Swift Haulage Berhad

(5303 | SWIFT MK) Main | Transportation & Logistics

***Maintain* BUY**

Aiming Further Capacity Expansion

***Revised* Target Price: RM0.90**

(Previously RM1.05)

KEY INVESTMENT HIGHLIGHTS

- **Cost pass-through exercise has completed in 4QFY22**
- **Earnings to be driven by the warehouse and land transportation segments**
- **Adding +4,000 TEUs of container depot space in 2QFY23 and +400,000 sq ft warehouse capacity in 1QFY24**
- **Downward revision of FY23E/FY24F earnings by -11.9%/-7.3%**
- **Maintain BUY with a revised TP of RM0.90**

Swift Haulage Berhad (Swift) recently hosted a small group visit for the tour of its operations in Port Klang. The walkabout was led by Loo Yong Hui (Group CEO), Esther Kee (Group CFO) and the investor relations team. Below are the highlights:

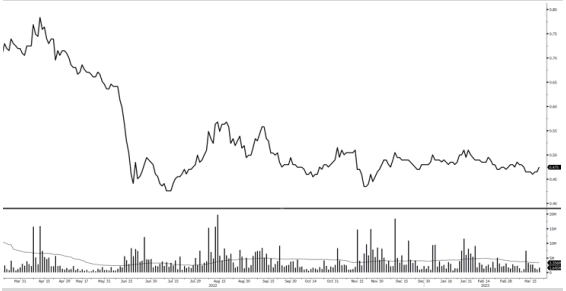
Improving margins for the transportation businesses. Swift has fully completed its cost pass-through exercise in 4QFY22. Weakening exports to Europe, notably for furniture and white goods, was the main contributor to the decline in its container volume. Fortunately, this was partly offset by the high volume of cargoes at Port Klang for China-based paper manufacturing businesses. Meanwhile, the land transportation services are still high in demand given that Swift's major customers operate in the consumer staples industry. Apart from its fleet expansion (+50 prime movers in FY22), this segment should benefit from higher number of trips from: (i) the Pengerang Integrated Petroleum Complex (PIPC) warehouse that it manages and (ii) the newly acquired Watt Wah Petroleum Haulage, which made its maiden contribution to the Group in Dec-22.

Moreover, **normalising freight rates is not a big concern** for Swift as about 80% of this segment's revenue comes from local customs clearance jobs, which explains the high margin that it fetches. The remaining 20% is mainly derived from ocean freight forwarding jobs for the East/West Malaysia route, which has not seen a drastic drop in rates.

Influx of unladen containers. Interestingly, container depot facilities are high in demand due to off-hiring of containers by the shipping lines. Malaysia in particular is favoured due to the relatively cheaper container storage charges (one of the lowest in the region). To cater for the demand, Swift expects its extended Westport On Dock Depot (+4,000 TEUs) to begin operating in 2QFY23. The management anticipates further rate hikes for this segment, with the depot gate charges having been raised by about +20% recently.

RETURN STATISTICS	
Price @ 21st March 2023 (RM)	0.48
Expected share price return (%)	+87.5
Expected dividend yield (%)	+3.8
Expected total return (%)	**+91.3**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	5.2
3 months	-1.0	3.3
12 months	-36.2	-28.1

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	679.1	713.4	743.4
EBIT	101.2	108.3	112.8
PBT	71.4	78.3	82.6
Core PATAMI	54.3	59.5	62.7
Core EPS (sen)	6.1	6.7	7.1
DPS (sen)	1.8	2.0	2.1
Dividend Yield	3.8%	4.2%	4.4%

KEY STATISTICS	
FBM KLCI	1,406.55
Issue shares (m)	881.98
Estimated free float (%)	50.84
Market Capitalisation (RM'm)	418.63
52-wk price range	RM0.42-RM0.81
3-mth average daily volume (m)	3.23
3-mth average daily value (RM'm)	1.57
Top Shareholders (%)	
Persada Bina Sdn Bhd	38.12
KWAP	9.02
Loo Hooi Keat	1.81

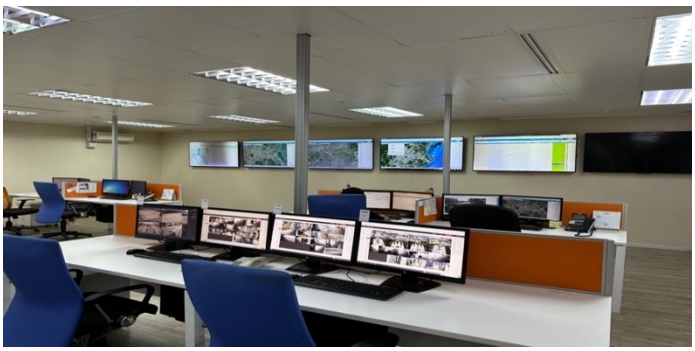
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Expanding warehouse footprint. FY23F will generate a full-year revenue contribution from the +42% available capacity added to its 'own and operate' warehouses last year. Swift plans to tap into its unutilised land bank to extend its Mak Mandin Warehouse in Penang (+150,000 sq ft) and build a new Westport Warehouse in Klang (+250,000 sq ft), which are targeted to commence in 1QFY24. Other capacity expansion plans include: (i) an extended cold-chain warehouse in Sabah – a 50% JV with Tasco Berhad - (+29,665 sq ft) to commence in 2QFY23 and (ii) the first phase (2.8m sq ft) of the 6.0m sq ft Shah Alam warehouse, under its associate – Global Vision Logistics, to commence in May-23 whereby Swift has allocated 500,000 sq ft to be rented out.

Updates on ESG initiatives. We also visited the Central Command Centre which operates all day round on a 3-shift basis and is responsible for monitoring traffic offences. We were made to understand that Swift is developing an application to better track its trucks' movements and drivers' behaviour. On the environmental front, Swift is due to receive 2 of its first electric prime movers from Volvo Malaysia in Jun-23 and the management is targeting to have it on the road by Oct-23. Based on the current diesel price of RM2.15/litre, the management had previously targeted fuel savings of about RM2,000/month for each truck.

Maintain BUY. We have revised down our FY23E/FY24F earnings by -11.9%/-7.3% mainly to account for weaker growth in container volume and lower average utilisation rates for the warehouses as most of the additional capacity are only expected to be taken up in 2HFY23. Following the adjustments, we derived a lower TP of **RM0.90** (from RM1.05) based on FY23F PE of 15x. The stock currently trades at forward PE of 7.8x or at a -52% discount to the sector's historical mean, hence we maintain our **BUY** call. Swift is one of our top picks for the sector due to: (i) the scale that it can achieve thanks to its large in-house assets, which puts it in an advantageous position in the eyes of large multinational companies, (ii) superior profit margin that it fetches due to the cost advantages stemming from its young fleet (6-7 years) and its in-house maintenance & repair facilities as well as (iii) insulation from the volatility of market freight rates. Key downside risks: (i) lower-than-expected take up rates for the new and extended warehouses and (ii) weaker-than-expected gateway port throughput.

Exhibit 1: Central Command Centre



Source: MIDFR

Exhibit 2: Port Klang Warehouse



Source: MIDFR

Exhibit 3: E-Commerce Retailing Warehouse



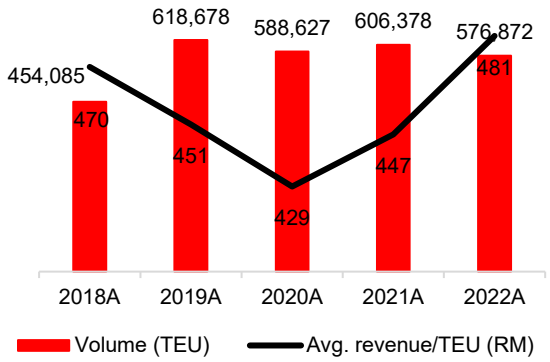
Source: MIDFR

Exhibit 4: BLG Swift Logistics Warehouse



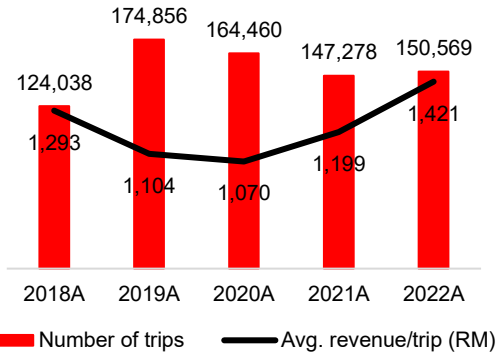
Source: MIDFR

Chart 1: Operational Metrics for Container Haulage



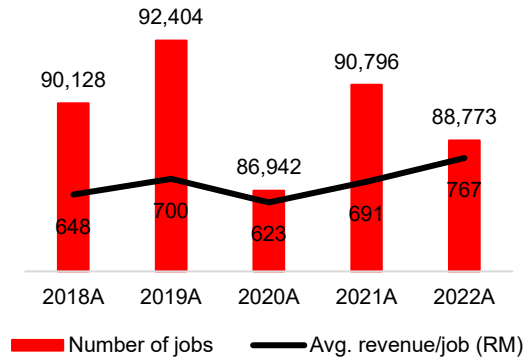
Source: Swift, MIDFR

Chart 2: Operational Metrics for Land Transportation



Source: Swift, MIDFR

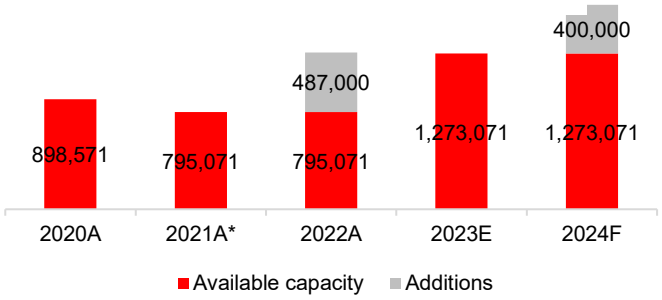
Chart 3: Operational Metrics for Freight Forwarding



Source: Swift, MIDFR

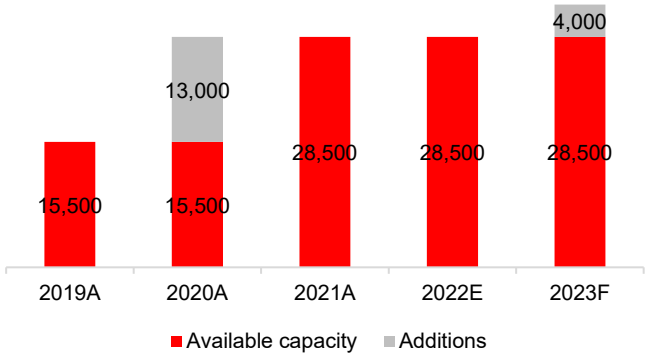
Chart 4: Capacity of 'Own & Operate' Warehouses (sq ft)

Note:
*Kota Kinabalu Warehouse ceased operations in Jun-21.



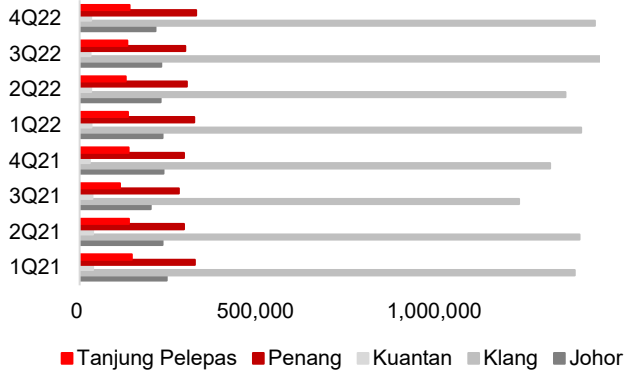
Source: Swift, MIDFR

Chart 5: Capacity of Container Depot (TEUs)



Source: Swift, MIDFR

Chart 6: Transshipment Volume of Major Ports in Malaysia (TEUs)



Source: Ministry of Transport, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	588.3	644.8	679.1	713.4	743.4
EBIT	80.2	89.6	101.2	108.3	112.8
PBT	53.8	63.3	71.4	78.3	82.6
PATAMI	47.1	50.5	54.3	59.5	62.7
Core PATAMI	48.2	49.0	54.3	59.5	62.7
PER (x)	8.8x	8.7x	7.8x	7.2x	6.8x

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	471.6	604.2	630.4	654.9	668.4
ROU assets	436.8	371.6	372.0	372.4	372.8
Non-current assets	**1,103.3**	**1,175.6**	**1,202.4**	**1,227.3**	**1,241.2**
Trade debtors	248.2	217.4	229.0	240.6	250.7
Cash	64.7	51.4	38.4	28.7	32.0
Current assets	**338.0**	**337.8**	**338.6**	**340.9**	**354.8**
Long-term debt	396.8	446.1	486.1	486.1	486.1
Non-current liabilities	**508.8**	**552.2**	**535.9**	**520.2**	**508.5**
Short-term debt	179.0	201.4	206.4	211.4	216.4
Trade creditors	102.1	116.6	125.2	131.1	136.2
Current liabilities	**314.4**	**346.3**	**306.8**	**308.0**	**303.6**
Share capital	384.7	384.7	384.7	384.7	384.7
Retained earnings	250.0	275.6	313.6	355.3	399.2
Equity	**635.3**	**658.6**	**698.3**	**740.0**	**783.9**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	57.1	64.0	71.4	78.3	82.6
Depreciation & amortisation	57.5	60.9	63.4	65.1	66.1
Changes in working capital	-99.0	28.6	-19.4	-17.0	-14.7
Operating cash flow	**23.6**	**164.2**	**98.3**	**107.7**	**114.1**
Capital expenditure	-26.2	-144.7	-70.0	-70.0	-60.0
Investing cash flow	**-87.0**	**-196.8**	**-110.1**	**-104.6**	**-97.0**
Debt raised/(repaid)	40.9	57.1	45.0	5.0	5.0
Dividends paid	0.0	-24.9	-16.3	-17.9	-18.8
Financing cash flow	**106.2**	**-7.2**	**28.7**	**-12.9**	**-13.8**
Net cash flow	**42.9**	**-39.8**	**16.9**	**-9.8**	**3.3**
Beginning cash flow	**18.4**	**61.3**	**21.5**	**38.4**	**28.7**
Ending cash flow	**61.3**	**21.5**	**38.4**	**28.7**	**32.0**

Key Metrics	2021A	2022A	2023E	2024F	2025F
Container volume (TEUs)	606,378	576,872	588,409	606,062	624,244
Number of land transportation trips	169,758	150,569	155,086	158,188	161,352
Number of freight forwarding jobs	90,796	88,773	90,548	93,265	96,063
Warehousing space (sq ft)	952,871	1,273,071	1,273,071	1,423,071	1,423,071

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	13.6%	13.9%	14.9%	15.2%	15.2%
PBT margin	9.1%	9.8%	10.5%	11.0%	11.1%
PATAMI margin	8.0%	7.8%	8.0%	8.3%	8.4%
Core PAT margin	8.2%	7.6%	8.0%	8.3%	8.4%

Source: Bloomberg, 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