Corporate Update | Thursday, 11 August 2022

Swift Haulage Berhad

(5303 | SWIFT MK) Main | Transportation & Logistics

***Maintain* BUY**

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

Expanding their reach in Singapore

KEY INVESTMENT HIGHLIGHTS

- **Swift has offered to fully acquire Watt Wah for a cash consideration of SGD1.6m**
- **Watt Wah is primarily involved in chartering, forwarding, and transporting petroleum products**
- **Swift will need to refinance the shareholder's loan which amounted to SGD8.5m**
- **Maintain BUY with an unchanged TP of RM1.18**

Offer on the table. Swift Haulage Berhad (Swift or Purchaser) has entered into a Binding Offer (BO) with DLT Enterprise Pte. Ltd. (DLT or Seller) to acquire the entire equity interest in Watt Wah Petroleum Haulage Pte. Ltd. (Watt Wah or target company) which is 100%-owned by the latter. The target company is primarily involved in chartering, forwarding, and transporting petroleum products.

Purchase consideration. The entire equity interest in the target company is valued at SGD1.6m/RM5.2m and Swift intends to fully satisfy it by way of cash payment. Additionally, subject to the Acquisition Agreement, Swift will be required to repay the shareholder's loan which amounted to SGD8.5m/RM27.7m (as of 30 June 2022) by refinancing it within 2 weeks of the completion date.

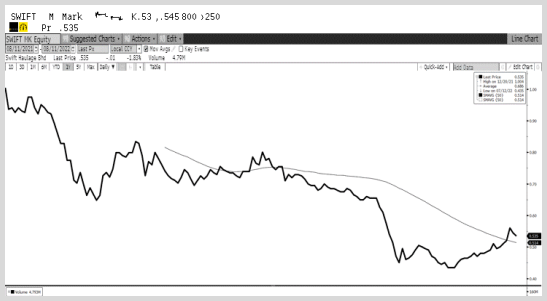
Impact. The cash consideration would effectively reduce Swift's cash balance which stood at RM34.6m as at end-1QFY22. Its earnings would also need to be adjusted to factor in higher borrowing costs due to the loan refinancing in which the amount is subject to change following further repayment until the completion date. The net asset value of the target company stood at SGD1.5m/RM5.0m as of 30 June 2022. To note, Swift's gearing ratio is at 0.98x as at end-1QFY22. We make no changes to our earnings estimate at this juncture pending the acceptance of the BO by the Seller.

Our thoughts. We are positive on the proposed acquisition as it supports Swift's longer-term plan to increase its footprint in the region as currently it only has operations in Malaysia and Thailand. Historically, the Group has been part of several successful merger and acquisitions including MISC Integrated Logistics and Tanjong Express. It was mentioned previously by the management that in increasing its market share, growing inorganically benefits them as it would be able to retain the truck drivers amid the industry-wide shortage.

Maintain BUY. We maintain our **BUY** call on Swift with an unchanged **TP of RM1.18** (PER of 18x). We like the Group due to the following: (1) Swift being the dominant player in the container haulage business (9% market share in Peninsular Malaysia), (2) above average profit margins due to the large vehicle fleet that it owns and cost advantages from in-house supporting services and (3) earnings resiliency due to its dependency on trade volume. Downside risks include: (1) any delays in its primary warehouse capacity expansion plan and (2) lower gateway port throughput arising from the supply chain issues (any weakness would only be observable in 3Q). Swift currently trades at 7x FY23F EPS vs. the simple average forward P/E of its peers of 15x, which we believe is attractive.

RETURN STATISTICS	
Price @ 10th August 2022 (RM)	0.54
Expected share price return (%)	+>100
Expected dividend yield (%)	+3.7
Expected total return (%)	**+>100**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	18.9	13.6
3 months	8.1	-19.7
12 months	N/A	N/A

KEY STATISTICS	
FBM KLCI	1,492.33
Syariah compliant	Yes
F4BGM Index	-
ESG Grading Band (Star Rating)	-
Issue shares (m)	889.81
Estimated free float (%)	52.27
Market Capitalisation (RM'm)	474.50
52-wk price range	RM0.42-RM1.13
Beta vs FBM KLCI (x)	N/A
Monthly velocity (%)	0.00
Monthly volatility (%)	0.00
3-mth average daily volume (m)	3.08
3-mth average daily value (RM'm)	1.59
Top Shareholders (%)	
Persada Bina Sdn Bhd	38.10
KWAP	8.96
Bluefin Bidco Ltd	7.81

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INVESTMENT STATISTICS

Income Statement	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	555.8	592.8	643.8	716.1	735.2
Gross profit	185.7	188.2	202.8	225.6	231.6
EBIT	79.4	87.8	94	105.9	108.2
PBT	53.9	61.1	68.9	80.9	84.7
PATAMI	41.7	50.6	58.6	61.5	64.4
Core PATAMI	38.9	51.9	58.6	61.5	64.4
Core EPS (sen)	5.3	5.8	6.6	6.9	7.2
PER (x)	10.2x	9.3x	8.2x	7.8x	7.5x
Dividend (sen)	n.a.	1.8	2.0	2.0	2.2
Dividend yield (%)	n.a.	n.a.	3.7%	3.7%	4.1%

Source: 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