	RM494	-2.4%	RM488
Land Transportation				
Number of trips	42,118	43,607	-3.4%	85,725
Avg. revenue/trip (RM)	RM1,458	RM1,366	6.7%	RM1,412
Freight Forwarding				
Number of jobs	24,321	23,824	2.1%	48,145
Avg. revenue/job (RM)	RM740	RM770	-3.9%	RM755
Warehousing				
Capacity (sq ft)	1,143,724	1,010,300	13.2%	1,077,012
Utilisation rate (%)	86.0%	92.2%	-0.07	89.1%
Container Depot				
Capacity (TEU)	28,500	28,500	n.m.	28,500
Utilisation rate (%)	72.0%	60.0%	0.20	66.0%

Sources: Company, 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 *rise* 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 *fall* 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