

30 June 2015

Xin Hwa Holdings Berhad

The Efficient Land Transporter

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INVESTMENT MERIT

- The land transporter from South.** Xin Hwa Holdings Berhad (XINHWA) is an established logistics player in Johor, principally involved in land transportation, which accounted for c.90% of its revenue in FY14. While the core business serves as a strong foundation for the Group, there is growth potential in the warehousing division that could transform XINHWA into a more relevant integrated logistics services provider. The Group registered net profit growth of 13.5% to RM15.8m in FY14, supported by growth across all divisions. Poised to be listed on Bursa Malaysia on 30th June 2015; the timing is right for the Group as we think that the local logistics sector is undergoing a positive re-rating (refer to the sector report dated 18th May 2015).
- Superior profit margin against peers.** Its in-house expertise in manufacturing, fabrication and a maintenance centre in Senai set the Group apart from other logistics players. To quantify, a brand-new prime mover that costs RM400k can be acquired at RM100k-150k after 5 years of usage before being reconditioned or refurbished by its fabrication yard. Subsequently, further cost savings can be achieved as the maintenance and repairing of vehicles are also handled by the maintenance centre and in turn reducing the servicing turnaround time for the vehicles. The competitive advantage can be showcased by its superior profit margin, with gross margin at 33.9% in FY14 as compared to 20.3%-28.4% of peers in the industry.
- Going aggressive on expansion.** The Group has earmarked CAPEX of RM19m (excluding land) for its new warehouse in Pasir Gudang, of which 25% will be funded by IPO proceeds. The new warehouse will come on stream by 3Q15 and increase the warehousing capacity by 220k sf (c.90%) from the existing 244.6k sf. Meanwhile, the Group also aim to expand its fleet of vehicles by adding 101 vehicles (9%) to the existing fleet of 1,136 vehicles in the next two years with projected budget of RM11.4m. We believe the ambitious move can pave the way for the Group to capture the rising demand for logistics services while also capitalise on the Investment Tax Allowance (ITA) granted by MIDA which expires on March 2016. Balance sheet is healthy to support the expansion with post-IPO net gearing at 0.27x and we expect the CAPEX arising from expansion to take the net gearing to 0.4x.
- Solid earnings growth projected.** Moving forward, we are projecting net profit growth of 13.6% and 16.4% in FY15 and FY16, respectively. We expect the double-digit earnings growth to be sustained after the growth of 13.5% recorded in FY14, driven by its expansion in both land transport and warehouse division. The land transport division is projected to grow by 4.6%-5.0% in gross profit, in line with the forecasted CAGR of 4.5% by Protégé Associates; while warehousing division will grow 22.5%-33% thanks to its new warehouse. The Group has no dividend policy but with key management controlling 70% stake, we conservatively assume a pay-out ratio of 25%, translating into DPS of 2.5 sen and 3.0 sen, respectively, in FY15 and FY16, which offers decent yields of 3.6%-4.3%.
- Trading Buy with Fair Value of RM1.02.** Our FV is derived after pegging 8.8x PER to its FY16E EPS of 11.6 sen, 30% discount to logistics stocks under our On Our Radar (OR) coverage, due to its smaller market capitalisation (RM126m vs >RM350m). XINHWA provides a good entry opportunity for investors to the exposure in the local logistics sector in view of its undemanding valuation on top of aggressive expansion plan moving forward, solid earnings growth and competitive edge of having its own vehicle fabrication centre.
- Key risk:** (i) Weaker-than-expected demand in land transportation, (ii) Stronger-than-expected competition, (iii.) Worse-than-expected labour shortage.

	Rating	Fair Value
IPO Price		RM0.700
Kenanga	TRADING BUY	RM1.02
Consensus	N.A.	N.A.

Stock Information

Stock Name	XIN HWA HOLDINGS BERHAD
CAT Code	5267
Industry	Transportation
Industry Sub-sector	Transport-Services
YTD stock price chg	N.A.
Market Cap (RM m)	126.0
Issued shares (m)	180.0
52-week range (Hi)	N.A.
52-week range (Low)	N.A.
3-mth avg daily vol:	N.A.
Free Float	N.A.
Beta	N.A.
Altman's Z-score	N.A.

Major Shareholders

NF Capital	70.0%
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Financials

FYE Dec (RM'm)	2014A	2015E	2016E
Revenue	110.6	120.3	130.4
EBIT	20.3	23.1	26.4
PBT	18.4	21.3	24.8
Net profit (NP)	15.8	17.9	20.8
EPS (sen)	8.8	9.9	11.6
BV/Share (RM)	0.61	0.68	0.77
PER	8.0	7.0	6.0
Price/BV (x)	1.2	1.0	0.9
Net Gearing (x)	0.3	0.4	0.4
NDPS (sen)	-	2.5	3.0

Peers Comparisons	PER (FY14)	Div. Yld (%)	Mkt Cap (RM'm)
TASCO	12.6	2.7	400.0
CENTURY	14.7	5.0	339.8
HARBOUR	14.7	0.9	489.6
Average	14.0	2.9	-
XINHWA	8.0	-	126.0
FBMKLCI	16.7	3.3	685.1b

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CORPORATE STRUCTURE



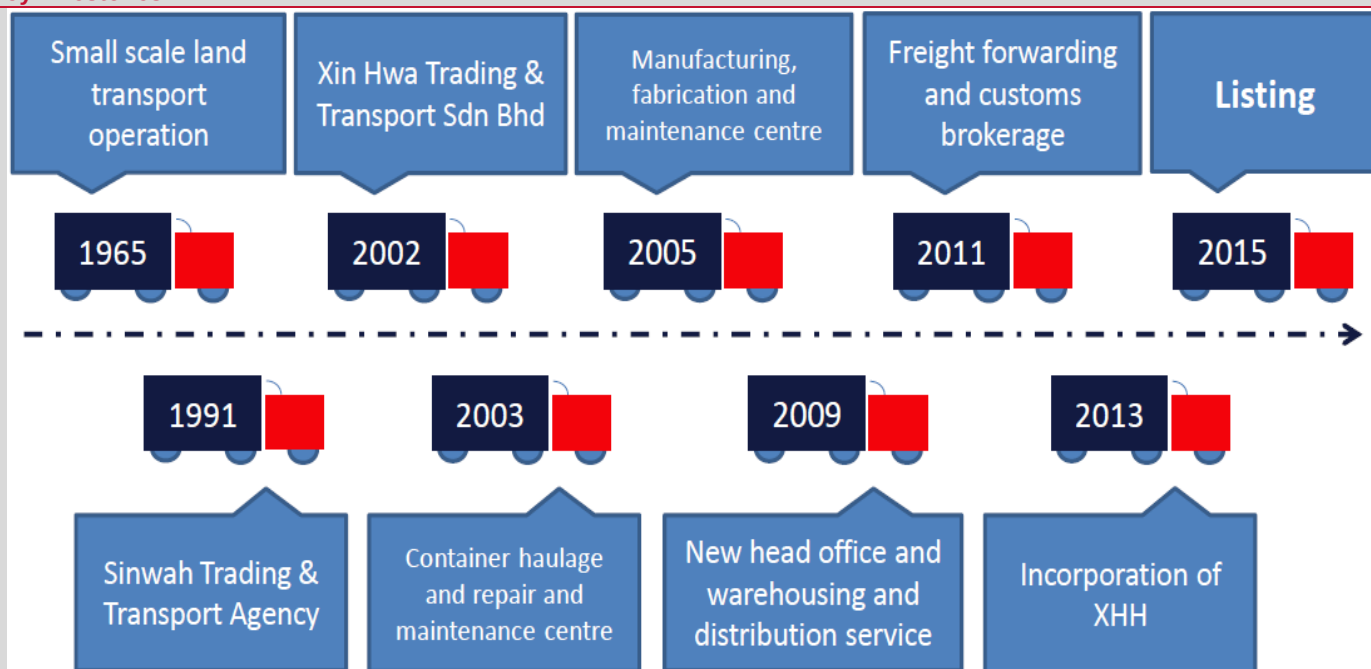
BUSINESS OVERVIEW

- XINHWA was incorporated in Malaysia under the Companies Act, 1965, on 18 January 2013 as a private limited company under the name of Xin Hwa Holdings Sdn Bhd and was subsequently converted to a public limited company on 26 June 2013.
- Through its subsidiaries, the Group is involved in land transport operations, warehousing and distribution operations and other services incorporating freight forwarding and customs brokerage services as well as manufacturing and fabrication of trailers.
- Currently, the Group has a head office, 3 branch offices, 4 site offices, over 800 employees, more than 1,000 vehicles and 2 warehouses to support its business operations.

BUSINESS SEGMENTS

- Land Transport Operations - Provides cargo transportation services and container haulage services
- Warehousing and Distribution Operations - Provides warehousing and distributions services.
- Provision of Other Services - Provides other services including freight forwarding, customs brokerage services and manufacturing and fabrication of trailers.

Key Milestones



Source: Prospectus

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Indicative Timeline

Events	Tentative dates
Opening date of application	10am, 11 June 2015
Closing date of application	5pm, 17 June 2015
Balloting	22 June 2015
Despatch of notices of allotment to successful applicants	26 June 2015
Listing on the Main Market	30 June 2015

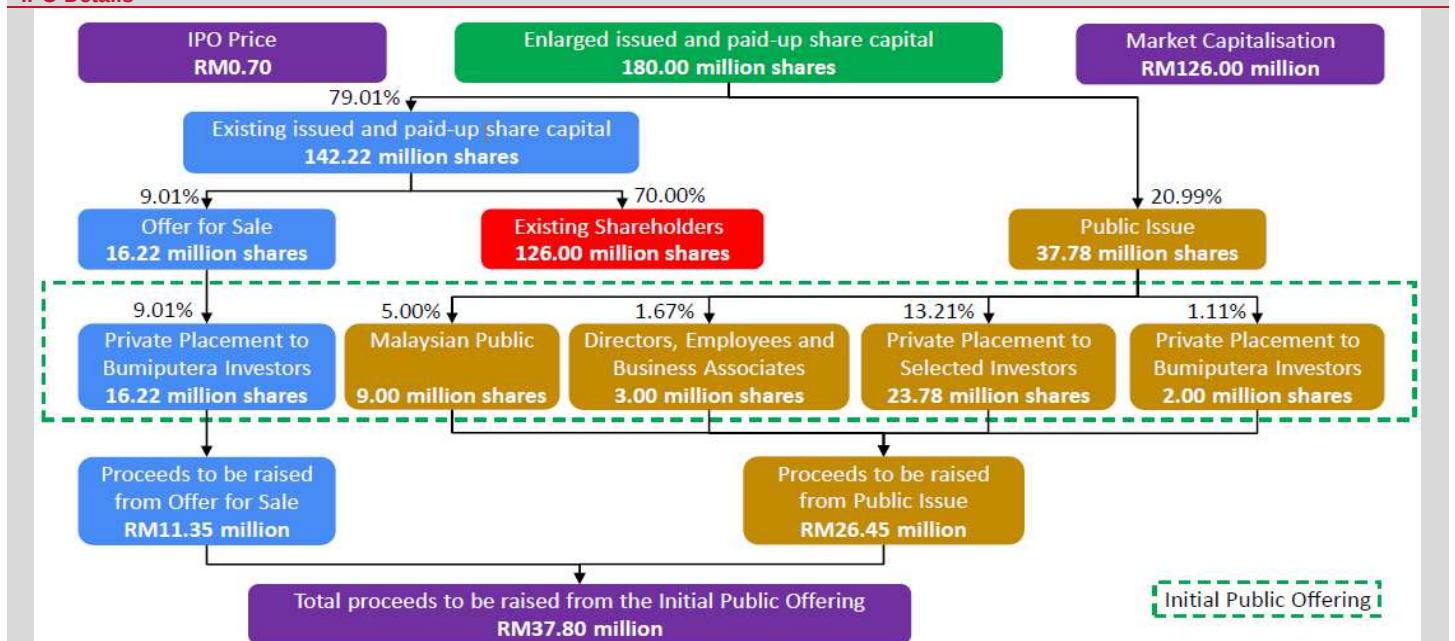
Source: Prospectus, Kenanga Research

Utilisation of Proceeds

Details	Amount of proceeds	
	RM'm	%
Business Expansion		
- Construction of new warehouse	4.8	18.0%
- Expansion of fleet of vehicles	11.4	42.9%
Repayment of bank borrowings	3.8	14.2%
Working capital	3.1	11.6%
Estimated listing expenses	3.5	13.3%
Total	26.4	100.0%

Source: Prospectus, Kenanga Research

IPO Details



Source: Prospectus

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