

Swift Haulage (SWIFT MK)

On sustainability & expansion drive amid macro challenges

Maintain HOLD; expecting a subdued 3Q23

We maintain our earnings forecasts and MYR0.52 TP for Swift Haulage (Swift), the latter based on FY24E EV/EBITDA of 7.0x, in-line with its peers' 5Y hist. mean. We anticipate 3Q23 earnings to remain subdued due to a challenging macro environment, affecting Swift's logistics rates. Additionally, higher operating costs, due to suboptimal operating scale, has persisted amid ongoing ramp-up efforts for new warehouses. HOLD.

Green logistics division launched

Positively, Swift has been proactively embarking on its sustainable journey amid the economic slowdown. This week (on 16 Oct), it launched its green logistics division, reaffirming its commitment to eco-conscious solutions. Additionally, it has handed over Malaysia's first electric prime mover to Unilever (one of its major customers), marking Swift's first adoption of electric vehicles in its local supply chain. Swift has committed to procure only electric prime movers or trucks from 2030 onwards.

Another warehousing expansion in 3Q23

In 3Q23, Swift signed a MYR4.4b industrial land lease agreement for up to 30 years (with an option to renew) with Terengganu State Economic Development Corporation, as it aims to expand its presence in the East Coast region to better service its key O&G/petrochemical industry clients. We are positive on this move. Nonetheless, this requires additional capex which may further burden its already highly leveraged balance sheet. Returns however, are anticipated to take time to materialise. We have yet to impute this development into our earnings forecasts.

Cautious on execution risks & other challenges

While we acknowledge Swift's commitment to sustainability and expansion, there will be execution risks amid current challenges in the macro front. On the expanded service tax scope to include the logistics sector proposed in Budget 2024 on 13 Oct, Swift is not expected to be impacted, as the service tax will be borne by its customers.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	588	644	668	699	728
EBITDA	141	142	141	148	154
Core net profit	46	46	34	39	43
Core EPS (sen)	7.3	5.1	3.8	4.4	4.9
Core EPS growth (%)	(86.9)	(29.6)	(25.0)	14.5	11.4
Net DPS (sen)	1.8	2.0	1.3	1.5	1.7
Core P/E (x)	13.3	9.4	13.6	11.9	10.7
P/BV (x)	1.0	0.6	0.7	0.7	0.6
Net dividend yield (%)	1.9	4.2	2.5	2.9	3.2
ROAE (%)	10.1	7.6	5.1	5.7	6.1
ROAA (%)	3.5	3.0	2.2	2.4	2.6
EV/EBITDA (x)	11.7	10.0	10.0	9.2	8.6
Net gearing (%) (incl perps)	94.4	94.7	87.5	81.1	74.8
Consensus net profit	-	-	45	51	49
MIBG vs. Consensus (%)	-	-	(23.5)	(22.9)	(10.5)

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HOLD

Share Price	MYR 0.53
12m Price Target	MYR 0.52 (-0%)
Previous Price Target	MYR 0.52

Company Description

Swift Haulage provides transportation services such as container haulage, land transportation, warehousing & container depot and freight forwarding.

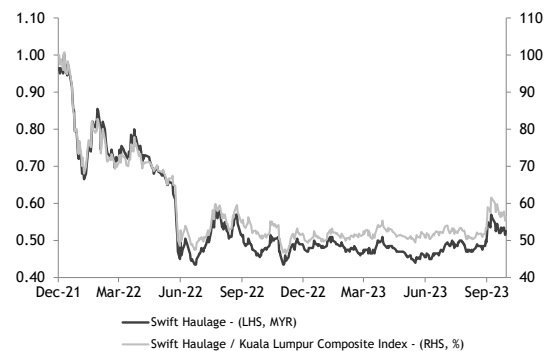
Statistics

52w high/low (MYR)	0.57/0.44
3m avg turnover (USDm)	0.4
Free float (%)	59.5
Issued shares (m)	890
Market capitalisation	MYR467.1M USD98M

Major shareholders:

Persada Bina Sdn. Bhd.	36.6%
Kumpulan Wang Persaraan	9.1%
LOO HOOI KEAT	2.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	11	14
Relative to index (%)	6	7	12

Source: FactSet

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- Swift Haulage has formulated its sustainability strategies by taking into consideration the United Nations Sustainable Development Goals (UNSDG), and has identified 15 material matters to focus on under four pillars, ie. economics, environment, social and governance (EESG).
- Some of the key sustainability risks for Swift Haulage, as an integrated logistics service provider, include exposure to emissions, extreme weather risks (which could disrupt operations), service quality risks, driver's safety and employee's rights, all of which we believe are adequately managed at this point of time. However, explicit targets for ESG factor improvements are lacking.
- The group has recorded an overall customer satisfaction rating of 4.2 in FY21 compared to 4.3 in FY20 (rating 4: likely and rating 5: very likely to continue using Swift's services).

Material E issues

- Swift Haulage's sustainable strategies under the "E" pillar include to control and reduce carbon emission; to achieve energy and resources efficiency; and to practice waste management.
- In FY21, the group recorded carbon emissions of 116,648 tCO₂e (+12% YoY), due to increase in kilometres travelled (by +7%) as more prime movers were deployed.
- The company generated 116 tonnes of hazardous waste in FY21. There was a hazardous waste spillage incident in September 2021; however, no monetary fine was imposed.
- On 15 Aug 2022, the group entered into an MoU with Volvo Malaysia to promote and introduce electric trucks in Malaysia, focusing on commercial EV trucks, human capital developments and competencies, and technology sharing. According to the company's preliminary guidance, it is expecting to replace its fleet in stages (over the span of c.20-years). At this point of time, the costs for an EV truck is c.3x higher than a diesel truck.

Material S issues

- Swift Haulage's sustainable strategies under the "S" pillar includes to embrace human rights, diversity and inclusion; to promote and maintain occupational health and safety; to provide training and development programmes; and to carry out corporate social responsibility programmes.
- Out of its total workforce of 3,262, a majority of 1,606 (or 49% of the workforce) are drivers, and majority are within the age group of 30-39 years old (33% of total workforce).
- There are 705 female employees in the group, making up 43% of the employees excluding drivers.
- Swift Haulage offers above standard benefits to its drivers, including 14 days annual leave, medical benefits, uniform and PPE, competitive incentive schemes and meals.
- The number of work-related injuries contracted by 17% YoY in FY21 to 24 cases. However, number of accidents increased by 15% YoY to 347 in FY21. Loss time injury frequency was lowered by 11% YoY to 1.89 in FY21.

Key G metrics and issues

- Swift Haulage's sustainable strategies under the "G" pillar include to conduct business ethically and with integrity; to practice zero tolerance for bribery and corruption in all business dealings; to comply with all relevant laws and regulations; and to maintain a diverse and effective Board.
- As of 31 December 2021, Swift Haulage's Board of Directors consists of 7 members; there are 2 women on the Board (28.6%); 4 independent directors (51.7%); and only 1 executive director (14.3%). The group aims to achieve 30% women participation in the Board by FY23.
- Out of the 7 Board members, 2 are major shareholders, ie. Mr Loo Yong Hui (non-independent executive director/GCEO) and Dato' Haji Yusoff @ Mohd Yusoff Bin Jaafar (non-independent, non-executive director), while Mr Loo Hooi Keat (non-independent, non-executive director/advisor) is the father of Mr Loo Yong Hui (non-major shareholder).
- The board is supported by two committees, ie. Audit and Risk Management Committee (ARMC) and Nomination and Remuneration Committee (NRC), with three representatives each. All of them are independent non-executive directors, except for 1 member in NRC (ie. Mr Loo Yong Hui).
- Total remuneration for the directors and key management makes up 23.2% of the group's core net profit in FY21, down slightly from 24.0% in FY20.
- BDO PLT is the group's auditor.
- Anti-Corruption & Anti-Bribery Policy ("ABC Policy") has been implemented across the group since February 2021 as per mandatory requirements of Section 17A Malaysian Anti-Corruption Commission Act 2009 ("MACC 2009").
- None of the management or employees were involved in any suspected bribery and corruption practices or unethical behaviours in FYE 2021.
- There was no recurrent related party transaction (RPT) entered in FY21, and any RPT are disclosed, reviewed and monitored by the audit committee and will be presented to the Board on a periodic basis. We take comfort that none of the past M&A is a RPT.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Anticipate subdued 3Q23 earnings

We expect 3Q23 earnings to remain subdued due to a challenging macro environment, affecting Swift's logistics rates. Additionally, higher operating costs, due to suboptimal operating scale, has persisted amid ongoing ramp-up efforts for new warehouses. Swift delivered a MYR9.7m net profit in 2Q23 (-26% YoY, -4% QoQ) bringing 1H23 net profit to MYR19.9m (-28% YoY). We expect 3Q23 earnings to be weaker YoY but flattish QoQ. We maintain our earnings forecasts for now as we believe we have largely factored in the YoY slowdown post-2Q23 results, where we slashed our earnings estimates by 28% for FY23E.

Details on the Volvo FM Electric Prime Mover for Unilever

The Volvo electric prime mover, which marks Swift's (and Malaysia's) first electric prime mover, and handed over to Unilever this week, is powered by an electric powertrain capable of producing up to 490 kW, with a battery capacity of 540 kWh using six battery packs. Charging to full capacity takes 9.5 hours with 43 kW AC charging, or 2.5 hours at 250 kW DC charging, and offers a range of up to 380 km. Initially, these prime movers are expected to be deployed within the proximity of Port Klang for short-haul travel distances.

Regarding safety and ergonomic features, the electric prime mover is equipped with dynamic steering for additional assistance in steering the truck. It also features a 12-inch high-definition display with a chrome ring surround and halo lights for easy viewing, thus enhancing safety. This setup is complemented by a nine-inch side display serving as the hub of the vehicle information system. The driver can control it through a combination of touch controls and buttons on the steering wheel, providing a safe and convenient way to interact with the vehicle's systems.

Furthermore, the prime mover is equipped with side collision avoidance support, functioning as a type of blind spot monitoring for trucks. This system uses radar to monitor areas, preventing collisions with other vehicles in the truck drivers' blind spots when changing lanes.

Based on our understanding, Swift's commitment for the two electric prime movers to Unilever is expected to cost c.MYR1.5m each (approximately 2-3x compared to a traditional prime mover). However, Swift has secured MYR20m in green financing p.a. from AmBank to fund this. This financing is expected to come with lower interest rates, approximately 50-70 basis points lower than a usual commercial loan rate.

Figure 1: The first Volvo FM Electric Prime Mover to be deployed in Malaysia



Source: Company

Valuation

Figure 2: Peer table

Company	Last Price	Mkt Cap	EPS		EV/EBITDA			P/E		P/B	ROE	Div. Yield	Net D/E	
			FY23E	FY24E	FY23E	FY24E	5Y Hist.	FY23E	FY24E					5Y Hist.
Swift Haulage	0.525	462.3	6.1	5.8	7.0	6.9	7.1	10.1	9.1	N/A	0.7	6.2	3.0	95.0
TASCO	0.81	648.0	7.9	8.3	4.4	4.2	5.0	8.0	9.8	16.8	1.1	14.5	4.0	5.6
Tiong Nam Logistics	0.73	375.3	2.0	7.5	11.9	11.4	12.0	38.4	9.7	N/A	0.4	3.4	N/A	153.5
FM Global Logistics	0.585	326.7	7.5	8.0	4.2	3.8	4.0	8.4	7.3	10.7	0.9	11.3	6.8	6.6
CJ Century Logistics	0.395	229.8	5.2	5.5	5.3	3.7	N/A	13.6	7.2	N/A	0.5	N/A	2.5	16.0
Tri-Mode System M Bhd	0.34	51.5	N/A	N/A	N/A	N/A	5.5	N/A	N/A	14.3	0.6	5.4	N/A	25.8
Sector Mean			5.7	7.3	6.4	5.8	6.6	17.1	8.5	13.9	0.7	8.6	4.4	41.5

Source: Maybank IBG Research, Bloomberg

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Swift. Lower-than-expected utilisation rate for its vehicles/warehouses (as demand weakens) may lead to diseconomies of scale and thus lower margin. Deteriorating transportation/warehousing rates due to economic slowdown/ increased competition may also hurt earnings. Positive catalysts include better-than-expected volume handled and rates improvements.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	12.7	10.9	13.4	11.7	10.5
Core P/E (x)	13.3	9.4	13.6	11.9	10.7
P/BV (x)	1.0	0.6	0.7	0.7	0.6
P/NTA (x)	1.1	0.8	0.8	0.8	0.7
Net dividend yield (%)	1.9	4.2	2.5	2.9	3.2
FCF yield (%)	nm	10.8	15.2	14.5	14.8
EV/EBITDA (x)	11.7	10.0	10.0	9.2	8.6
EV/EBIT (x)	19.7	17.5	19.6	17.3	15.6
INCOME STATEMENT (MYR m)					
Revenue	588.3	643.8	667.5	699.2	728.2
EBITDA	141.0	142.2	141.1	148.1	154.2
Depreciation	(57.5)	(61.0)	(69.3)	(69.1)	(69.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	83.5	81.2	71.8	79.0	85.0
Net interest income / (exp)	(26.8)	(26.9)	(32.4)	(32.4)	(32.4)
Associates & JV	(1.0)	(0.5)	(0.3)	(0.3)	0.6
Exceptionals	(1.0)	(2.9)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	57.1	62.3	45.3	51.9	57.8
Income tax	(8.9)	(13.1)	(10.9)	(12.4)	(13.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	48.2	49.2	34.4	39.4	43.9
Core net profit	46.1	45.6	33.9	38.8	43.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	64.7	101.6	128.9	151.4	174.8
Accounts receivable	248.2	217.4	225.5	236.2	245.9
Inventory	15.8	10.4	11.1	11.5	11.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	471.6	604.2	697.7	715.3	734.4
Intangible assets	69.4	70.2	70.2	70.2	70.2
Investment in Associates & JVs	35.4	41.3	41.3	41.3	41.3
Other assets	553.3	511.9	412.6	392.3	373.2
Total assets	1,458.5	1,557.1	1,587.1	1,618.1	1,651.6
ST interest bearing debt	211.1	222.5	222.5	222.5	222.5
Accounts payable	102.1	116.6	124.0	129.1	133.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	453.4	502.5	502.5	502.5	502.5
Other liabilities	57.0	57.0	57.0	57.0	57.0
Total Liabilities	823.2	898.5	905.9	911.0	915.6
Shareholders Equity	634.9	657.2	679.9	705.8	734.7
Minority Interest	0.4	1.3	1.3	1.3	1.3
Total shareholder equity	635.3	658.6	681.2	707.1	736.0
Total liabilities and equity	1,458.5	1,557.1	1,587.1	1,618.1	1,651.6
CASH FLOW (MYR m)					
Pretax profit	57.1	62.3	45.3	51.9	57.8
Depreciation & amortisation	57.5	61.0	69.3	69.1	69.2
Adj net interest (income)/exp	26.4	26.3	31.1	30.9	30.6
Change in working capital	(98.6)	28.6	(1.3)	(6.1)	(5.6)
Cash taxes paid	(16.8)	(12.4)	(10.9)	(12.4)	(13.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	23.6	164.2	133.8	133.7	137.5
Capex	(86.0)	(144.7)	(63.4)	(66.4)	(69.2)
Free cash flow	(56.3)	46.0	70.4	67.2	68.4
Dividends paid	0.0	(24.9)	(11.8)	(13.5)	(15.0)
Equity raised / (purchased)	156.7	0.0	0.0	0.0	0.0
Change in Debt	40.9	57.1	0.0	0.0	0.0
Other invest/financing cash flow	(92.3)	(91.6)	(31.4)	(31.2)	(30.0)
Effect of exch rate changes	0.1	0.0	0.0	0.0	0.0
Net cash flow	43.0	(39.7)	27.2	22.6	23.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.8	9.4	3.7	4.7	4.1
EBITDA growth	5.0	0.9	(0.8)	5.0	4.1
EBIT growth	4.1	(2.7)	(11.6)	10.0	7.6
Pretax growth	5.9	9.1	(27.3)	14.5	11.4
Reported net profit growth	13.4	2.2	(30.1)	14.5	11.4
Core net profit growth	14.2	(1.2)	(25.6)	14.5	11.4
Profitability ratios (%)					
EBITDA margin	24.0	22.1	21.1	21.2	21.2
EBIT margin	14.2	12.6	10.8	11.3	11.7
Pretax profit margin	9.7	9.7	6.8	7.4	7.9
Payout ratio	23.7	36.1	34.2	34.2	34.2
DuPont analysis					
Net profit margin (%)	8.2	7.6	5.2	5.6	6.0
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.3	2.4	2.3	2.3	2.2
ROAE (%)	10.1	7.6	5.1	5.7	6.1
ROAA (%)	3.5	3.0	2.2	2.4	2.6
Liquidity & Efficiency					
Cash conversion cycle	46.9	52.6	36.3	34.8	35.0
Days receivable outstanding	130.4	130.2	119.4	118.8	119.2
Days inventory outstanding	12.0	10.6	8.1	8.2	8.2
Days payables outstanding	95.5	88.2	91.3	92.2	92.4
Dividend cover (x)	4.2	2.8	2.9	2.9	2.9
Current ratio (x)	1.1	1.0	1.1	1.1	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.8	1.8	1.8
Net gearing (%) (incl perps)	94.4	94.7	87.5	81.1	74.8
Net gearing (%) (excl. perps)	94.4	94.7	87.5	81.1	74.8
Net interest cover (x)	3.1	3.0	2.2	2.4	2.6
Debt/EBITDA (x)	4.7	5.1	5.1	4.9	4.7
Capex/revenue (%)	14.6	22.5	9.5	9.5	9.5
Net debt/ (net cash)	599.7	623.4	596.1	573.6	550.2

Source: Company; Maybank IBG Research

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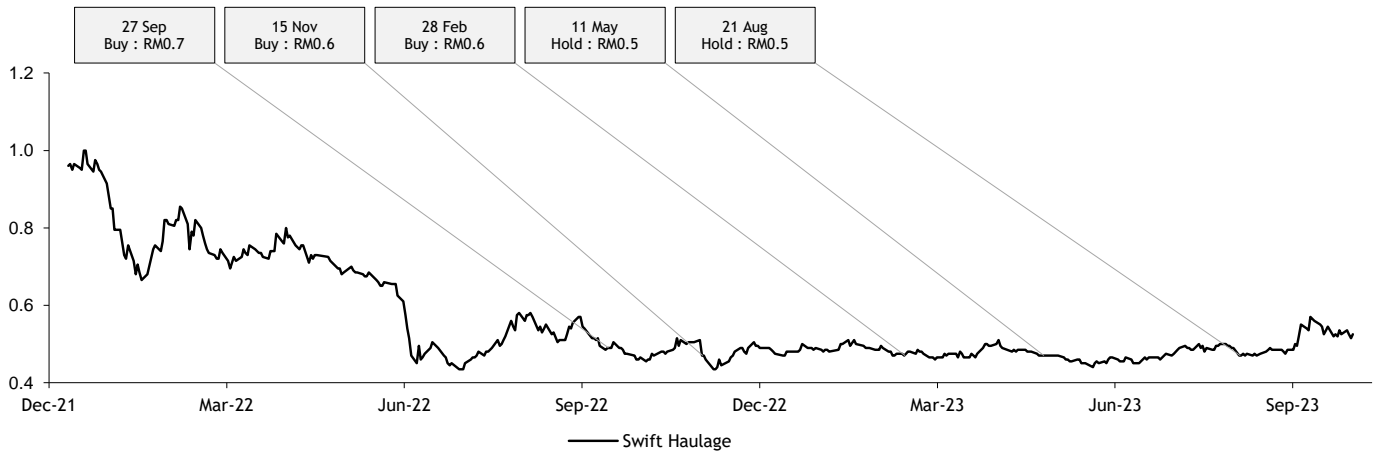
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