

# KERRY LOG NET (636.HK)

## Regional Leading Property Enterprise Grows against Trend

### Hong Kong | Real Estate | Company report

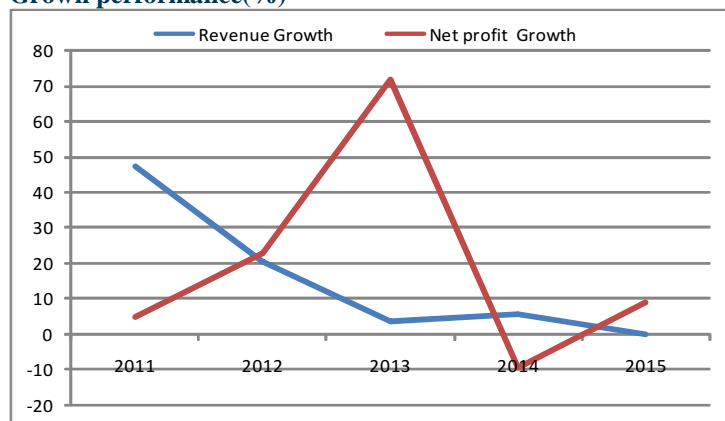
18 MAY 2016

#### Business Overview:

Kerry Logistics is a third-party logistics provider based in Asia. It manages a logistics facility portfolio of 45 million square feet in twelve Asian countries and regions, of which 24 million square feet are self-owned. Among the facilities managed by the Company, approximately 64% are located in the Great China Region, approximately 28% in ASEAN countries, and the remaining 8% are mainly located in South Asia, Australia and Europe. The main business activities of the Company are asset-heavy integrated logistics comprising logistics operations and Hong Kong warehousing business, as well as international freight forwarding operating under an asset-light strategy.

Turnover of the Company was maintained at HK\$21,079 million in 2015, profit attributable to the shareholders recorded a 9% growth to HK\$1,805 million, and gross profit rose by 8.96% year-on-year to HK\$3,421 million. Earnings per share were HK\$1.07, with total dividend paid of 16 HK cents for the year. The improvement in profit was due mainly to the Company's focus placed on strengthening service and profitability, as well as on its efforts made in cost control.

#### Grown performance(%)



Source: Bloomberg, Phillip Securities (HK) Research

#### No Rating

CMP: HKD 10.78

(Closing price as at 16 May2016)

TARGET: HKD -

#### COMPANY DATA

O/S SHARES (MN) :	1,694.72
MARKET CAP (HKDMN) :	18,269.1
52 - WK HI/LO (HKD):	12.72/9.44

#### SHARE HOLDING PATTERN , %

Kerry Properties Limited	42.39
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#### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Peak Sport	-3.67	-1.69	-14.36
HSI	3.92	-9.33	13.38

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

RMB mn	FY12	FY13	FY14	FY15
Revenue	19,295	19,969	21,115	21,079
Net Profit	1,069	1,834	1,658	1,804

P/E,x	-	9.94	10.99	10.11
EPS, HKD	-	1.40	0.98	1.06
P/B, x	-	1.4	1.2	1.2
BVPS, HKD	-	0.82	0.66	1.01
ROE, %	-	7.62%	6.35%	6.56%

Source: Company reports, Phillip Securities Est.

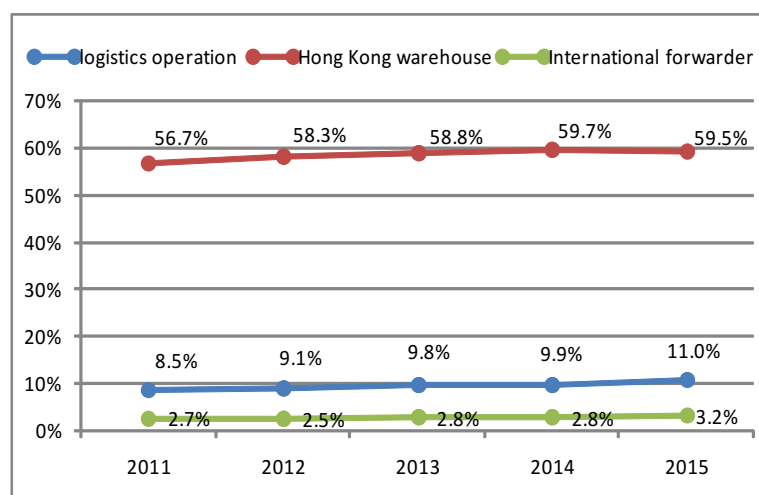
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Logistics operations and Hong Kong warehousing business made substantial contributions to the performance of the Company. In 2015, logistics operations accounted for 47.5% in terms of turnover, contributing 56.3% of the profit of the Company. Profit margin rose to 11%, which was largely attributed to the expansion of the Company's integrated logistics business in Greater China and ASEAN countries. Hong Kong warehousing business accounted for 2.6% in terms of turnover, contributing 25.6% of the profit of the Company. Profit margin was maintained at 59.5%, while its occupancy was nearly full, with the renewed lease rent within the year growing at a double-digit rate. It is predicted that the business will maintain steady growth. The percentage of turnover of the international freight forwarding business reached 50.8%, with a profit contribution percentage of 18.1%. Though there was a slight decrease in the turnover due to economic imbalances in the eurozone, net profit of the international freight forwarding business still recorded a 7% growth.

### Net profit margin(%)



Source: Bloomberg, Phillip Securities (HK) Research

### Industry Conditions and Prospects:

The third-party logistics market is dependent on the global economic environment and international trade flows. Affected by the economic downturn, third-party logistics business in the European, American and other developed markets is experiencing slow growth, while the Asia-Pacific region witnesses rapid growth with low market penetration rate, so there is great room for future growth.

The new round of domestic measures to stabilize foreign trade growth will provide new support for the development of cross-border e-commerce business. Kerry Logistics plans to grow in tandem with the increasing scope and scale of the e-commerce trade. E-commerce will remain an important growth factor for the Company in the coming years. Additionally, benefiting from the strategy of "One Belt One Road", the Company is expected to achieve new growth in intra-Asian trade, trade between Asia and Europe, as well as trade between Asia and Africa.

### Investment Value:

As an integrated third-party logistics enterprise with the ability to manage international transportation and provide value-added warehousing and distribution services, Kerry Logistics will be devoted to growing organically and through selective mergers and acquisitions. In the future, the Company will further expand its market

shares in the Great China region and ASEAN countries, and increase its international freight forwarding capabilities through acquisition. Moreover, the Company will expand its cross-border e-commerce business into other cross-border trade pilot cities and zones, so as to provide integrated cross-border logistics for its partners.

In terms of turnover, net profit and asset scale, the Company ranks first among peer companies listed on the Hong Kong stock market, and average among peer companies of the U.S. stock market. As for profitability, the Company ranks average among peer companies listed on the Hong Kong stock market, and fourth among peer companies listed on the American stock market, with both its ROE and ROA higher than the median value. In addition, the Company has a low assets-to-liabilities ratio and a low total assets turnover ratio, indicating the financial safety and soundness of the company, but the efficiency of its fund use is not high. Currently, the P/E ratio for the Company is 9.9, nearly 50 percent lower than HUB GROUP, and lower than the median value of peer companies listed on the Hong Kong stock market, so the prospect is optimistic. (Closing price as at 16 May2016)

### Peer comparison (CNY'0000)

Rank	Stock Code	Name	Revenue	Net profit	Assets	liabilities	Equity	Net cash flow
1	0636.HK	KERRY LOG NET	1,772,195.2	151,703.3	2,388,687.0	877,029.4	1,511,657.6	(6,860.0)
2	3399.HK	YUEYUN TRANS	867,417.9	26,695.4	757,928.9	452,200.9	305,728.1	16,036.5
3	1292.HK	CMA LOGISTICS	608,386.1	23,879.3	419,529.6	236,418.2	183,111.4	(21,954.1)
4	8348.HK	BINHAI TEDA	319,753.4	5,387.2	258,841.3	169,410.9	89,430.3	(8,625.9)
5	6123.HK	ON TIME LOG	271,611.8	4,195.2	72,801.5	32,826.0	39,975.5	(57.0)
6	1803.HK	ASR LOGISTICS	43,170.6	(3,414.3)	20,776.1	11,414.0	9,362.1	(14,937.5)
HK Stocks Median			319,753.4	5,387.2	258,841.3	169,410.9	89,430.3	(6,860.0)
1	UPS.N	ited Parcel Serv	38,031,594.3	3,156,538.3	24,964,933.4	23,341,701.2	1,623,232.2	286,069.4
2	CHRW.O	CH Robinson	8,781,539.0	332,139.6	2,075,051.2	1,325,373.3	749,677.8	25,602.2
3	EXPD.O	itors Internati	4,311,654.0	297,944.2	1,682,816.8	578,500.2	1,104,316.6	(77,747.7)
0636.HK KERRY LOG NET			1,772,195.2	151,703.3	2,388,687.0	877,029.4	1,511,657.6	(6,860.0)
4	HUBG.O	HUB GROUP	2,297,414.4	46,233.1	847,877.2	425,719.5	422,157.7	63,847.6
5	AAWW.O	ATLAS AIR	1,187,715.3	4,747.8	2,713,686.5	1,766,084.5	947,602.0	82,985.6
6	XPO.N	XPO	4,967,572.8	(124,854.0)	8,238,799.5	6,468,231.7	1,770,567.7	(230,875.6)
US Stocks Median			2,297,414.4	36,214.8	1,682,816.8	578,500.2	749,677.8	15,626.4

Source: Wind, Phillip Securities (HK) Research

### Peer comparison (CNY'0000)

Rank	Stock Code	Name	ROE (%)	ROA (%)	Gross profit margin (%)	Operating profit margin (%)	Debt ratio (%)	Asset turnover (%)	PE (%)	PB (%)	Mkt Cap
1	3399.HK	YUEYUN TRANS	15.05	8.42	14.36	5.24	59.66	1.21	10.8	1.5	289,152.7
2	1292.HK	CMA LOGISTICS	14.68	8.79	9.86	4.87	56.35	1.57	4.1	0.6	97,419.1
3	0636.HK	KERRY LOG NET	11.99	9.75	16.23	8.07	36.72	0.77	9.9	1.2	1,496,021.7
4	6123.HK	ON TIME LOG	11.56	7.81	16.15	2.15	45.09	3.62	11.6	1.3	48,587.4
5	8348.HK	BINHAI TEDA	6.72	3.09	3.16	1.45	65.45	1.27	9.4	0.6	50,639.1
HK Stocks Median			11.56	7.81	13.92	4.87	54.94	1.52	10.4	1.2	57,880.0
1	UPS.N	United Parcel	210.11	20.83	—	13.14	93.50	1.58	18.0	36.2	57,970,727.2
2	CHRW.O	CH Robinson	46.39	26.83	16.83	6.37	63.87	4.21	19.8	8.7	6,735,641.7
3	EXPD.O	Expeditors Inte	25.68	26.92	—	10.9	34.38	2.42	19.3	4.9	5,636,406.9
0636.HK KERRY LOG NET			11.99	9.75	16.23	8.07	36.72	0.77	9.9	1.5	1,496,021.7
4	HUBG.O	HUB GROUP	11.36	9.11	11.71	3.32	50.21	2.81	18.7	2.1	866,907.6
5	AAWW.O	ATLAS AIR	0.51	1.60	52.64	6.86	65.08	0.44	15.7	0.8	544,823.0
6	XPO.N	XPO	-8.76	-0.85	14.23	-0.38	78.51	0.99	—	1.1	1,866,144.5
US Stocks Median			11.42	9.11	19.19	6.86	63.87	1.58	20.3	2.4	1,366,526.0

Source: Wind, Phillip Securities (HK) Research

## Risk Warnings

The global macro-economy is unstable;

China's economy slows down;

European economy is imbalanced;

Exchange rates of Asian countries fluctuate;

## Financials

FYE	FY11	FY12	FY13	FY14	FY15
<b>Valuation Ratios</b>					
Price Earnings(P/E)	-	-	9.9	11.0	10.1
Price to Book(P/B)	-	-	1.4	1.2	1.2
<b>Per share data(HKD)</b>					
EPS,Adjusted	-	-	1.40	0.98	1.06
Book Value Per Share	-	-	0.82	0.66	1.01
Dividends Per Share	-	-	0.11	0.14	0.16
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	47.4%	20.3%	3.5%	5.7%	-0.2%
Operating income	29.2%	23.5%	52.0%	-3.3%	10.7%
Net profit	14.7%	20.6%	58.0%	-8.1%	9.2%
<b>Margins</b>					
Gross profit margin	15.2%	14.0%	14.4%	14.9%	16.2%
Operating profit margin	8.0%	8.2%	12.1%	11.0%	12.2%
Net income margin	7.0%	7.0%	10.7%	9.3%	10.2%
<b>Key Ratios</b>					
ROE(%)	-	-	13.66%	11.31%	11.69%
ROA(%)	-	-	7.62%	6.35%	6.56%
<b>Income Statement(HKD mn)</b>					
<b>Revenue</b>	16,034	19,295	19,969	21,115	21,079
- Cost of Goods Sold	13,603	16,601	17,091	17,976	17,659
<b>Gross Income</b>	2,431	2,693	2,878	3,139	3,421
- Operating Expenses	1,167	1,145	879	903	982
<b>Operating Income</b>	1,268	1,555	2,370	2,296	2,527
- Net Non-Operating Losses (Gains)	-163	-165	-165	-123	-154
<b>Pretax Income</b>	1,375	1,657	2,441	2,317	2,546
- Income Tax Expense	254	305	305	353	401
<b>Net profit</b>	870	1,069	1,834	1,658	1,804

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 16 May 2016)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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