Outsourcing trend drives growth at Century Logistics

BY **JOYCE GOH**

The logistics industry is fragmented and challenging, says Century Logistics Holdings Bhd's managing director Steven Teow. But, he adds, "I think we have got the formula right for ourselves".

The integrated solutions provider has "re-engineered" itself and now specialises in three core services — integrated logistics, oil logistics and procurement logistics, he tells *The Edge*.

"We also have a fourth engine of growth, which is a new business for us — data management solutions services, in which we help clients store files physically and electronically."

The bread and butter of Century Logistics (fundamental: 2.6; valuation: 2.4) — the integrated logistics business that provides total logistics solutions to its clients — accounted for 72% of the group's revenue and 58% of operating profit in 2014.

The oil logistics segment accounted for 18% of revenue and 31% of operating profit for 2014 while procurement logistics accounted for 10% of revenue and 11% of operating profit.

The group provides total logistics solutions, starting with the procurement of raw materials, port and customs clearance, international freight forwarding and assembly to inventory management and distribution.

"We add value to our customers' businesses by improving their efficiency through the provision of cost-savings measures," says its chief financial officer and director Edwin Yeap.

"Research by Frost and Sullivan shows that in Malaysia today, only 10% of consignment shippers and manufacturers outsource their logistics on a contract basis to a logistics provider like us, whereas in Scandinavia, it is as high as 40%," he observes.

PICTURES BY MOH IZWAN MOH NAZAM/THE EDGE

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"So, we believe there is a lot of growth in contract logistics, whereby the customer outsources completely its logistics needs to a service provider like us."

An analyst with Kenanga Research says global logistics companies will end up being clients of local players.

"The foreign players don't want to overload themselves with assets and are more in the courier game ... they rent space from local guys such as Century Logistics. Meanwhile, to ride this demand, Century Logistics has to maintain these warehouses and increase volume," he adds.

In a May 18 report, Kenanga notes that the demand for warehousing space is increasing. With industrial land in the Klang Valley getting more expensive, more and more manufacturers have outsourced their logistics functions.

"We understand that a growing number of MNCs are receiving global mandates to outsource their logistics services. In addition to costs savings and better specialised services, outsourcing also allows manufacturers or companies to focus on the core operation of their businesses," it says.

Century Logistics' key customers include F&N, Celcom Axiata, LG, Singer and Haier.

Yields above industry average, PER below

At its close of 90.5 sen last Thursday, Century Logistics was trading at nine times price-earnings ratio (PER) and had a dividend yield of 5.19%.

"The stock is undervalued and the company is in a resilient business. It is trading lower than the industry's PER of 12 times and higher than the industry's average dividend yield of 2.9%," says an analyst covering the stock.

Century Logistics' net asset value stood at 76 sen per share as at March 31,.

On May 18, Kenanga issued a "trading buy" call on Century Logistics with a fair value of RM1.19, based on 12.5 times FY2016E PER -- a 35% discount from the overall average derived from global logistics companies.

"On top of that, we are projecting DPS of 5.5 sen and 5.0 sen, respectively, for FY15 and FY16, which translate into a yield of 6.4% and 5.8%," says Kenanga.

Century Logistics' appeal lies in the expectation of solid earnings growth, averaging 19% per annum over the next two years, ability to secure new contracts underpinned by its track record with established clientele and decent dividend yield projections, the research house adds.

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Group to build RM90 million multi-level warehouse in Klang

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According to Teow, Century Logistics is trying to achieve its RM500 million turnover target within the next two to three years, and is targeting RM300 million this year. The group, he adds, is also looking at expanding its warehouse capacity to five million sq ft.

The group currently manages two million sq ft of warehouse space, 1.5 million sq ft of which it owns.

Cash call not needed for current expansion plans

In anticipation of rising demand for warehouse space, Century Logistics will invest RM90 million in building a new multilevel facility on an eight-acre parcel at Eastern Gate Way Industrial Hub in Klang. Scheduled to be completed in 2017, the new building will expand the group's warehousing space by 450,000 to 600,000 sq ft.

Asked if the group plans to make a cash call for the undertaking, Yeap says there is no need for it. "Our current net gearing is below 0.1 times and we do not expect it to exceed 0.4 times with the borrowings for the new multi-storey warehouse. Our cost of borrowings is below 5% per annum."

According to Teow, "We are in advanced talks to secure a 10-acre piece of land in Pelabuhan Tanjung Pelepas (PTP) in Johor. This is part of plans to expand our capacity. We currently have four facilities in PTP and they are all at full capacity. We expect demand for warehousing to increase and there is also the spillover from Singapore.

"For this new piece of land, we target it to be purpose-built and we want it to be used for long term contracts — five years plus five years."

The group's oil logistics business had suffered a setback due to the termination of operations at Pasir Gudang port in Johor at the end of 2011.

However, Century Logistics managed to salvage this business and now has three floating storage units (FSU) in PTP in Johor. The FSUs are used for the blending, storage and offloading of oil.

"The drop in oil prices does not affect our business by much as we only offer the service to oil providers; we do not take a position on the oil price," says Yeap, adding that another FSU will be coming on stream this year.

As for its procurement logistics segment, Teow says Century Logistics had to reinvent itself and keep up with the changing landscape.

"We shifted from OEM to procurement, assembly and repackaging services. There is potential in this business, [and] we need to work with the right partners for it. For example, we used to assemble television sets for Syria — it was a good business model — but we had to stop because of the sanctions. We are now studying potential new countries to replicate that model," he says.

Century Logistics also found a new client— global electronics player Philips— at the end of last year for the procurement logistics business, Teow says. This helped strengthen the group's bottom line in the first quarter ended March 31, 2015 (1Q2015).

Century Logistics saw its 1Q2015 net profit rise 25% year-on-year to RM7.8 million. For the financial year ended Dec 31, 2014, its net profit expanded 48% to RM33.3 million.

Teow has an 11.8% stake in Century Logistics while his uncle Datuk Phua Sin Mo, who is the group's chairman, has 26.7%.

Asked if he would consider being bought out, Teow replies: "Everything has a price, but just to note, I am in this for the long term." ■

Note: The Edge Research's fundamental score reflects a company's profitability and balance sheet strength, calculated based on historical numbers. The valuation score determines if a stock is attractively valued or not, also based on historical numbers. A score of 3 suggests strong fundamentals and attractive valuations. Visit www.theedgemarkets.com for more details on a company's financial dashboard.