It's building more warehouse space upwards

Century Logistics on expansion trail

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Teow says the company is planning to build a multi-storey warehouse.

DESPITE the current unpredictable economic situation, supply chain solutions provider Century Logistics Holdings Bhd is quietly confident it will weather the storm as it has been diversifying its earnings base over the years.

In fact, its managing director Steven Teow says it is planning another expansion this year in the form of one of Malaysia's first multi-storey warehouses that will see a further 300,000 to 450,000 sq ft of space being added on.

He describes this as a "new method of logistics" that has arisen due to the growing scarcity of prime industrial land in the Klang Valley. Such warehouses are already a common sight in Singapore and Hong Kong where land is very limited.

"The answer is to look upwards. In fact, all logistics companies should be looking at this method since land is getting more and more expensive," he tells *StarBizWeek*.

Teow says his new warehouse will follow the same construction model as one of the multi-storey warehouses in Singapore, which includes wide ramps for huge trucks to navigate their cargo between the floors.

Century Logistic's new facility, to be located in the Eastern Gateway Industrial Hub in Klang, is also set to be the new company headquarters. Construction of the building is targeted to commence in the middle of this year, with an expected completion date by mid-2017.

Currently, it is headquartered in Port Klang. Shifting it to the vicinity of Setia Alam near Shah Alam should make it easier for the company to recruit more professionals going forward, says Teow.

"This means a better chance of capturing a good talent pool as well as increasing work productivity by spending less commuting time," he says.

Century Logistics also has a practice of renting out some of its facilities to multinational logistics companies, currently Germany's DHL Express and Switzerland's Panalpina, which are two of the world's leading providers of supply chain solutions.

DHL Express and Panalpina are each renting a facility on Century Logistics' Plot D28 in Gelang Patah, Johor, so they can serve as regional distribution centres (RDCs) for the companies.

Teow says 50% of the upcoming multi-storey warehouse will be tenanted out to a multinational corporation.

Acquisition of industrial land

"We are assured of consistent yield when we do straightforward long-term leases (3+2), in combination with our own warehouse management operations," he says.

Century Logistics currently has a combined total of about one million sq ft of warehouse space spread out among its facilities, five of which are located in four sites in Gelang Patah and two in Port Klang.

It announced a proposed acquisition of two parcels of adjoining vacant industrial land for around RM38mil in November for its multi-storey warehouse, which will be paid from its current cash balance.

Finance director Edwin Yeap says an additional RM100mil in capital expenditure will be allocated for the construction, adding that the company can leverage a 20:80 ratio of capital to debt without problem.

Century Logistics posted a net profit of RM16.2mil for the first nine months ended Sept 30, 2014, reflecting an increase of 27.5% over the same period in 2013, with a net asset per share of RM2.13.

As of Sept 30, 2014, the company had a cash balance of RM62.8mil against total borrowings of RM72.5mil.

Although Century Logistics has kept its head under the radar for many years, it has been steadily growing its operations which now come under three core segments – third party logistics, oil and gas (O&G) logistics and procurement logistics.

Yeap says third party logistics continue to be the company's bread and butter, accounting for around 72% of revenue and 52% of operating profit for 2014.

Under this segment, the company handles everything from procurement of raw materials, port and customs clearances, international freight forwarding, inventory management and distribution.

He sees good prospects for growth, noting that around 10% of manufacturers in Malaysia currently outsourced their logistics operations to dedicated logistics solution providers.

"There is a lot of opportunity to shift manufacturers into a contract logistics model with them outsourcing their operations to us," he says.

Under the O&G segment, it provides ship-to-ship (STS) transfer for both fuel and crude oil and services around 50 vessels a month off the Port of Tanjung Pelepas, Johor, via three operating floating storage units (FSUs).

"The STS transfer and procurement logistics provides us the best free cash flow," he says, adding that the company is a certified *halal* logistics provider.

Teow describes its procurement logistics segment as a transformation "from a sunset to a sunrise business", adding that it is vital for logistics companies to diversify their supply chain application if they want to survive.

Following the OEM (original equipment manufacturer) model, he says that the company procures components from China or South Korea, assembles and brands the products for its customers before distributing them.

He says its clients comprise companies such as Philips, LG, Singer, Haier, Khind and Pensonic, with product range including television sets, microwave ovens and refrigerators.

"We are a market leader and our success depends on strategic sourcing of materials. I am proud to share that we have had negligible market return of products for the past 15 years," he says.

Yeap says procurement logistics, under its wholly-owned subsidiary Century Advance Technology Sdn Bhd, accounted for 10%-11% of its operating profit last year.

He says clients choose to outsource the assembly and distribution of their products for various reasons, including having a lack of economy of scale to set up a plant.

Teow sees this segment continuing to grow and has his eye on expanding to Kazakhstan, Indonesia and Africa in order to secure new clients.

He notes that this business line is suitable for expansion as the company will not be required to own any facilities in those countries or continent.

"We are starting to study Indonesia and the Middle East region. There are no concrete plans yet, we are still doing fact-finding," he says.

Teow says the company has recently expanded into document management solutions, both physical and electronic, and expects it to be a substantial profit contributor in the next two to three years.

He adds that it is looking at acquiring a document management services company as it complements its existing services.

Decent dividends

Century Logistics, with a market capitalisation of around RM245.3mil, has been paying out dividends three times a year. According to *Bloomberg* data, the stock currently offers an attractive dividend yield of 8.2%.

Yeap says the company paid out 11 sen per share in 2013 and is looking at distributing around half of its earnings per share for 2014.

He also notes that it had paid out interim dividends before its corporate exercises announced in July last year.

It had announced a corporate exercise to enhance its trading liquidity and the marketability of its shares via a bonus issue, share split and other amendments to facilitate the share split.

"On a pre-enlarged shares basis, we have paid the same amount of dividends for the 2014 interim which has equalled what we paid out for the whole 2013," he says.

However, the company does not have a dividend policy and there are no immediate plans to implement one.

"By setting policies, you are pretty much held to the policy. At the moment, we are paying out something like 50% of our profits. However, we want to continue growing so we will weigh our dividends against our investment needs," he says.

Teow concurs, saying that some cash must be conserved as building expansion required a lot of capex.

Teow shakes his head at a recent news report which speculated that Century Logistics' major shareholders might be selling out their stakes in the company.

The company, whose main shareholders include its chairman Datuk Richard Phua Sin Mo (26.66%) and Teow (11.53%), issued a definitive denial on Bursa Malaysia on Jan 5, describing such speculation as "completely untrue".

He says the report had given them considerable trouble as they were told they were no longer being considered for certain tenders.

Teow points out that he would not have purchased the land in Klang, invested in new technology nor carried out corporate exercises if he planned to sell his stake.

Last November, it also announced a proposal to undertake the establishment of an employees' share option scheme (Esos) of up to 15% of the issued and paid-up share capital for its eligible employees.

"Nobody in the right frame of mind will do an Esos if the person is selling out. Why do I need to give myself more shares if I am selling out? I am also an employee," he points out.

Instead, Teow says the top management is in the midst of energising the group after initial talks with Felda Global Ventures Holdings Bhd (FGV) did not pan out last year.

He says they are "very fired up" as they have done a lot of recruitment, adding that he is also looking at all potential merger and acquisition opportunities that come their way.

Teow says the main challenge this year is the fear of its clients suffering a slowdown due to the sluggish economy, adding that it won't be directly affected.

He expects turnover to come down, adding that it is going all-out to secure more logistics contracts this year to narrow the performance gap in its budget.

Moving forward, he says, it is all continuing to juggle equal contribution from all its segments so it can handle any issues that come its way.

"Remember, the strategy must be about application of the supply chain to manage balanced growth," he says.