

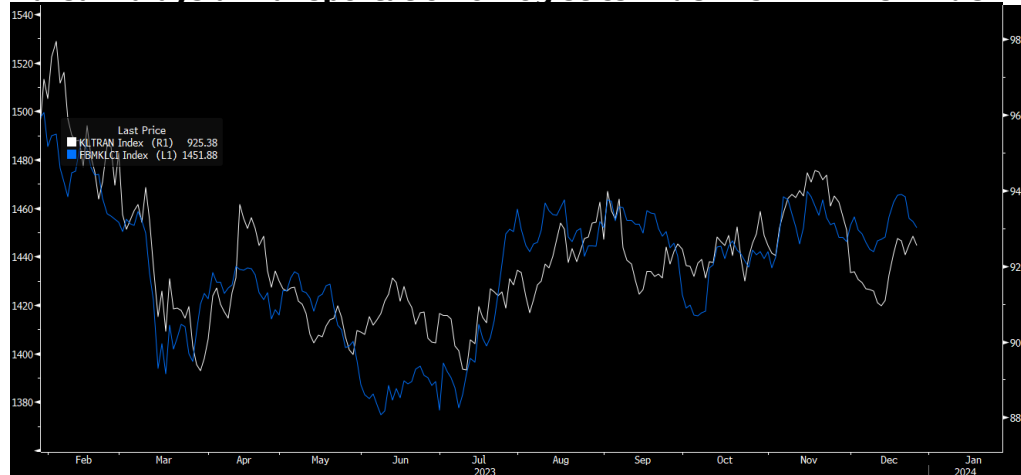
# Transportation & Logistic sector

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## Gradual rebound with attractive valuation

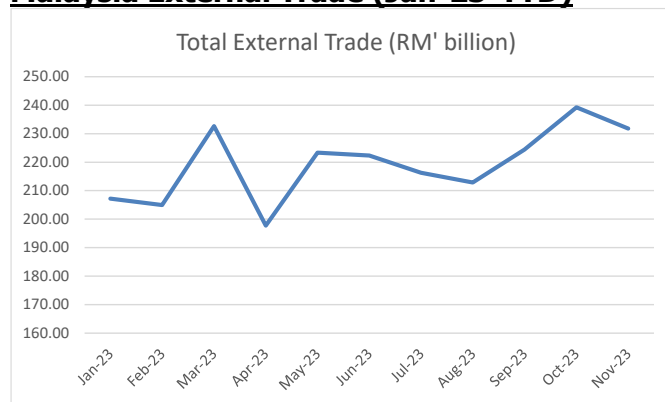
- Review.** The Bursa Transport and Logistic index in 2023 mirrored the overall market, exhibiting relatively flat performance. This aligns with the uncertainties surrounding the global economy and international trade during the period. Although the 2023 figures showed a 6.8% yoy decline due to challenges in international trade, external trade rebounded since August 2023 (figure 2). In August 2023, the ocean freight container index experienced a surge in rates, attributed to the seasonally peak shipping season and the Canadian West Coast dock strike.
- While rates returned to normalise levels in September 2023, it is still approximately 4.0% higher than average 2019 pre-pandemic rates of US\$1,420. Drewry expects East-West spot rates to remain close to current levels in the next few weeks. Air freight rates rebounded since September 2023, reaching 50% above pre-pandemic levels. The increase is attributed to reduction in capacity as certain airlines scaling back passenger flights, coupled with higher-than-expected China's industrial output data. In the latest quarter, domestically-driven logistic players exhibited resilient performance, supported by a firm domestic economy that mitigated the impact of the global economic downturn.

### Bursa Malaysia Transportation & Logistics Index vs FBMKLCI Index



Source: Bloomberg

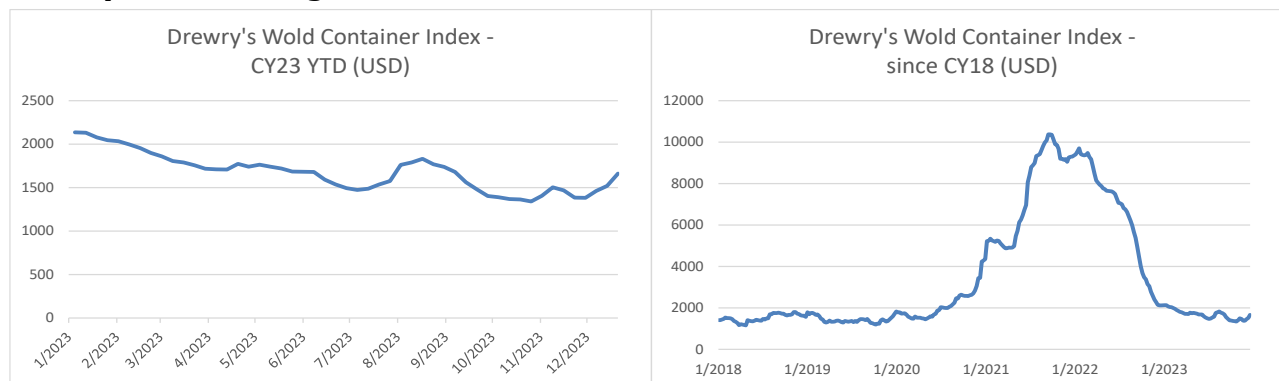
### Malaysia External Trade (Jan-23-YTD)



Surge in Feb and Mar due to seasonality

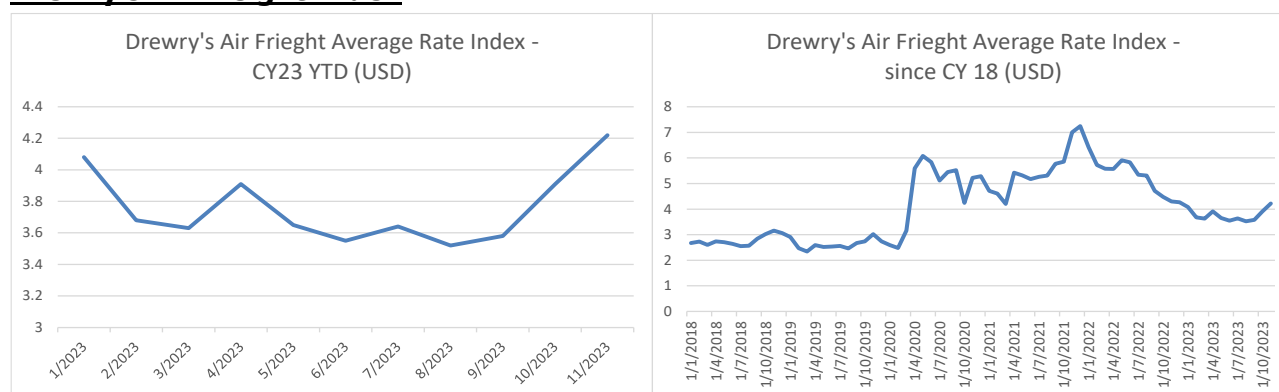
Source: DOSM, Apex Securities

### Drewry's Ocean Freight Index



Source: Bloomberg, Apex Securities

### Drewry's Air Freight Index



Source: Bloomberg, Apex Securities

- Outlook.** The logistics industry is closely tied to the global and Malaysian economies, and it is influenced by economic activity and international trade. Although global economic outlook indicating some weakness, World Trade Organization (WTO) forecasts a pickup in global merchandise trade volumes of +3.2% yoy in 2024. Local logistics players are expected to generally post improved results in 2024F, benefitting from expansions, particularly in warehouse capacity. Cautious optimism is placed on the recovery in the technology sector, manufacturing activities, and the China economy. The sector is anticipated to gain momentum in external trade and demonstrate resilience in the domestic economy. Optimism is particularly directed towards domestically-driven logistics players that are exposed to domestic logistics, warehousing, and cold-chain operations. Optimism is based on the expectation of resilient domestic economic growth.
- However, challenges persist in the logistics sector, primarily related to rising costs of labor, finance, and fuels, as well as declining freight rates. Given the considerable uncertainty surrounding factors such as consumer demand, interest rates, and the global economy, the outlook for volumes is cautious for 1H24, but we hold an optimistic view for a potential rebound in 2H24.
- Valuation & Recommendation.** Transportation & logistics sector is trading at the level of 16.1x PER which is at its historical low and below the mean of 18.2x. We believe the discount is factoring the uncertainties of global economics, rising fuel, labour and finance cost. Our top pick would be **TASCO Bhd (BUY; FV: RM 1.18)** as we favour for its: positive earnings growth underpinned by IBS segment is expected to recover on improved external trade performance and DBS segment is poised for further improvement, supported by firm warehouse and CSC demand, coupled new warehouse expansions. Meanwhile, we like **SWIFT Haulage Bhd (BUY; FV: RM 0.71)** for its: i) attractive risk to

reward ratio that is currently trading at undemanding 7.8x 1Y forward PER, ii) warehouse expansion as growth catalyst and iii) market leader in container haulage with superior profit margin than the industry peers.

- **Key Risk.** Softer-than-expected economic growth projections and an extended normalisation of freight charges may impact margins.
- **Summary.** We opine valuation of the logistics sector is considered attractive at this point, especially at the tail end of the global central bank interest rate hike cycle and expectations of a gradual recovery in the global economy, particularly in China and the semiconductor market. The view is that domestically-driven logistics players will outperform, benefiting from the resilience of the domestic economy and the recovery of external trade. As a result, the recommendation for the logistics sector is upgraded from Neutral to **Overweight**, reflecting the perceived attractiveness of the sector's valuation.

### Bursa Malaysia Transportation & Logistics Index PER



Source: Bloomberg

### Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside
	as at 31Dec23	2022	2023F	2024F			
Tasco Bhd#	0.77	7.00	8.90	7.50	1.18	1.17	52.9%
Swift Haulage Bhd	0.55	9.40	8.00	10.00	0.71	0.71	30.3%
Bintulu Port Holdings Bhd*	5.14	17.28	20.41	19.61	5.62	5.78	12.5%
MSIC Bhd*	7.29	18.38	15.18	14.23	8.07	8.06	10.6%
Westports Holdings Bhd*	3.65	18.52	16.62	15.62	3.93	3.94	7.9%

# Tasco Bhd data based on FYE Mar

\* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg