PP16795/03/2013(031743)

Xin Hwa Holdings

BUY

An Integrated Logistics Provider

IPO Price: RM0.70
Target Price: (+34.29%) RM0.94

Stock Data

Bloomberg Ticker	XHH MK	Altman Z-score	n.a
Market Cap	126m	YTD price chg	n.a
Issued shares	180m	YTD KLCI chg	-2.9%
52-week range (H)	n.a	Beta	n.a
52-week range (L)	n.a	**Major Shareholders (Pre-IPO)**	
3-mth avg daily volume	n.a	Ng Aik Chuan	30.12%
Free Float	n.a	Ng Yam Pin	29.95%
Shariah Compliant	Y	Ng Peng Lam	39.93%

Share Performance (%)	1mth	3mth	12mth
Absolute	n.a	n.a	n.a
vs. KLCI	n.a	n.a	n.a

Consensus	2015	2016
Net Profit	n.a	n.a
EPS (sen)	n.a	n.a

Historical Price Ratio (x)	FY 2013	FY 2014
Price Earnings	n.a	n.a
Price to Book	n.a	n.a

Financial Highlights

FYE Dec (RMm)	2012	2013	2014	2015E	2016E
Revenue	92.1	98.2	110.2	121.0	137.5
EBITDA	18.5	20.1	24.0	26.0	30.9
Pretax profit	14.5	15.1	17.8	19.3	23.2
Net Profit	**12.2**	**13.5**	**15.4**	**17.0**	**18.6**
EPS (sen)	6.8	7.5	8.6	9.4	10.3
PER (x)	10.3	9.4	8.2	7.4	6.8
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
NTA/share (RM)	0.20	0.36	0.45	0.54	0.65
Margins					
EBIT margin	22.4%	22.9%	24.2%	23.7%	24.8%
Pretax margin	17.5%	17.1%	18.0%	17.6%	18.6%
Effective tax rate	15.5%	10.8%	13.4%	12.0%	20.0%
ROE	34.0%	26.6%	21.2%	19.0%	17.4%
ROA	15.1%	13.7%	11.6%	10.8%	10.7%
Net Gearing (x)	0.57	0.31	0.45	0.32	0.27
Growth ratios					
Turnover	23.4%	6.7%	12.2%	10.8%	14.0%
EBIT	41.9%	8.8%	19.0%	8.5%	19.0%
Pretax profit	83.3%	4.4%	18.2%	8.2%	20.5%
Net profit	110.9%	10.3%	14.7%	9.9%	9.5%

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Xin Hwa Holdings (XHH) is an integrated logistics provider in entailing cargo transportation, container haulage, warehousing & distribution, freight forwarding & custom brokerage and manufacturing & fabrication of trailers. XHH will be listed on Main Market on 30 June 2015 at RM0.70 or a PE of 8x. We have a Buy on XHH with a target price of RM0.94 based on the regional weighted PE of 10x over FY15 EPS.

Key drivers. The land transport services have been the main contribution to XHH's revenue accounting for around 90% for the past 4 years. Currently, XHH owns 225 Prime Movers and 497 Trailers. With fleet expansion planned post IPO, XHH will be able to cater for more internal port haulage transportation services and transport activities between Malaysia and Singapore.

Competitive Advantage. XHH is the only logistic company that manufactures and fabrication of trailers primarily sold within the group whilst sales to third parties are dependent on demand and availability of capacity. This segment helped reduce XHH cost in purchasing new trailers and reduce depreciation charges.

Investment Tax Allowance. As an integrated logistics provider, MIDA has granted XHH a tax allowance for 5 years from 18 March 2011 and will expire on 17 March 2016. Upon the expiry of the tax allowance, XHH tax rate is expected at 25% from around 10%-15% for FY12 to FY14, hence we expect net profit growth may be limited to single digit growth.

Forecasts and recommendation. We forecast net earnings of RM17.0m and RM18.6m for FY15 and FY16 respectively on the back of a RM11.36m capex for fleet expansion. We have derived our TP of RM0.94 based on regional PER of 10x over FY15 EPS, which represents an 34.29% upside to the IPO price of RM0.70. **BUY**.

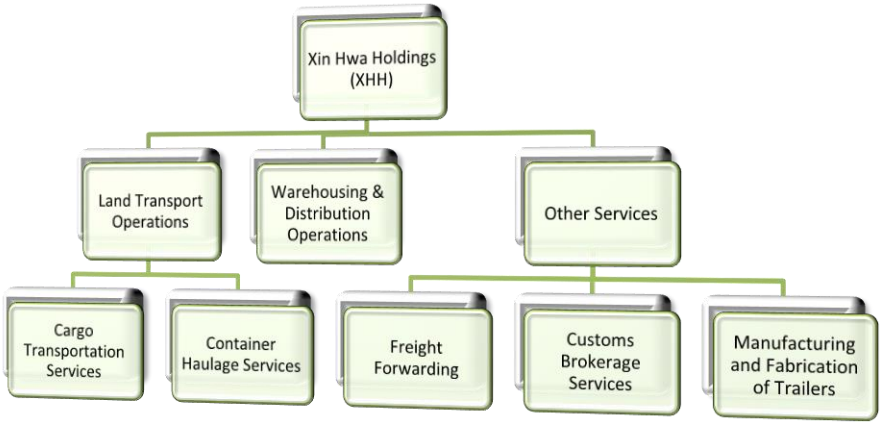
Utilisation of proceeds

Purpose	Amount (RM 'm)
2 Years Business Expansion	14.86
Fleets Expansion	11.36
New Warehouse	4.75
Borrowing Repayment	3.75
Working Capital	3.08
TOTAL	37.80

BACKGROUND

Overview. Xin Hwa Holdings (XHH) is an integrated logistics provider in which includes cargo transportation, container haulage, warehousing & distribution, freight forwarding & custom brokerage and manufacturing & fabrication of trailers.

Business Activities

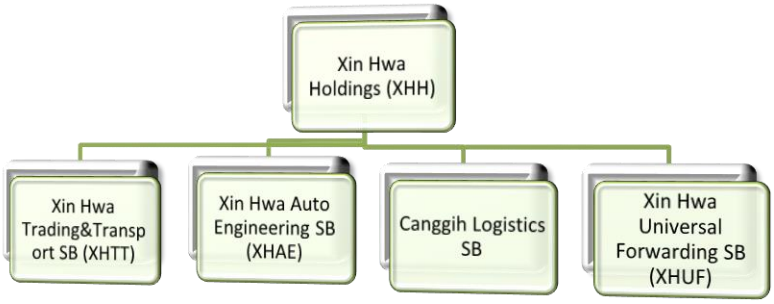


Source : IPO Company / BIMB Securities

Land Transport. Land transport operations are XHH main source of revenue, contributing RM99.2m or 90.1% of XHH's total revenue for FY2014. Currently, XHH owns 225 Prime Movers and 497 Trailers. Its services are mainly carried out throughout Peninsular Malaysia, in which are centralised within the state of Johor Darul Takzim and also involves services between Malaysia and Singapore. XHH also provides internal port haulage transportation services in several major ports, namely, Johor Port, Port of Tanjung Pelepas and Penang Port.

Warehousing and Distribution Services. Warehousing and distribution services are the supporting services of XHH, contributing RM11.0m or 9.9% of XHH's total revenue for FY2014. Currently, XHH owns 2 warehouses with total storage of 245,000 sq.ft. The period of warehousing varies between customers and the warehousing rental rate is charged based on a weekly or monthly basis and is dependent on distance and quantity of deliveries.

Companies Within Group



Source : IPO Company / BIMB Securities

Xin Hwa Trading and Transport SB. XHH wholly-owned subsidiary, XHTT involves in the provision of land transportation services and warehousing and distribution services. It is the major contributor to the group's revenue amounting RM110.2m or 99.60% for FY2014 and has been on an increasing trend since FY2011 due to the increase in demand for cargo transportation and warehousing services which was marginally offset by a reduction in revenue generated by container haulage services amidst decrease in port activities.

Xin Hwa Auto Engineering SB. XHH wholly-owned subsidiary, XHAE is into the manufacturing and fabrication of trailers which primarily are sold to XHTT as sales to third parties are dependent on demand and availability of capacity. XHAE contributed RM1.68m or 1.52% of the group's revenue for FY2014, however, *the revenue generated will be eliminated as inter-company transactions for consolidation purposes.*

Canggih Logistics SB. XHH wholly-owned subsidiary, Canggih provides complementary services involving the rental of vehicles to XHTT. The revenue contribution from Canggih has remained relatively constant from FY2011 to FY2014 hovering at around RM0.5m or 0.48% of the group's revenue in the absence of fluctuation in the rental rates and number of vehicles rented from Canggih to XHTT, however, *the revenue generated will be eliminated as inter-company transactions for consolidation purposes.*

Xin Hwa Universal Forwarding SB. XHUF provides freight forwarding and customs brokerage activities services. The revenue contribution from XHUF has remained relatively constant from FY2011 to FY2014 hovering around RM0.6m or 0.54% of the group's revenue as there was no fluctuation in the numbers of customers requiring freight forwarding and customs brokerage services however, *the revenue generated will be eliminated as inter-company transactions for consolidation purposes.*

Substantial Shareholding Before and After IPO

Name	Before IPO		After IPO	
	No.of Share	%	No.of Shares	%
Ng Aik Chuan	42,832,000	30.12	37,947,602	21.08
Ng Yam Pin	42,594,000	29.95	37,736,742	20.97
Ng Peng Lam	56,791,998	39.93	50,315,654	27.95

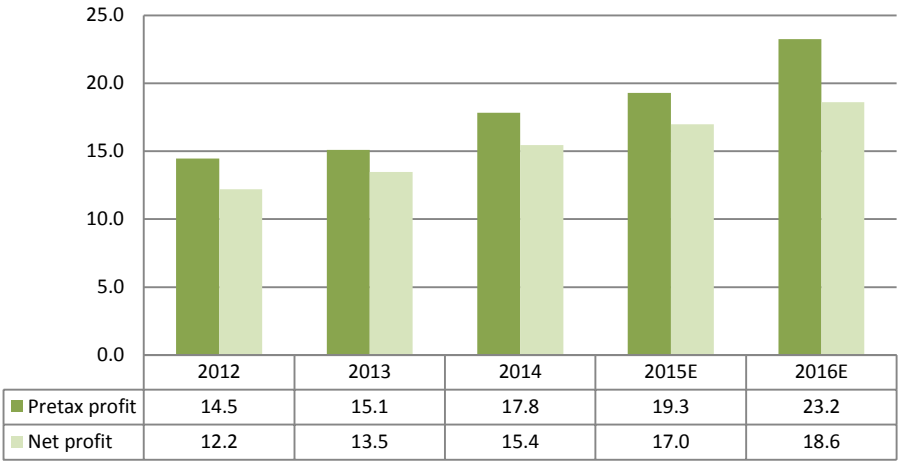
Source : IPO Company / BIMB Securities

FINANCIAL OUTLOOK AND RECOMMENDATION

Road Transport Market Trend. Road Transport market within the Logistics Industry in Malaysia grew by 4.3% to reach RM29.93bn in 2014 as the expanding local economy has helped drive up demand. Moving forward, the market size of the road transport market in Malaysia is expected to expand to RM37.33bn in 2019 and register a CAGR of 4.5%.

Reasonable growth in FY15 and FY16. The land transport services had been the mainstay to revenue accounting for around 90% over the past 4 years. Based on the current market trend, demand for land transportation is to remain solid and coupled with RM11.36m for the fleet expansion, we have estimated net profit to grow by 9.9% for FY15 and 9.5% for FY16.

Net Profit and Pre-tax Profit (RM'm)



Source : IPO Company / BIMB Securities

Balance Sheet. We expect balance sheet to be manageable with net gearing post IPO reduced from 0.45x for FY14 to 0.32x for FY15 as RM3.75m from IPO proceeds will be used for borrowing repayment.

Investment Tax Allowance. As an integrated logistics provider, MIDA granted XHH a tax allowance of 60% on the qualifying capital expenditure incurred within 5 years from 18 March 2011 until 17 March 2016. Upon the expiry of the tax allowance, XHH tax rate is expected at 25% from around 10%-15% for FY12 to FY14, hence we expect net profit growth may be limited to single digit growth.

Dividend policy. XHH have no specific dividend policy. Dividend will take into account various factors such as expected results of operations, projected CAPEX and other investment plans. We expect there will be no dividend for FY15 and FY16.

View & Valuation. We initiate our IPO Note of XHH with a fair value of RM0.94 based on the weighted average regional PER of 10x over FY15 EPS for companies with similar market capitalization. **BUY**.

Regional Sector PER

Company	Market Cap (USDm)	Price (USD)	5 Years Average PER	Weight	Weighted 5 Years Average PER
Tasco	106.2	1.06	7.14	24.86%	1.8
Kiattana Transport	104.7	0.04	16.80	24.52%	4.1
Samudera Indon	96.0	0.59	8.40	22.48%	1.9
Century Logistics	92.6	0.25	10.93	21.70%	2.4
Tancang Logistics	27.5	1.31	5.32	6.45%	0.3
Total				**100.00%**	**10.00**

Source : Bloomberg/ BIMB Securities

Earnings Estimate

FYE 31 December (RMm)	2012	2013	2014	2015E	2016E
Revenue	92.1	98.2	110.2	121.0	137.5
EBITDA	18.5	20.1	24.0	26.0	30.9
Pretax profit	**14.5**	**15.1**	**17.8**	**19.3**	**23.2**
Tax	(2.2)	(1.6)	(2.4)	(2.3)	(4.6)
Net profit	**12.2**	**13.5**	**15.4**	**17.0**	**18.6**
EPS (sen)	6.8	7.5	8.6	9.4	10.3
EPS growth (%)	110.9%	10.3%	14.7%	9.9%	9.5%
DPS (sen)	0.0	0.0	0.0	0.0	0.0
NTA/ share (RM)	0.20	0.36	0.45	0.54	0.65
Net gearing (x)	0.57	0.31	0.45	0.32	0.27
PER (x)	10.3	9.4	8.2	7.4	6.8
Div. yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
P/ NTA (x)	3.5	1.9	1.6	1.3	1.1
ROE (%)	34.0%	26.6%	21.2%	19.0%	17.4%
ROA (%)	15.1%	13.7%	11.6%	10.8%	10.7%

Source : Bloomberg/ BIMB Securities

Balance Sheets

FYE 31 December (RMm)	2012	2013	2014	2015E	2016E
Non Current Assets	55.2	83.2	112.3	128.5	147.0
Current Assets	25.7	32.5	37.9	35.5	37.3
Total Assets	**80.9**	**115.7**	**150.2**	**164.0**	**184.3**
Current Liabilities	25.1	29.6	30.6	27.5	29.2
Non Current Liabilities	19.9	20.9	38.9	38.9	38.9
Shareholders' Fund	35.9	65.2	80.7	97.6	116.2
Equity & Liabilities	**80.9**	**115.7**	**150.2**	**164.0**	**184.3**

Source : Bloomberg/ BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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