CJ Century Logistics Holdings Berhad

(7117 | CLH MK) Main | Transportation & Logistics

Maintain BUY

Brighter Prospects Ahead

Revised Target Price: RM0.95
(from RM0.98)

KEY INVESTMENT HIGHLIGHTS

- **Core PATAMI in 1QFY23 came in below expectation**
- **Margin contracted largely due to higher labour and electricity costs**
- **Aims to increase freight volume by +10% in FY23**
- **Downward revision of FY23E/FY24F PATAMI by -12%/-15%**
- **Maintain BUY with a revised TP of RM0.95**

RETURN STATISTICS	
Price @ 18th May 2023 (RM)	0.48
Expected share price return (%)	+97.9
Expected dividend yield (%)	+3.4
Expected total return (%)	**+>100.0**

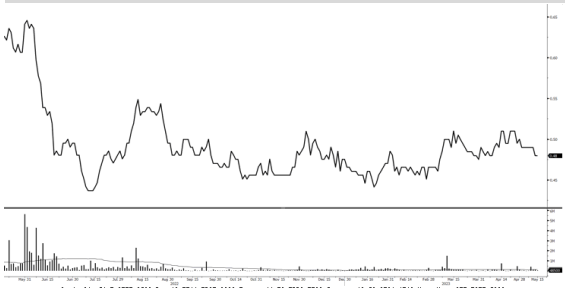
Below expectations. CJ Century Logistics Holdings Berhad (CJ Century) reported core PATAMI of RM3.7m. This came below expectations as it only accounted for 10%/11% of our/consensus estimates. The deviation was attributed to higher-than-expected operating expenses.

Quarterly. The core PATAMI of RM3.7m declined by -60.1%yoy, primarily due to lower revenue contribution from the freight forwarding segment (-47.9%yoy) as freight rates normalised and handling volume decreased. However, higher export volumes in the procurement logistics division (+75.5%yoy) have largely offset the revenue drop in the total logistics division (-29.1%yoy). In comparison to 1QFY22, the margin contracted due to an escalation in costs, particularly labour and ICPT surcharge. Nevertheless, earnings grew by +24.9%qoq driven by improved demand for procurement logistics services.

Outlook. The management aims to increase the freight volume by +10% in FY23 by leveraging its relationship with parent company - CJ Logistics - and the organic growth of its Korea-based clients, who contribute 30%-35% of its revenue. Meanwhile, the contribution from the procurement logistics division should see a rebound as the Group observed a notable surge in demand particularly from the Vietnam market and the supply chain challenges related to components sourced from China are expected to be resolved following the country's reopening. We anticipate an improvement in earnings as 2Q and 3Q tend to be seasonally stronger.

Maintain BUY. We have revised down our earnings by -12%/-15% for FY23E/FY24F to account for higher operating expenses. Our TP is slightly lower at **RM0.95** (based on FY24F of 16x) as we rollover our valuation base year. CJ Century has consistently achieved healthy profits as compared to the past, thanks to the earnings-accretive acquisition of CJ Korea Express Malaysia in 2QFY20 and the divestment of its unprofitable courier business in 2QFY21. This enabled the Group to resume dividend payments last year. The stock is currently trading at a -51% discount to its 5-year historical mean, hence we maintain our **BUY** call on the counter. Key downside risks are: (i) lower-than-expected handling volume and (ii) further deterioration in margins due to escalating cost pressures.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.0	-3.2
3 months	1.1	5.6
12 months	-25.6	-19.3

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	915.0	965.4	1,002.6
Operating profit	48.5	54.1	56.1
PBT	41.4	48.0	51.1
Core PATAMI	31.5	36.5	38.8
EPS (sen)	5.4	6.3	6.7
DPS (sen)	1.6	1.9	2.0
Dividend yield (%)	3.4%	3.9%	4.2%

KEY STATISTICS	
FBM KLCI	1,428.04
Issue shares (m)	581.9
Estimated free float (%)	27.0
Market Capitalisation (RM'm)	279.3
52-wk price range	RM0.43 - RM0.68
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.06
Top Shareholders (%)	
CJ Korea Express Asia PL	55.1
Teow Choo Hing	8.3
Bin Syed Mohammed Syed	2.4

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CJ CENTURY: 1Q23 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue	219.6	204.5	242.8	7.4%	-9.6%
Operating profit	7.3	7.5	15.3	-2.3%	-52.1%
Finance costs	-1.9	-2.0	-2.0	7.8%	3.3%
PBT	5.4	5.4	13.3	-0.3%	-59.3%
Tax expense	-1.7	-0.2	-4.0	-746.4%	58.5%
PATAMI	3.7	5.3	9.3	-28.7%	-59.9%
Core PATAMI	3.7	3.0	9.4	24.9%	-60.1%
OP margin (%)	3.3%	3.7%	6.3%		
PBT margin (%)	2.5%	2.7%	5.5%		
Core PATAMI margin (%)	1.7%	1.5%	3.9%		
Effective tax rate (%)	-30.6%	-3.6%	-29.9%		

SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly				
Revenue	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Total logistics	140.0	146.8	197.5	-4.6%	-29.1%
Freight forwarding	56.7	69.7	108.8	-18.7%	-47.9%
Contract logistics	37.6	42.8	43.9	-12.1%	-14.2%
Transportation	22.1	13.8	16.0	60.1%	38.3%
Oil logistics	10.5	10.3	12.3	1.9%	-14.7%
Others*	13.2	10.2	16.5	28.8%	-20.5%
Procurement logistics	79.5	57.8	45.3	37.6%	75.5%
Operating Profit	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Total logistics	3.0	3.4	13.4	-10.2%	-77.3%
Procurement logistics	4.5	3.3	2.0	35.7%	124.6%

*Note: *includes trading of resin, data management services and rental of equipment.*
Source: CJ Century, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	843.0	930.4	915.0	965.4	1,002.6
Operating profit	38.1	45.6	48.5	54.1	56.1
PBT	28.8	37.5	41.4	48.0	51.1
PATAMI	19.0	28.2	31.5	36.5	38.8
Core PATAMI	21.3	28.7	31.5	36.5	38.8
EPS (sen)	3.6	4.9	5.4	6.3	6.7
PER (x)	13.2x	9.8x	8.9x	7.7x	7.2x
DPS (sen)	0.0	1.5	1.6	1.9	2.0
Dividend yield (%)	0.0%	3.1%	3.4%	3.9%	4.2%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	376.2	362.4	367.4	371.8	375.7
ROU assets	73.7	65.4	50.3	34.2	17.2
Non-current assets	**475.9**	**452.1**	**442.0**	**430.3**	**417.1**
Trade debtors	222.5	180.1	178.0	187.8	195.0
Cash	54.6	98.6	75.0	110.8	145.4
Current assets	**302.9**	**316.2**	**330.9**	**355.0**	**380.8**
Long-term debt	126.9	108.2	83.2	58.2	33.2
Non-current liabilities	**141.4**	**120.3**	**95.3**	**70.3**	**45.3**
Trade creditors	163.2	138.6	135.0	142.0	147.4
Short-term debt	36.1	53.2	58.2	63.2	68.2
Current liabilities	**215.2**	**203.0**	**204.4**	**216.4**	**226.9**
Share capital	300.0	300.0	300.0	300.0	300.0
Retained earnings	125.7	151.0	173.0	198.6	225.7
Equity	**421.6**	**444.3**	**473.1**	**498.6**	**525.8**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	28.8	37.5	41.4	48.0	51.1
Depreciation & amortisation	36.5	35.1	35.1	36.6	38.2
Changes in working capital	4.8	37.8	-6.7	18.6	14.2
Operating cash flow	**54.3**	**105.8**	**59.8**	**91.7**	**91.2**
Capital expenditure	-10.0	-3.9	-25.0	-25.0	-25.0
Investing cash flow	**-2.7**	**-16.7**	**-25.0**	**-25.0**	**-25.0**
Debt raised/(repaid)	-16.7	0.4	-20.0	-20.0	-20.0
Dividends paid	0.0	-2.9	-9.4	-10.9	-11.6
Financing cash flow	**-47.4**	**-62.7**	**-29.4**	**-30.9**	**-31.6**
Net cash flow	**4.2**	**26.5**	**5.4**	**35.8**	**34.6**
Beginning cash flow	**38.9**	**43.1**	**69.6**	**75.0**	**110.8**
Ending cash flow	**43.1**	**69.6**	**75.0**	**110.8**	**145.4**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
OP margin	4.5%	4.9%	5.3%	5.6%	5.6%
PBT margin	3.4%	4.0%	4.5%	4.9%	4.9%
PATAMI margin	2.2%	3.0%	3.4%	3.7%	3.8%
Core PATAMI margin	2.5%	3.1%	3.4%	3.7%	3.8%

Source: CJ Century, 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