## Outsourcing trend drives growth at Century Logistics

BY JOYCE GOH

he 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.

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 shippers and manufacturers outsource their With industrial land in the Klang Valley getting er than the industry's average dividend yield

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logistics on a contract basis to a logistics provider like us, whereas in Scandinavia, it is as high as 40%," he observes.

The oil logistics segment accounted for 18% 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 Malaysia today, only 10% of consignment demand for warehousing space is increasing.

more expensive, more and more manufacturers have outsourced their logistics functions.

We understand that a growing number of "So, we believe there is a lot of growth in 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 compa-In a May 18 report, Kenanga notes that the uny is in a resilient business. It is trading lower than the industry's PER of 12 times and high-

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

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 a new multilevel facility on an eightacre parcel at Eastern Gate Way In- Syria — it was a good business moddustrial Hub in Klang. Scheduled to be el — but we had to stop because of completed in 2017, the new building the sanctions. We are now studying ing space by 450,000 to 600,000 sq ft. that model," he says.

Asked if the group plans to make a cash call for the undertaking, Yeap new client—global electronics player says there is no need for it. "Our cur- Philips— at the end of last year for rent net gearing is below 0.1 times the procurement logistics business, and we do not expect it to exceed Teow says. This helped strengthen 0.4 times with the borrowings for the group's bottom line in the first the new multi-storey warehouse. quarter ended March 31,2015 (1Q2015). Our cost of borrowings is below 5% per annum."

According to Teow, "We are in advanced talks to secure a 10-acre piece ended Dec 31, 2014, its net profit exof land in Pelabuhan Tanjung Pelepas panded 48% to RM33.3 million. (PTP) in Johor. This is part of plans are all at full capacity. We expect de- has 26.7%. mand for warehousing to increase

"For this new piece of land, we this for the long term." 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 a company's financial dashboard.

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 will invest RM90 million in building right partners for it. For example, we used to assemble television sets for will expand the group's warehous- potential new countries to replicate

Century Logistics also found a

Century Logistics saw its 1Q2015 net profit rise 25% year-on-year to RM7.8 million. For the financial year

Teow has an 11.8% stake in Century to expand our capacity. We currently Logistics while his uncle Datuk Phua have four facilities in PTP and they Sin Mo, who is the group's chairman,

Asked if he would consider being and there is also the spillover from bought out, Teow replies: "Everything has a price, but just to note, I am in

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