

# China / Hong Kong Company Update

## Kerry Logistics Network

Bloomberg: 636 HK Equity | Reuters: 0636.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Mar 2024

### BUY

Last Traded Price (26 Mar 2024): HK\$8.44 (HSI : 16,618)  
Price Target 12-mth: HK\$10.30 (22% upside)

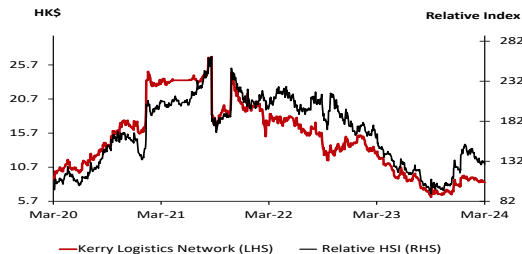
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#### What's New

- FY23 core net profit tumbled 78% to HK\$777m on sharply reduced contribution from the IFF segment
- Yet, IL and IFF segments still recorded CAGRs of 9% and 23% in earnings contributions during 2019-23
- Collaboration with S.F. Holding to drive long-term growth
- Maintain BUY with TP HK\$10.3

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2022A	2023A	2024F	2025F
Turnover	86,649	50,706	52,750	56,479
EBITDA	6,999	3,387	5,056	5,654
Pre-tax Profit	5,042	905	2,384	2,723
Core Net Profit	3,572	777	1,567	1,724
Core Net Profit Gth (%)	(3.2)	(78.2)	101.6	10.0
Core EPS (HK\$)	1.98	0.43	0.87	0.95
Core EPS Gth (%)	(3.5)	(78.2)	101.5	10.0
PE (X)	4.3	19.6	9.7	8.9
P/Cash Flow (X)	2.0	12.6	8.3	4.8
EV/EBITDA (X)	2.9	6.1	4.1	3.6
DPS (HK\$)	0.66	0.81*	0.30	0.32
Div Yield (%)	7.8	9.6	3.6	3.8
Net Gearing (%)	CASH	12	16	18
ROE(%)	18.1	4.4	9.0	9.3
Earnings Rev (%)			(1)	0
Consensus EPS (HK\$)			0.82	0.96
Other Broker Recs:		B:8	S:0	H:1

\*included special dividend

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Quality logistics play in volatile times

#### Investment Thesis

**A leading ASEAN logistics play.** Kerry Logistics Network (KLN) is a leading Asia-based logistics service provider with a highly diversified business portfolio and global presence. KLN has continued to expand its global coverage for international freight forwarding and is the No.1 Non Vessel Operating Common Carrier (NVOCC) among trans-pacific trades. KLN is now the international arm of S.F. Holding which became its controlling shareholder in Sep-21. In Dec-23, KLN announced to distribute shares of Kerry Express Thailand (KEX). This should enable the company to reinforce its focus on integrated logistics and international freight forwarding.

**Improving earnings outlook.** Interest rate is expected to moderate in 2H24, which should lead to restocking initiatives from retailers, and revive logistics demand. Meanwhile, loss-making KEX will no longer be a drag on KLN's earnings following the distribution in specie in Apr-24. These should underpin KLN's earnings recovery in the near term.

**Integration with SF Holding crucial in driving long-term share price performance.** Synergies with SF Holding are gradually coming through, which plays a key role in driving the company's long-term earnings growth and share price appreciation.

**Maintain BUY with TP of HK\$10.3.** The stock is trading at 9.7x and 8.9x P/E for FY24 and FY25 respectively, against its 5-year average of 13.9x. Our target price is based 10.8x FY25F PE (c.0.5SD below its 5-year average). Maintain BUY.

#### Key Risks

Any further deterioration in global demand should dampen logistics demand and hence the earnings performance.

#### At A Glance

Issued Capital (m shrs)	1,807
Mkt Cap (HKm/US\$m)	15,251 / 1,949
Major Shareholders (%)	
S.F. Holding Co. Ltd.	51.5
Kerry Properties Ltd	20.8
Kerry Group Ltd.	12.0
Free Float (%)	15.6
3m Avg. Daily Val. (US\$m)	0.8
GICS Industry: Industrials / Transportation	

## Kerry Logistics Network

### WHAT'S NEW

#### Tumbling air and ocean freight rates to blame

**FY23 earnings fell short of expectations on weaker-than-expected IL contribution.** Kerry Logistics Network's FY23 core net profit plummeted 78% to HK\$777m, primarily led by sharply reduced contributions from International Freight Forwarding (IFF) segment. The result was c.15% below our estimate mainly due to weaker-than-expected profit contribution from the Integrated Logistics (IL) segment. Final DPS was 66% lower at HK\$0.13. This brought the full-year DPS down 67% to HK\$0.22, representing a payout ratio of c.50%. In Dec-23, Kerry Logistics Network (KLN) declared a special interim dividend by way of distribution in specie of its shares in Kerry Express Thailand (KEX). Including the special interim dividend, equivalent to c.HK\$0.594/sh, total dividend for the period would be HK\$0.814.

**Reduced contributions from both IFF and IL segment.** IFF's operating earnings plunged 70% to HK\$1.4bn due to tumbling freight rates amid post-COVID market normalization and weaker consumer demand. Gross margins eroded to 3.6% in FY23 from FY22's 5.9%. Meanwhile, operating profit from IL business was also 7% lower at HK\$1.3bn mainly dragged by weaker performance from Hong Kong. Contributions from Hong Kong fell 24% to HK\$591m as FY22 result was boosted by pandemic-related contracts from the government. The shortfall was compensated by growth of 17% and 11% in contributions from China and Asia regions, benefitting from cost saving initiatives in China and stable performance of Kerry Siam Seaport in Thailand. Overall, gross profit margin for the segment was stable at 8.6%. (FY22: 8.8%). Despite lower contribution in FY23, the IL and IFF segments saw respective 4-year CAGR of 9% and 23% between FY19 and FY23.

**Express business no longer an earnings drag.** KLN just completed the distribution of shares in Kerry Express Thailand (KEX). This discontinued operation has been loss-making with operating loss widening to HK\$1bn from FY22's HK\$854m given the highly competitive operating landscape. Following the distribution of KEX shares it held, KEX will no longer be a drag on KLN's earnings. KLN should be able to focus on integrated logistics and international freight forwarding, thus bolstering the overall long-term profitability.

**Expanding exposure in the IFF segment.** In 1Q24, KLN acquired a majority stake in France's Business By Air SAS, an upstream supply chain specialist in air freight services for diverse industrial clients in verticals. This should further solidify KLN's position in the EMEA region and extend its services into niche verticals.

**More collaboration with S.F. Holding.** Elsewhere, KLN has further strengthened its collaboration with S.F. Holdings including a joint venture for Ezhou Airport. This would play a key role in driving the company's long-term growth.

**Financially sound despite weaker credit metrics.** Net debt stood at HK\$2bn as of Dec-23, up from Jun-23's HK\$470m. This represented 12% of its shareholders' funds. EBITDA/bank interest headed lower to 6.8x in FY23 from FY22's 23.4x while Debt/EBITDA rose to 2.55x from 1.27x. Despite these, KLN remains financially sound in our view.

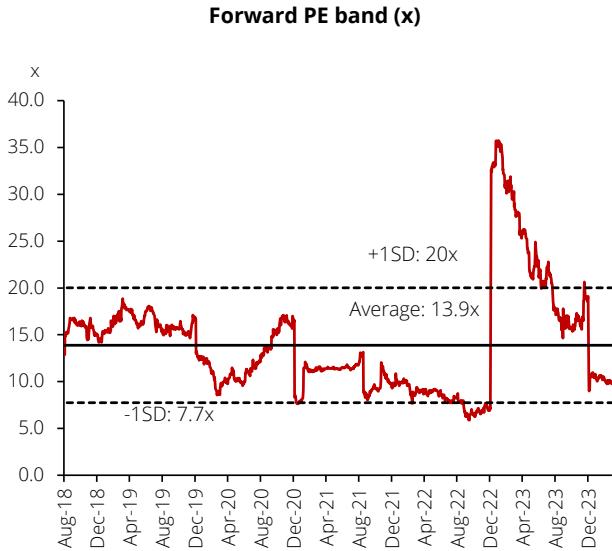
**Good long-term value.** Currently, the stock is trading at 9.7x and 8.9x P/E for FY24-25, below its 5-yr average of 13.9x. While the global economic outlook should remain uncertain in the short term, KLN achieved positive earnings growth in 2M24. Potentially lower interest rates should revive demand led by restocking initiatives from retailers. Longer term, synergies with S.F. Holding should allow KLN to consolidate its leading position among Asia logistics players, which bodes well for its long-term earnings growth and valuation. BUY with a TP of HK\$10.30 based on 10.8x FY25F PE (c.0.5SD below its 5-year average).

#### Company Background

Kerry Logistics Network (KLN) is the largest international logistics company listed on Hong Kong Stock Exchange. Its business comprises two main components namely integrated logistics, which involves a wide range of logistics and ancillary services primarily across Asia, and international freight forwarding, referring to air freight, ocean freight and cross-border road freight forwarding services across Asia and the globe. In 2021, S.F. Holding became the controlling shareholder of KLN. KLN is now become the international arm of S.F. Holding, serving as its principal service provider for its business outside China and is the exclusive cargo General Sales Agent for S.F. Airlines. The acquisitions of Topocean and remaining stake in K-Apex has further consolidated its position in the IFF sector, being the largest non-vessel ocean common carrier (NVOCC) for the Asia to US trade lanes.

### Kerry Logistics Network

#### Historical PE



Source: Thomson Reuters, DBS HK

## Kerry Logistics Network

### Result Summary

FY Dec (HK\$m)	FY22 (restated)	FY23	% Chg	Comments
<b>Turnover</b>	<b>86,649.5</b>	<b>50,706.2</b>	<b>(41.5)</b>	FY23: primarily due to sharply reduced revenue from the international freight forwarding segment
Integrated logistics	1,385.4	1,295.1	(6.5)	FY23: improved contributions from China and Kerry Siam Seaport in Thailand were offset by lower earnings from Hong Kong due to a sharp decline in demand for pandemic-related services
International freight forwarding	4,721.3	1,393.9	(70.5)	FY23: mainly due to falling freight rates, weak global demand and slower-than-expected recovery in Asia export
<b>Segmental profit before discontinued operations</b>	<b>6,106.7</b>	<b>2,689.0</b>	<b>(56.0)</b>	
Discontinued operations	(854.4)	(999.7)	17.0	FY23: due to fierce price competition facing Kerry Express Thailand
<b>Total segmental profit</b>	<b>5,252.3</b>	<b>1,689.3</b>	<b>(67.8)</b>	
Unallocated administrative expenses	(462.0)	(481.5)	4.2	
Finance income	72.8	71.5	(1.7)	
Finance costs	(393.0)	(595.9)	51.6	
Associates & JV	166.9	195.1	16.9	
Gain on disposal of an associate	397.6	-	n.a.	FY22: from the disposal of Asia Airfreight Terminal and a logistics port in Beijing
<b>Profit before taxation</b>	<b>5,034.6</b>	<b>878.6</b>	<b>(82.5)</b>	
Taxation	(1,221.6)	(299.0)	(75.5)	
Non controlling interest	(240.8)	197.7	n.a.	
<b>Core net profit</b>	<b>3,572.2</b>	<b>777.2</b>	<b>(78.2)</b>	
Fair value change on investment properties	9.3	10.5	12.7	
Deferred tax on fair value change on investment	(2.3)	(2.4)	4.9	
Non-controlling interest of after-tax fair value change on investment properties	(0.0)	0.5	n.a.	
Gain on disposal of KEX operation	-	18.2	n.a.	
Holders of perpetual convertible securities	-	(12.9)	n.a.	
<b>Net profit</b>	<b>3,579.2</b>	<b>791.2</b>	<b>(77.9)</b>	

Source: Kerry Logistics Network

## Kerry Logistics Network

### Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
<b>Revenues (HK\$ m)</b>					
Integrated Logistics	12,875	14,809	14,280	14,967	15,921
International freight forwarding	59,152	67,520	33,127	37,181	40,558
E-commerce & express	6,927	0	0	0	0
Discontinued operations	2,816	4,320	3,299	602	0
<b>Total</b>	<b>81,771</b>	<b>86,649</b>	<b>50,706</b>	<b>52,750</b>	<b>56,479</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	81,771	86,649	50,706	52,750	56,479
Cost of Goods Sold	(75,043)	(81,397)	(49,017)	(49,586)	(52,926)
<b>Gross Profit</b>	<b>6,728</b>	<b>5,252</b>	<b>1,689</b>	<b>3,165</b>	<b>3,553</b>
Other Opng (Exp)/Inc	(499)	(462)	(481)	(506)	(536)
<b>Operating Profit</b>	<b>6,229</b>	<b>4,790</b>	<b>1,208</b>	<b>2,659</b>	<b>3,017</b>
Associates & JV Inc	159	167	195	215	221
Net Interest (Exp)/Inc	(243)	(320)	(524)	(490)	(515)
Exceptional Gain/(Loss)	4,247	405	27	0	0
<b>Pre-tax Profit</b>	<b>10,391</b>	<b>5,042</b>	<b>905</b>	<b>2,384</b>	<b>2,723</b>
Tax	(1,365)	(1,222)	(299)	(524)	(599)
Minority Interest	(1,087)	(241)	198	(293)	(400)
Preference Dividend	0	0	(13)	(26)	(26)
<b>Net Profit</b>	<b>7,939</b>	<b>3,579</b>	<b>791</b>	<b>1,541</b>	<b>1,698</b>
Core Net Profit	3,692	3,572	777	1,567	1,724

### Growth

Revenue Gth (%)	53.2	6.0	(41.5)	4.0	7.1
EBITDA Gth (%)	55.2	(17.6)	(51.6)	49.3	11.8
Opg Profit Gth (%)	87.6	(23.1)	(74.8)	120.2	13.5
Net Profit Gth (%)	174.1	(54.9)	(77.9)	94.8	10.2

Source: Company, DBS HK

## Kerry Logistics Network

### Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Fixed Assets	9,466	9,689	9,525	9,628	9,491
Long-term Investments	593	561	467	467	467
Other LT Assets	4,348	3,221	2,859	2,859	2,859
Intangibles Assets	4,303	5,856	5,786	5,786	5,786
Deferred Tax Asset	156	463	381	381	381
Associates/JVs	2,281	1,643	1,682	1,682	1,682
Bank Balance/Cash & ST Investments	9,096	9,253	6,534	6,616	7,109
Inventory	817	38	0	0	0
Debtors	375	482	411	411	411
Other Current Assets	16,663	13,407	11,966	13,006	13,806
	64	722	2,510	439	439
<b>Total Assets</b>	<b>48,162</b>	<b>45,334</b>	<b>42,121</b>	<b>41,275</b>	<b>42,430</b>
ST Debt	3,848	2,310	3,325	3,325	3,325
Creditors	11,863	11,146	8,567	7,067	6,067
Other Current Liab	2,129	1,689	2,762	1,291	1,291
LT Debt	2,262	6,586	5,235	6,235	7,235
Deferred Tax Liabilities	406	614	732	732	732
Other LT Liabilities	2,817	1,739	1,392	1,392	1,392
Perpetual Securities	0	0	774	774	774
Non-controlling Interests	3,793	2,821	2,521	2,521	2,521
Shareholder's Equity	21,044	18,429	16,812	17,938	19,093
<b>Total Cap. &amp; Liab.</b>	<b>48,162</b>	<b>45,334</b>	<b>42,121</b>	<b>41,275</b>	<b>42,430</b>
Share Capital (m)	1,803	1,807	1,806	1,807	1,807
Net Cash/(Debt)	2,986	356	(2,026)	(2,945)	(3,452)
Working Capital	9,174	8,756	6,767	8,789	11,082
Net Gearing (%)	CASH	CASH	12	16	18

Source: Company, DBS HK

### Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023A	2024F	2025F
EBIT	6,229	4,790	1,208	2,659	3,017
Dep. & Amort.	2,261	2,209	2,179	2,397	2,637
Tax Paid	(921)	(2,199)	(299)	(524)	(599)
Profit or loss on disposal of FAs/subsidiaries/investment	(2,197)	(461)	(18)	0	0
Chg in Wkg.Cap.	(1,671)	843	(1,571)	(2,540)	(1,800)
Other Non-Cash	2,072	201	(590)	(676)	(661)
<b>Net Operating CF</b>	<b>5,773</b>	<b>5,384</b>	<b>908</b>	<b>1,316</b>	<b>2,594</b>
Net Capex	11,786	(2,631)	(2,679)	(1,901)	(2,500)
Investments	(1,173)	928	2,366	0	0
Associates & JVs	33	957	0	0	0
Associates' Dividends	99	100	195	215	221
Others	57	72	72	160	120
<b>Net Investing CF</b>	<b>10,802</b>	<b>(574)</b>	<b>(46)</b>	<b>(1,526)</b>	<b>(2,159)</b>
Net Chg in Debt	53	3,039	(315)	1,000	1,000
Non-controlling interests	(71)	(3,501)	(3,195)	0	0
New Capital	103	1	0	0	0
Dividend	(14,523)	(2,305)	(652)	(708)	(943)
Currency Adjustments	(221)	(392)	0	0	0
Other Financing CF	(1,281)	(1,381)	581	0	0
<b>Net Financing CF</b>	<b>(15,940)</b>	<b>(4,538)</b>	<b>(3,580)</b>	<b>292</b>	<b>57</b>
Chg in Cash	635	272	(2,719)	82	493

Source: Company, DBS HK

## Kerry Logistics Network

### Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	29-Mar-23	HK\$13.04	HK\$15.12	BUY
2	27-Jul-23	HK\$9.00	HK\$10.50	BUY
3	29-Aug-23	HK\$7.65	HK\$10.50	BUY
4	13-Mar-24	HK\$8.78	HK\$10.30	BUY

Source: DBS HK

Analyst: Jeff Yau  
 Percy Leung  
 Cherie Wong

## Kerry Logistics Network

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

Completed Date: 27 Mar 2024 13:40:38 (HKT)

Dissemination Date: 27 Mar 2024 18:25:19 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

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**Kerry Logistics Network**

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