AGX Group (AGX MK)

All set for a thriving market

MALAYSIA | TRANSPORT | INITIATION

- AGX's growth prospect is bolstered by rising freight rates and demand, with ADE's expansion serving as a catalyst in the aerospace logistic sector
- Set to gain from the ongoing shift in global supply chain, with production moving out of China, fuelling industrial expansion and the e-commerce boom
- With a profit CAGR of 41%, initiate with a BUY rating and TP of RM0.84

Benefiting from regional surge in MRO services and freight rates

Listed in Feb24, AGX is an integrated third-party logistics (3PL) provider offering sea, air, and road freight services, distinguished by its focus on the specialized aerospace logistic sector. We see AGX benefiting from the growing demand for aerospace logistics in the Southeast Asia (SEA) region, underpinned by 1) a solid post-pandemic rebound in air travel, 2) a record-high backlog of aircraft orders, coupled with shortage of new aircraft, driving demand for Maintenance, Repair, and Overhaul (MRO) and Aircraft on Ground (AOG) services, 3) Asia Digital Engineering (ADE) expansion of MRO hangar capacity signals a surge in demand for MRO services in the region. The rise in sea and air freight rates also presents a strong growth catalyst for AGX.

Capitalizing on a booming e-commerce market

AGX's partnership with All-Link, a China-based logistics provider, provides access to its extensive network of Chinese clients actively expanding their operations in SEA. The ongoing global supply chain reconfiguration spurred by US–China trade tension and China/Taiwan +1 strategy is expected to fuel industrial growth in the region. All-Link's newly secured customer is also well-positioned to capture the opportunities arising from the e-commerce boom.

Initiate with BUY and TP of RM0.84

We initiate coverage on AGX with a BUY rating and target price of RM0.84, based on 15x PE on 2025E EPS, representing a 20% premium to its Malaysian-listed freight peers. We like AGX for its attractive growth prospects, driven by 1) growing demand for sea and air freight services from existing and new customers, 2) a positive outlook from All-Link's newly secured customer, 3) sustained high freight rates, and 4) its unique positioning in aerospace logistics, benefiting from AirAsia's expanding fleet and the post-pandemic surge in maintenance needs and delivery backlogs. Key risks to our BUY call include: weaker-than-expected volume growth, and sharp decline in freight rates.

Key Financials

Y/E Dec	2022	2023	2024E	2025E	2026E
Revenue (RMm)	234.4	186.8	251.3	348.3	396.4
EBITDA (RMm)	18.2	20.8	22.9	35.7	41.7
Pretax profit (RMm)	16.8	14.2	23.2	32.4	37.1
Net profit (RMm)	13.5	9.8	17.4	24.3	27.8
EPS (sen)	3.1	2.3	4.0	5.6	6.4
PER (x)	18.4	25.4	14.3	10.3	8.9
Core net profit (RMm)	13.8	10.0	17.4	24.3	27.8
Core EPS (sen)	3.2	2.3	4.0	5.6	6.4
Core EPS growth (%)	140.5	(27.4)	73.9	39.8	14.6
Core PER (x)	18.1	24.9	14.3	10.3	8.9
Net DPS (sen)	0.0	0.5	1.2	1.7	1.9
Dividend Yield (%)	0.0	0.8	2.1	3.0	3.3
EV/EBITDA (x)	18.9	10.3	11.4	8.7	6.0
Chg in EPS (%)			-	-	-
Phillip/Consensus (%)			-	-	-

Sources: Company, Bloomberg, Phillip Research forecasts

3 December 2024

BUY

LAST CLOSE PRICE	RM0.58
TARGET PRICE	RM0.84
TOTAL RETURN	46.1%

COMPANY DATA

BLOOMBERG TICKER	AGX MK EQUITY
O/S SHARES (MN) :	433
MARKET CAP (USD mn / RM mn) :	56 / 249
52 - WK HI/LO (RM) :	0.64 / 0.24
3M Average Daily T/O (mn) :	3.56
NET CASH/(DEBT) (RMm)	(22.70)

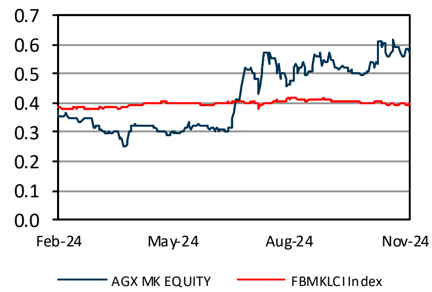
MAJOR SHAREHOLDERS (%)

Mark Penu	18.7%
Neo Lip Pheng	18.1%
Periasamy Ponnudorai	11.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	14.7	23.2	59.7
FBMKLCI RETURN	(0.4)	(3.3)	14.1

PRICE VS. FBMKLCI



Source: Bloomberg

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Investment Thesis

Third-party logistics service provider. AGX specializes in third-party logistics (3PL), providing sea and air freight forwarding, road freight transportation, aerospace logistics, warehousing, and other 3PL services. Its main role is to facilitate the seamless movement of goods from the point of origin to final destinations, supporting shippers and receivers.

Agile asset-light business model. AGX adopts an asset-light business model, focusing on freight forwarding over asset ownership. Rather than investing in transport assets such as vessels, carriers, or aircraft, AGX outsources most logistics operations, avoiding the need for significant capital outlay. Coordinating end-to-end logistics services through partnerships with global airlines helps mitigate exposure to freight rate fluctuations and secures competitive pricing across various routes. While AGX predominantly relies on outsourced logistic resources, the company owns critical assets, including leased warehousing facilities and a fleet of land-based vehicles, to enhance its service capabilities and operational flexibility.

Table 1: Type of services provided within the region

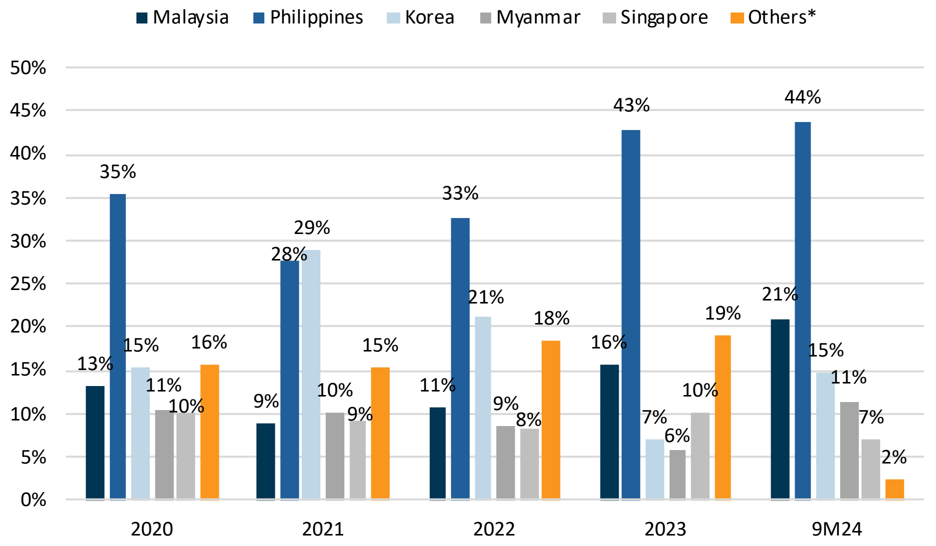
	Malaysia	Singapore	Philippines	Myanmar	South Korea	Vietnam
Sea Freight Forwarding	✓	✓	✓	✓	✓	✓
Air Freight Forwarding	✓	✓	✓	✓	✓	✓
Aerospace	✓	✓	✓			✓
Warehousing	✓	✓	✓	✓		
Road Freight	✓	✓		✓		

Source: Company, Phillip Research

Extensive regional footprint. AGX, founded in 2004, has built a solid 19-year track record as a trusted logistics service provider. The company has established an extensive regional presence in eight countries: Malaysia, Singapore, the Philippines, Myanmar, South Korea, Cambodia, Thailand, and Vietnam. AGX primarily serves clients seeking air and sea freight forwarding services, typically senders and receivers based in these countries. Additionally, other logistics providers often partner with AGX to access regions where they lack a presence.

Revenue is largely derived outside of Malaysia. AGX's revenue is predominantly driven by its overseas operations, which have been a significant revenue contributor, contributing an average of 88% of its total revenue over the past four years. The Philippines and South Korea comprise two of its largest markets, accounting for 53% of total revenue, followed by Malaysia at 12%. This diverse regional presence demonstrates AGX's adaptability and capacity to grow beyond its Malaysian roots, enabling it to leverage opportunities across various markets for sustained expansion. AGX addresses the logistic needs of a broad clientele and reduces its dependence on any single market. The company's ability to cater to various customers across dynamic Asian markets further strengthens its position and supports its long-term growth trajectory.

Table 2: Revenue contribution by country



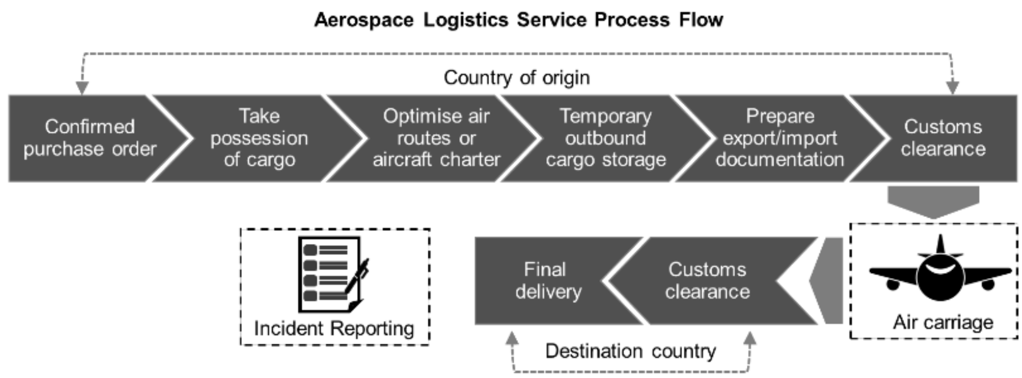
Source: Company, Phillip Research *Others = Australia, China, Hong Kong, Indonesia, Japan, Thailand and US

Accreditations driving a strong edge. AGX has been registered as a Non-vessel Operating Common Carrier (NVOCC) under the Ocean Transportation Intermediaries (OTI) list by the US Federal Maritime Commission (FMC) since Jun22. In Feb23, the company was also accredited by IATA as an IATA Cargo Agent. As an NVOCC, AGX can operate like a shipping company for sea freight cargo to the US without owning vessels. It leases container or cargo space directly from sea freight carriers and provides forwarding services. Freight forwarders without NVOCC registration must rely on registered NVOCC to secure such space, giving AGX a competitive edge. Similarly, as an accredited IATA Cargo Agent, AGX can lease cargo space directly from air freight carriers for forwarding and aerospace logistics. These accreditations offer significant advantages, including reduced dependency on third-party agents, access to more favourable rates, and the ability to act as an agent for sea and air freight carriers for other logistics providers. This flexibility strengthens AGX's operations and creates additional revenue streams.

Carving a niche in aerospace logistics

Specializing in aerospace logistics. AGX has carved out a niche in the logistics industry by providing specialized aerospace logistics services that support aircraft MRO operations, setting it apart from other logistics companies. Operating across three key regions, Malaysia, the Philippines, and Singapore, AGX manages air freight for aircraft parts, components, and equipment, ensuring the smooth execution of routine and scheduled maintenance for clients' fleets of aircraft. AGX also provides unscheduled AOG services, addressing urgent repairs needed when an aircraft is grounded due to technical issues. AGX's specialized team, equipped with extensive expertise in aerospace logistics, ensures a quick response and fast recovery. With a proven track record of fast turnarounds, AGX helps to minimises flight delays or cancellations. This is also made possible by the company's long-standing relationships with essential parts suppliers and logistics partners, allowing it to quickly source and deliver critical components needed for AOG situations. By leveraging these trusted partnerships, AGX provides effective solutions that reduce additional costs for airline operators and help them return aircraft to service with minimal downtime.

Table 3: Aerospace logistics services process flow



Source: Company

ADE– MRO arm of Capital A. In Sept20, Capital A established ADE as a centralized and independent MRO unit. ADE offers a comprehensive range of services to AirAsia's airlines and third-party carriers in the region, including line maintenance, base maintenance, component and warehouse services, and engineering support services.

ADE expansion plans signal growing demand for MRO activities. On 26 Sept 24, ADE officiate the grand opening of its new 14-line MRO hangar, expanding its capacity from the previous 7-line hangars to a total of 21 lines. This state-of-the-art facility is now the largest MRO hangar in Malaysia and one of the largest in SEA. ADE plans to expand further with an additional 4-line facility on a 5-acre plot adjacent to the new hangar. Furthermore, ADE is discussing with Malaysia Airport Holdings Berhad (MAHB) to acquire 20 more acres within KLIA for a dedicated MRO centre. These significant expansion initiatives highlight ADE's commitment to meeting the growing demand for MRO services. With AGX's strong foothold in the industry as an incumbent player, we believe AGX stands to benefit from the surge in MRO activities.

Pursuing growth in third-party clients. According to a report by CAPA, ADE currently oversees c.40% of AirAsia's heavy maintenance, managing 6–7 aircraft per month. While a portion of the heavy maintenance requirements remain outsourced, ADE aims to take on all base maintenance responsibilities eventually. ADE is also actively working to grow its third-party client base, targeting 30% of its revenue from external work within the next five years. This plan reflects ADE's ambition to strengthen its market position, which is expected to benefit AGX by increasing logistics volumes.

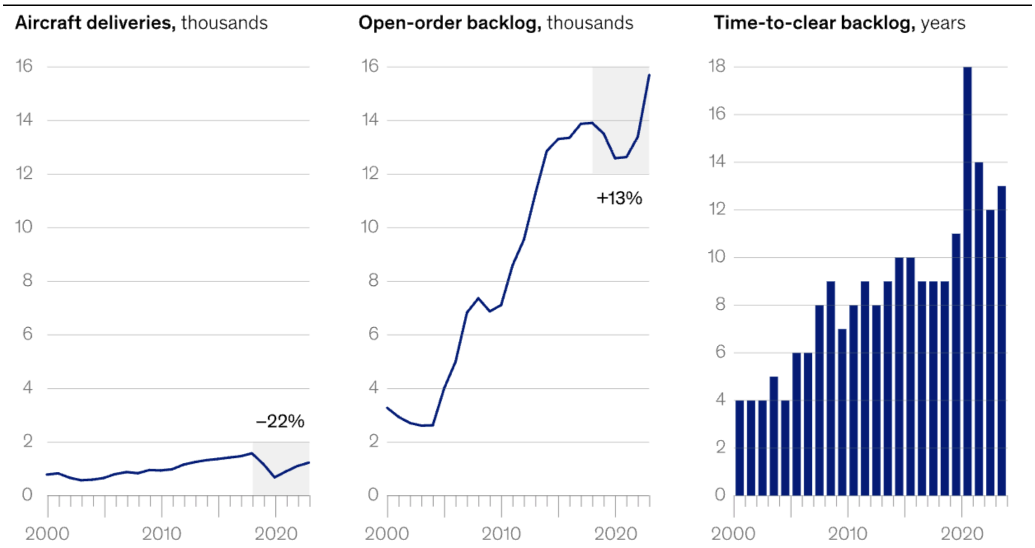
Signed a 2-year contract with ADE. On 13 Nov 24, AGX entered a 2-year service agreement to provide freight forwarding and customs brokerage services critical to ADE's operations. This collaboration builds on AGX's long-standing partnership with AirAsia, which spans over 18 years, underscoring its unmatched expertise and reliability in aerospace logistics. This agreement not only highlights AGX's ability to meet the demanding aerospace logistics requirements of a premier MRO provider but also further cements AGX's reputation as the go-to partner for aerospace logistics solutions, reaffirming its growth potential in this niche market.

Table 4: ADE's customer base

Source: Company

Commercial aerospace to benefit from post-pandemic lift. The commercial aerospace sector gained strong recovery momentum since mid-2020 as air travel rebounds from the sharp decline caused by the Covid-19 pandemic. According to the IATA, global air travel demand has recovered to 97% of pre-pandemic levels in Dec23 and is projected to grow annually by 5–10% through 2026.

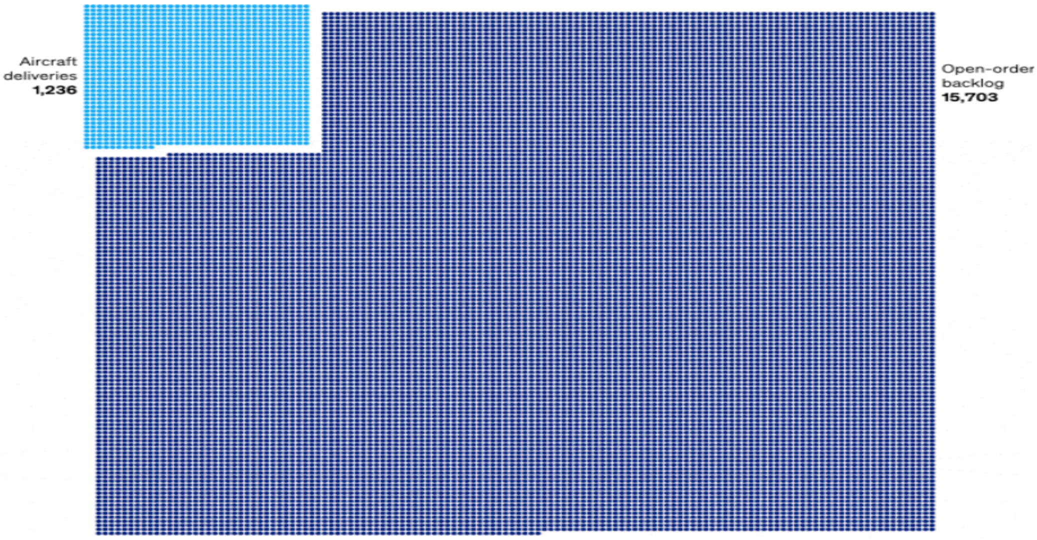
Table 5: Delivery backlogs and timeline at a record high



Source: Cirium, IATA, McKinsey Aerospace & Defense Practice

Unprecedented backlog signals strong demand. Driven by 15,703 new aircraft orders, the commercial aerospace open-order backlog hit an all-time high in 2023. However, supply chain constraints have left OEMs and suppliers struggling to meet demand. At the current delivery pace of 1,236 aircraft per year, the backlog would require 13 years to clear. This shortfall is expected to prolong the operational lifespan of older aircraft, driving heightened demand for MRO and AOG services and creating a significant opportunity for aerospace logistics providers.

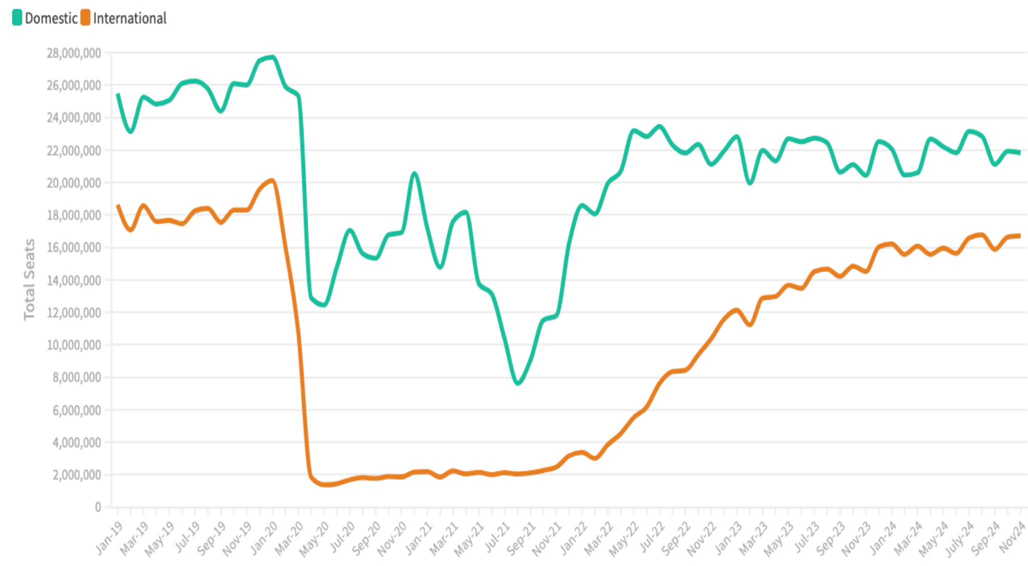
Table 6: Commercial aerospace aircraft deliveries and delivery backlog in 2023



Source: Cirium, IATA, McKinsey Aerospace & Defense Practice

Surging SEA airline capacity. The recovery of airline capacity in SEA is gaining momentum. In Nov24, total seat capacity climbed to 38.5m, marking a 10% YoY increase, though still 13% shy of pre-pandemic levels. International routes are recovering faster, with a 15% YoY growth, outpacing the 7% rise in domestic capacity. As airlines expand their fleets and extend routes to meet surging travel demand, AGX is strategically positioned to capitalize on the recovery from the post-pandemic. By providing essential aerospace logistics services, AGX will support carriers in fleet restoration and maintenance, ensuring smooth operations amid growing domestic and international air travel activity.

Table 7: SEA domestic and international airline capacity

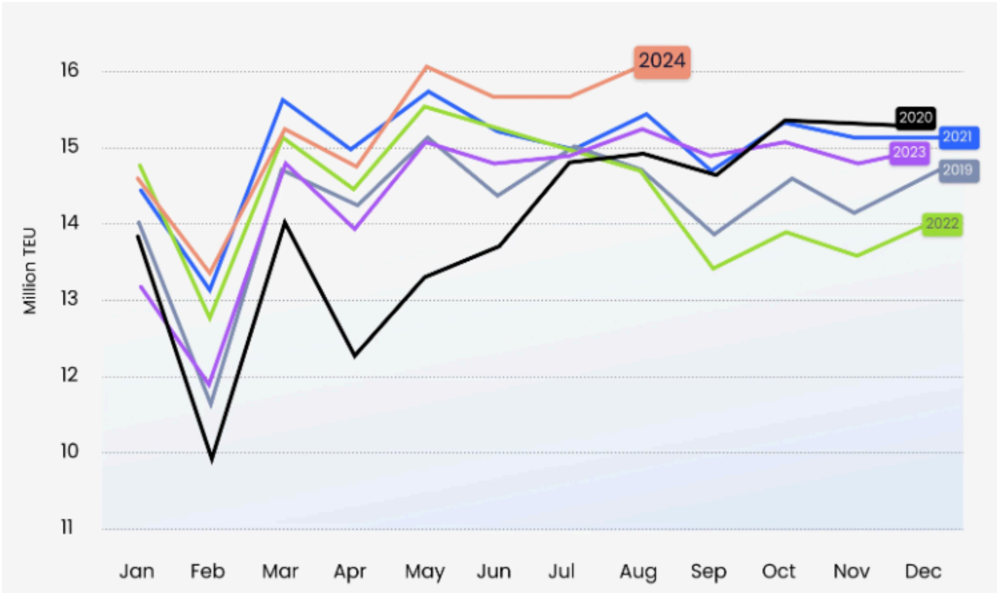


Source: OAG

Rising global demand for freight shipping

Record demand for sea container volume in 2024. According to a Container Trades Statistics (CTS) report, global container volumes rose 6.7% YoY in 8M24, with May and Aug24 exceeding 16m twenty-foot equivalent unit (TEU) for the first time. Xeneta projects overall demand to grow 4–5% for 2024, crossing the 180m TEU mark and breaking the previous record of 179.8m TEUs set in 2021. This surge is fuelled by shippers frontloading cargo to secure supply chains and maintain robust inventory levels.

Table 8: Global container volumes

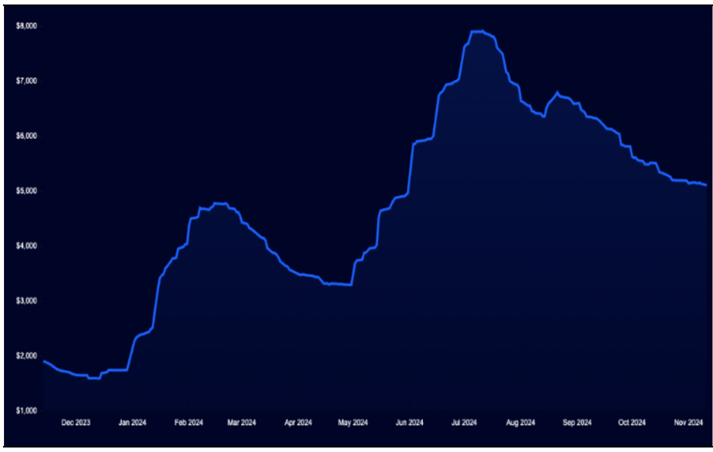


Source: Xeneta, Container Trades Statistics

Red Sea crisis reshapes freight dynamic. The Red Sea crisis has altered global sea freight patterns. Previously, container volumes were the primary indicator of shipping trends. However, with the onset of the crisis, TEU miles, which measure the distance containers travel, have become a crucial metric as vessels are forced to take longer routes. Rerouting around the Cape of Good Hope has led to a 9% YoY global increase in average container travel distances in 4M24, driving an 18% rise in total TEU miles, according to Xeneta. Although 2024 was expected to bring an oversupply of shipping capacity on the back of unprecedented new ship deliveries, the Red Sea crisis has exceeded these expectations, forcing carriers to boost capacity to handle the TEU-mile surge.

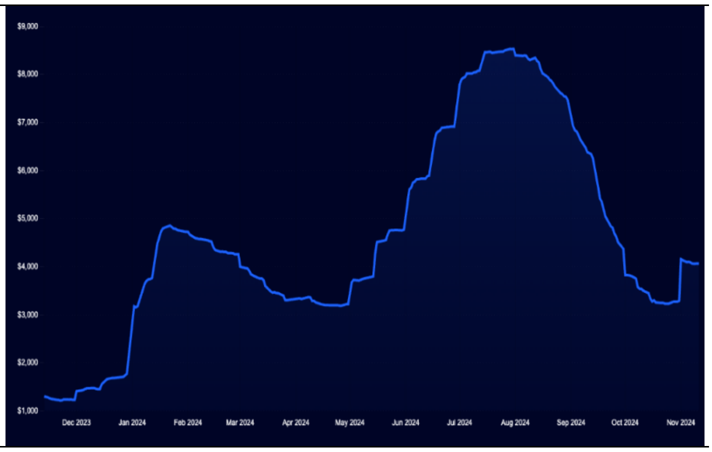
Favourable freight rates benefit freighters. The crisis and the resulting spike in TEU miles have pushed sea freight rates higher. YTD shipping rates from Asia to the US (West Coast) and Europe have surged by 192% and 129%, respectively. Although rates have moderated by c.30–50% from their Jul24 peak, they remain highly favourable for freight providers. With no immediate resolution to the crisis, a large-scale return of carrier ships appears unlikely, keeping freight rates elevated. AGX operates on a fee structure tied to a markup over freight rates, as such, standing to benefit from a surge in freight rates.

Table 9: Asia-US (West Coast) shipping rates



Source: Xeneta

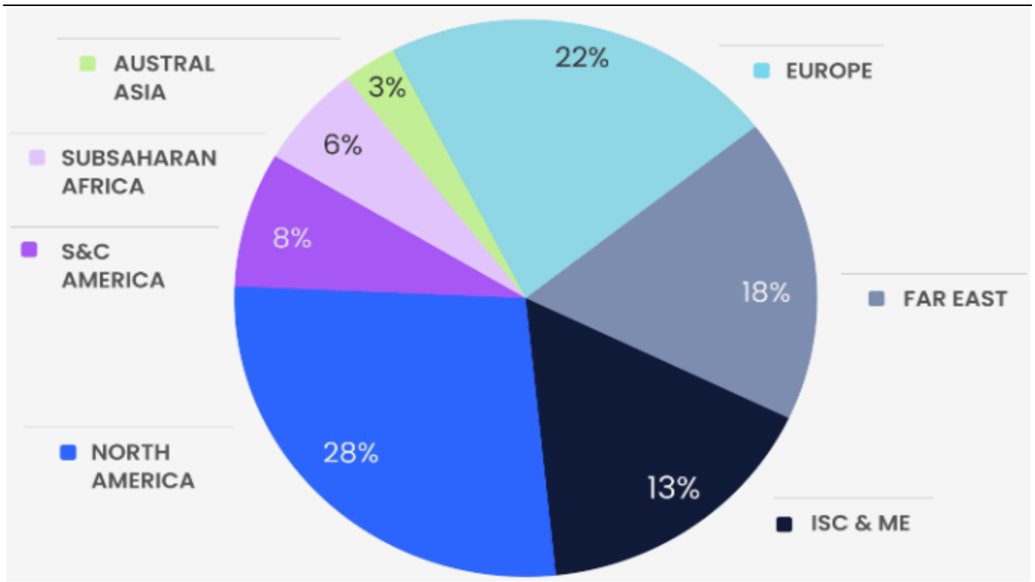
Table 10: Asia-Europe shipping rates



Source: Xeneta

Stable container demand growth in 2025. The Red Sea crisis will remain a key factor influencing demand in 2025. Xeneta projects a 3% global TEU demand growth for 2025, largely driven by China-to-Mexico trade. This route experienced a 22% YoY TEU increase in 8M24, following a 34% YoY growth in 2023. With Mexico serving as an alternative gateway for Chinese goods entering the US, Xeneta expects further demand growth, especially if the US imposes an additional 60% tariff on Chinese imports following the conclusion of the US presidential election.

Table 11: 2024 import volumes in TEU (excluding intra-regional)

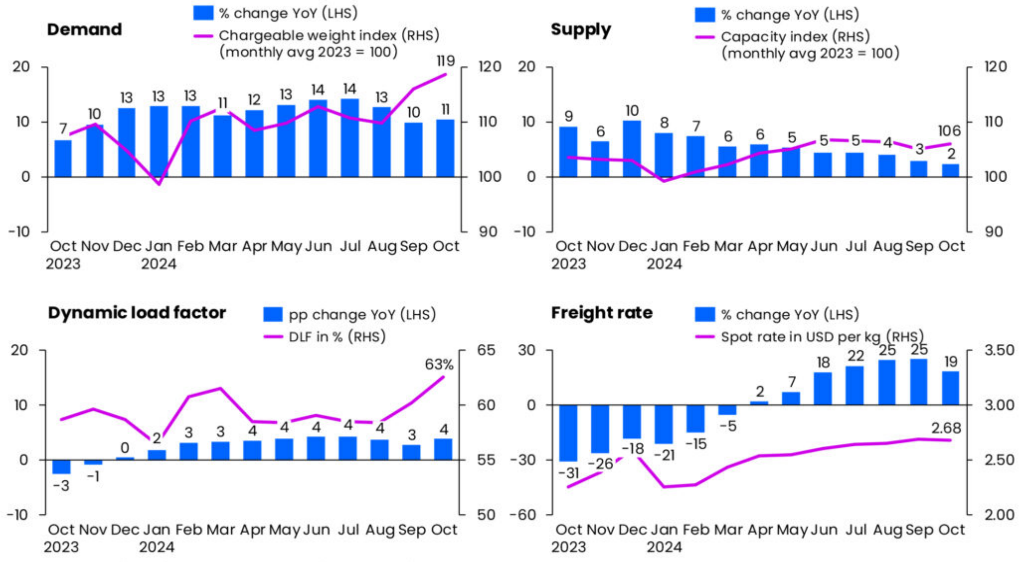


Source: Xeneta, Container Trades Statistics

A thriving air cargo market fuelled by e-commerce and AI demand. Global air cargo demand grew by 12% YoY in 7M24, exceeding the initial market's forecast of 1-2%. This surge was driven by rising e-commerce activity in Asia, disruptions in sea freight due to the Red Sea crisis, and increased shipments of components supporting AI industry's expansion.

China remains a key driver of air freight rates. Xeneta reports that global air freight spot rates rose 18–25% YoY between Jun-Oct24, driven by persistent demand-capacity imbalances fuelled by soaring e-commerce volumes and further exacerbated by shipping disruptions. Regionally, China remains a primary driver of elevated rates, with spot rates on routes from North East Asia to North US and Europe climbing 30% and 17% YoY, respectively, in Oct24. Similar to its advantage in sea freight, AGX is expected to benefit from the rate surge thanks to its markup fee model.

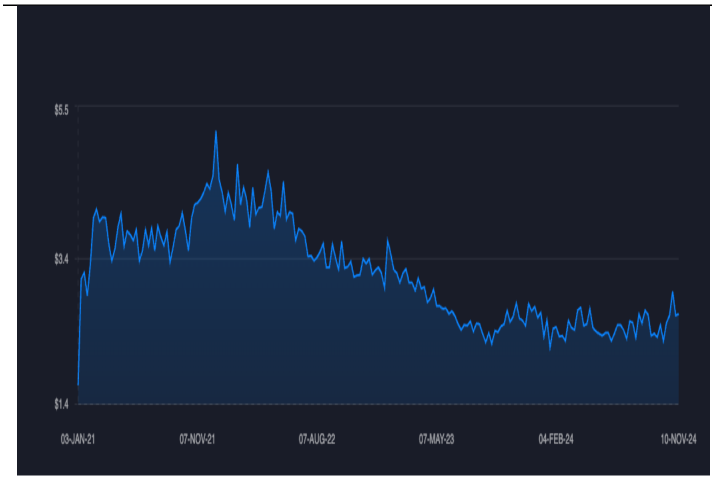
Table 12: Global air cargo demand, supply, load factor and spot freight rates trend



Source: Xeneta

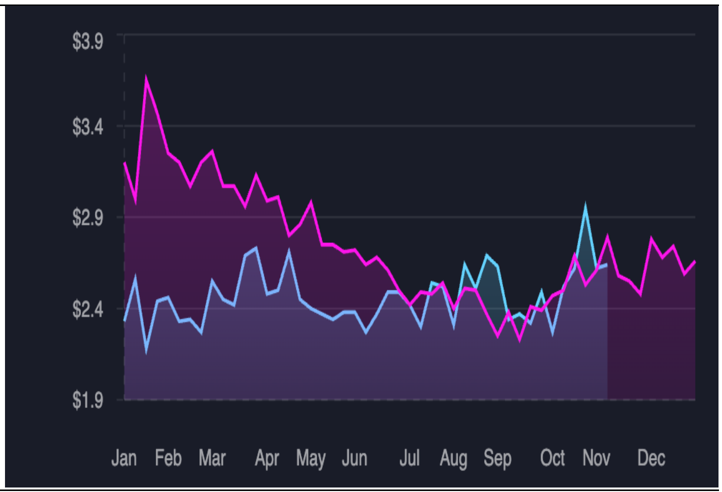
Maturity in the air cargo market creates more stable, long-term relationships. A thriving air cargo market often triggers soaring spot rates for shippers, but as December's peak holiday season approaches, rates have remained relatively stable. Xeneta's chief air freight officer shared that this stability stems from shippers and forwarders proactively securing capacity well ahead of the 4Q peak period. Although rates remain elevated YoY, the modest increase amidst strong demand reflects a shift in the industry's focus toward fostering stable and longer-term buyer-seller relationships instead of pursuing short-term revenue opportunities.

Table 13: Freightos Air Index: Air freight rates (US$/kg)



Source: Freightos

Table 14: Air freight rates in 2023 (purple) vs. 2024 (blue) (US$/kg)



Source: Freightos

All-Link: Gaining from trade war and e-commerce tailwinds

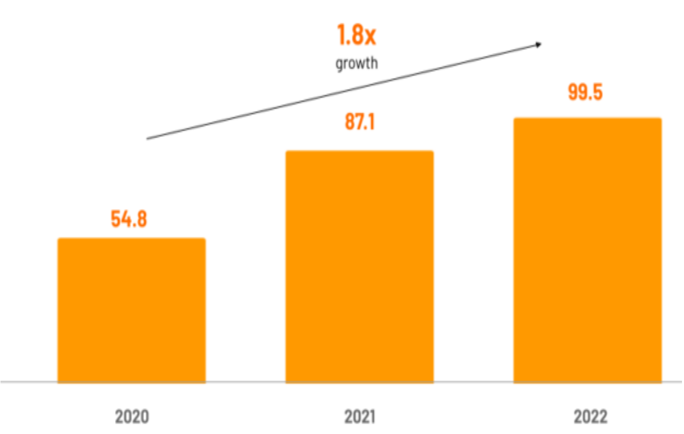
Strategic partnership with All-Link. AGX's partnership with All-Link allows it to tap into China's burgeoning logistic demands. AGX holds associate stakes in All-Link Singapore (30%) and All-Link Philippines (48%). All-Link Singapore specializes in freight transport arrangement and general warehousing, while All-Link Philippines operates as a master consolidator and breakbulk agent for international cargo. This collaboration allows AGX to leverage on All-Link's client base in China, particularly as businesses seek to diversify supply chains amid rising geopolitical tensions. This partnership also grants AGX first-right equity participation in any new All-Link ventures in SEA and priority rights to provide logistic services, further solidifying its foothold in the region.

SEA has become one of the preferred destinations under the China +1 strategy. The China+1 strategy, first introduced in the 2000s to reduce production costs by relocating operations to more affordable countries, has evolved as companies are now adopting this strategy to lower costs and safeguard their supply chains amidst the US-China trade tensions. SEA has emerged as the preferred region for business relocation, driven by its close proximity to China and cost-effective labour force. This trend has spurred increasing demand for logistics services across the region, presenting AGX with an opportunity to leverage All-Link's client network and offer integrated logistics solutions between China and SEA to support this transition.

SEA's e-commerce market is leading global growth. The SEA e-commerce market is experiencing exceptional growth, outpacing other regions globally. Accelerated by rapid digitalization, a booming middle class, and increasing internet penetration, SEA's e-commerce market has recorded a 21% YoY growth in 2022. The surge reflects a shift in consumer behaviour, with shoppers increasingly turning to online platforms for daily essentials to electronics, and luxury goods.

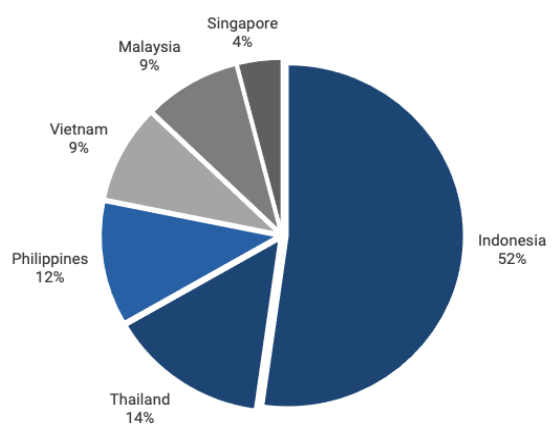
The SEA e-commerce market is growing at 15% CAGR. SEA's e-commerce industry reached a GMV of US$99.5bn in 2022, representing a 1.8-fold increase from US$54.8bn in 2020. Indonesia was the largest contributor, accounting for 52% of the region's total GMV, followed by Thailand (14%) and the Philippines (12%). According to Statista, the e-commerce market in SEA is projected to grow steadily from US$159bn in 2024 to US$370bn by 2030, reflecting 15% CAGR.

Table 15: Combined SEA e-commerce GMV (US$bn)



Source: Momentum Works

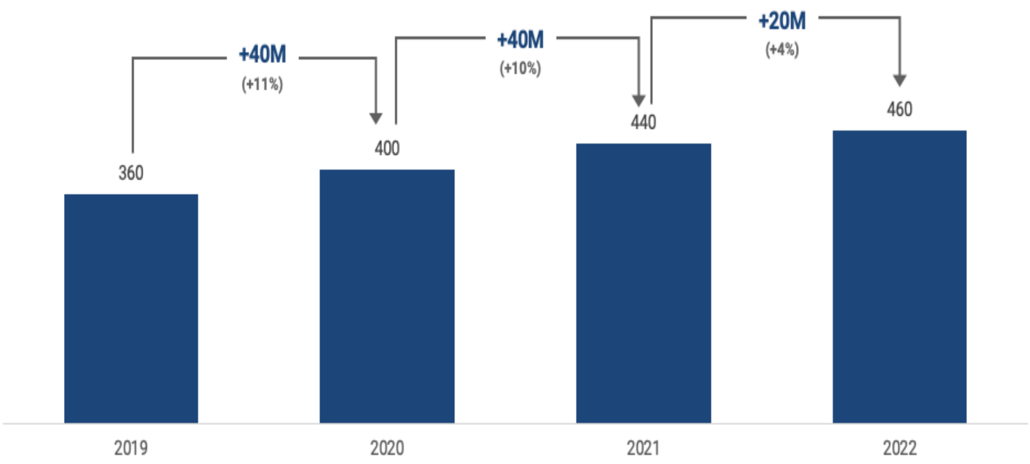
Table 16: 2022 e-commerce GMV breakdown within the SEA



Source: Momentum Works

Accelerating digital adoption in SEA. According to Daxue Consulting, the number of internet users in SEA grew by 28% from 2019-22, highlighting the region's increasing digital adoption. Statista forecasts the number of internet users in SEA will rise from 584m in 2024 to 662m by 2029. Supporting this view, the International Trade Administration (ITA) projects that the region's internet economy will expand from US$217bn in 2023 to US$330bn by 2025. This rapid growth further emphasizes the significant opportunities in the region's e-commerce sector, driven by a larger online consumer base and increasing digital penetration.

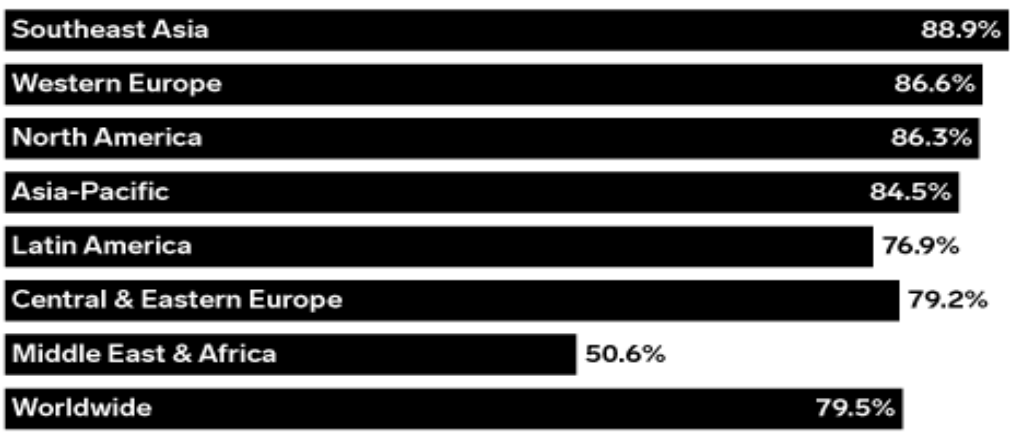
Table 17: Number of internet users in SEA from 2019 to 2022



Source: Daxue Consulting

Rapid growth in smartphone users. According to [eMarketer](), SEA is one of the fastest-growing regions globally in terms of digital device adoption. In 2023, nearly 90% of internet users in the region owned smartphones, surpassing developed markets such as North America (86%) and Western Europe (87%). Social media platforms like Facebook, Instagram, and TikTok have become powerful shopping hubs, driving brand and influencing purchasing decisions. As internet penetration and smartphone usage continue to rise, e-commerce sales are expected to rise in tandem, driving demand for logistics services. Statista projects that the number of smartphone users in SEA will grow from 490m in 2024 to 626m by 2029, representing a 5% CAGR.

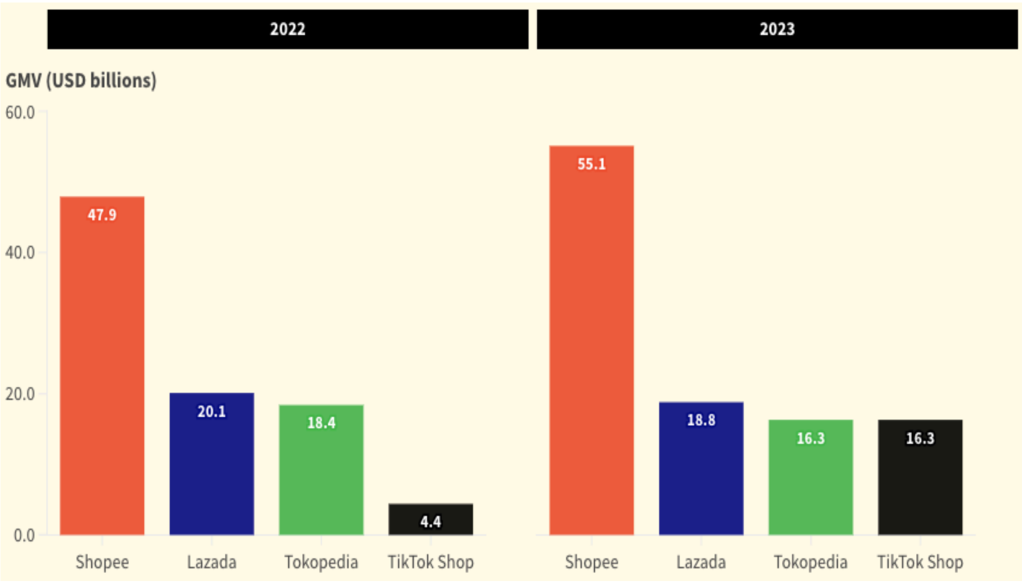
Table 18: Smartphone user penetration by region in 2023



Source: eMarketer

The rising popularity of SEA's e-commerce platforms. The rise of Shopee and TikTok Shop highlights SEA's e-commerce boom. According to a report by Momentum Works, the combined GMV of SEA's eight leading e-commerce platforms soared to US$115bn in 2023, representing a 15% YoY increase from 2022. Shopee remains the dominant player with a 48% market share. At the same time, TikTok Shop has emerged as a significant challenger, almost quadrupling its GMV from US$4.4bn in 2022 to US$16bn in 2023, with growth outpacing Shopee's US$7bn GMV increase over the same period. TikTok Shop's rapid rise is largely credited to its 75% acquisition of Tokopedia, which has overtaken Lazada to become the region's second-largest e-commerce player. All-Link is expected to benefit from the shifts in consumer shopping behaviour and the booming e-commerce market, with growth driven by increased shipment volumes and greater demand for logistics solutions.

Table 19: SEA e-commerce GMV by company

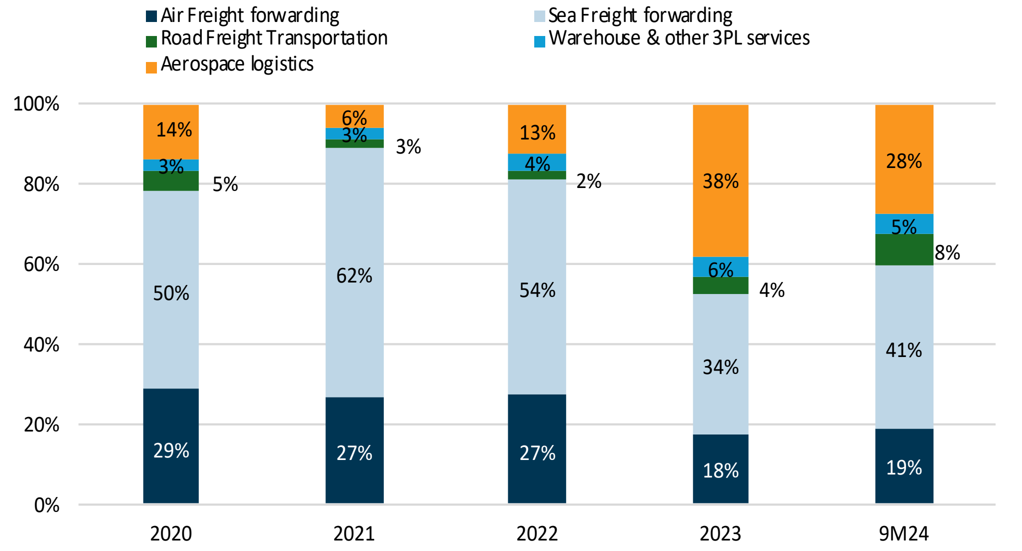


Source: Momentum Works

Earnings outlook

Steady historical growth. AGX experienced exponential growth from 2020–22, with revenue achieving a 2-year CAGR of 38%. The stellar performance was primarily driven by solid contributions across all segments, including air and sea freight, as well as warehouse and aerospace logistics. However, in 2023, revenue declined by 20% YoY, impacted by weaker air and sea freight performance due to falling freight rates and overall softer demand.

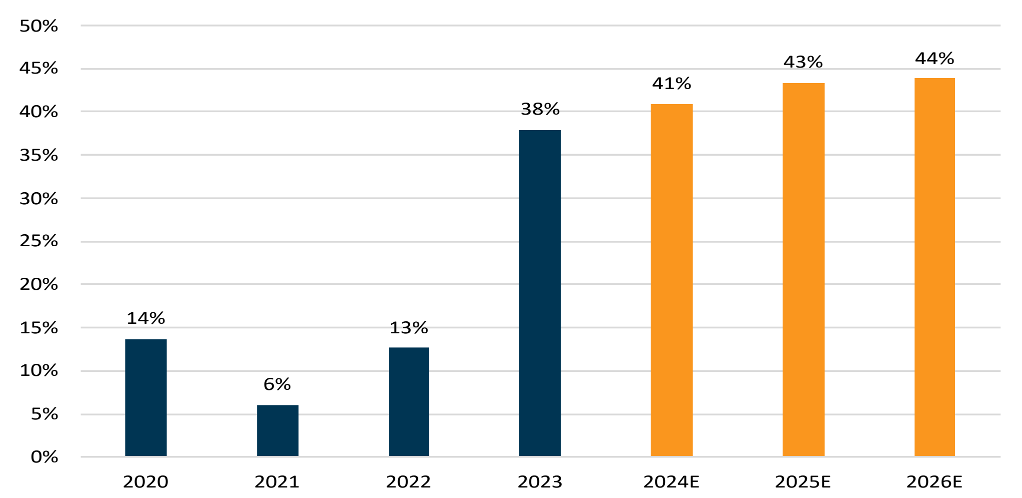
Table 20: Segmental revenue breakdown



Source: Company, Phillip Research

Aerospace segment to drive growth. The aerospace logistics segment has historically contributed an average of 13% to the total revenue for 2020–2022, excluding the pandemic-impacted 2021. During the pandemic, supply chain disruptions caused the segment's revenue to decline by 30% YoY. However, the segment rebounded strongly the following year, with volumes recovering to 2020, aided by increased shipping rates. In 2023, the segment experienced robust growth, with revenue surging 1.4-fold, driven by increased volume and contributing 38% of total revenue. Going forward, we expect contribution from this segment to rise to 41–44% of total revenue, underpinned by strong demand for MRO services. This growth will be supported by 1) the recent service agreement signed with ADE, 2) the ongoing recovery in the aviation industry, and 3) fleet rejuvenation across the regions, backed by record-high order backlogs.

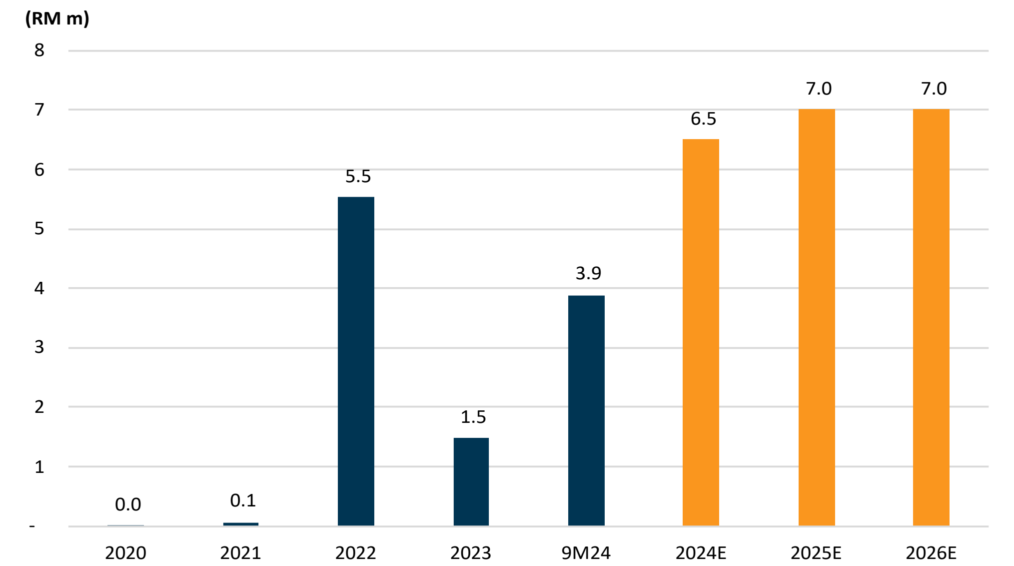
Table 21: Aerospace logistic is set to become a bigger contributor



Source: Company, Phillip Research forecasts

All-Link profit may surpass the 2022 peak. All-Link's profit contributions fell 73% YoY in 2023, largely due to reduced service demand as freight activity from its China-based customers slowed. 9M24 associate profits surged to RM3.9m (2023: RM1.5m), driven by higher logistics demand and a strong 3Q24 contribution of RM2.4m, boosted by seasonal holiday demand and a major new customer secured in 2Q24. We remain positive on All-Link's outlook going forward as it benefits from two key trends: 1) rising industrial activity spurred by ongoing supply chain diversification amid US-China trade tensions, and 2) increasing e-commerce volumes. As a result, we estimate All-Link will register an annual profit contribution of c.RM7m over 2025–26E, but see an upside should volumes come in stronger than expected.

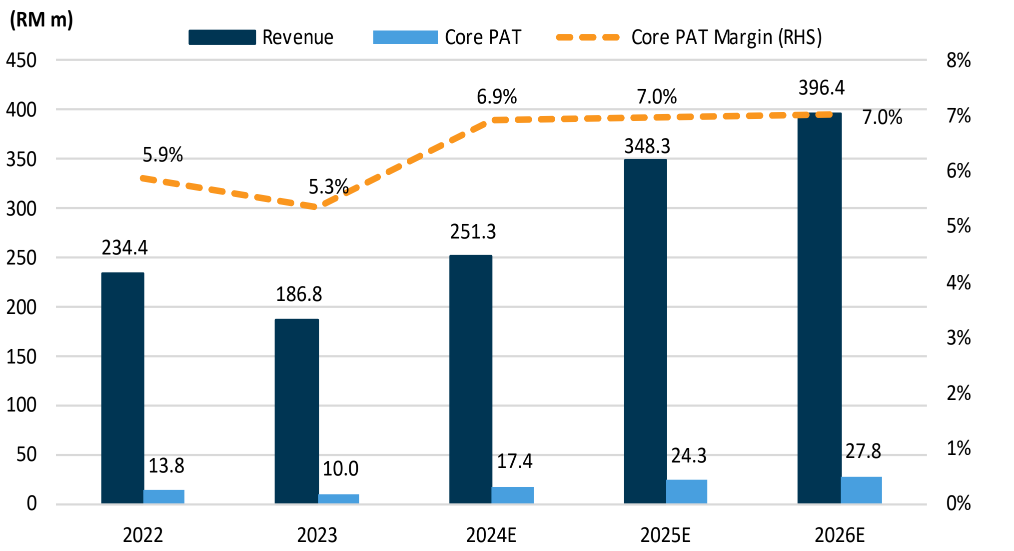
Table 22: Associate profit contributions



Source: Company, Phillip Research forecasts

3-year CAGR net profit of 41%. We project AGX's revenue to grow at a robust 41% CAGR over 2024–26E, driven primarily by 1) volume expansion from its sea and air freight business and 2) increased aerospace logistic activity. Furthermore, the positive turnaround at All-Link is expected to contribute significantly to AGX's profit growth, with a projected net profit CAGR of 68% over 2023–26E.

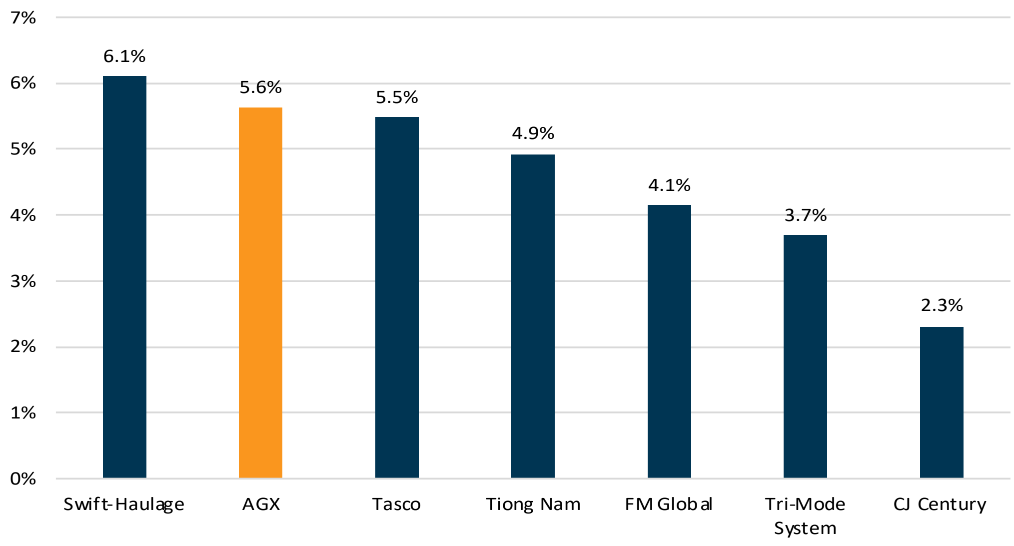
Table 23: Revenue, net profit and margin forecast



Source: Company, Phillip Research forecasts

Better margins compared to its peers. AGX's core net profit margin has averaged at 5.6% over the past two years, outperforming its peer average of 4.4%. This is largely attributed to its aerospace logistics segment, which commands higher margins compared to the other sea and air freight forwarding segments. Given the expected growth in the aerospace logistic segment and stronger associate contributions, we expect expansion in AGX profit margin to 7% over 2024-26E.

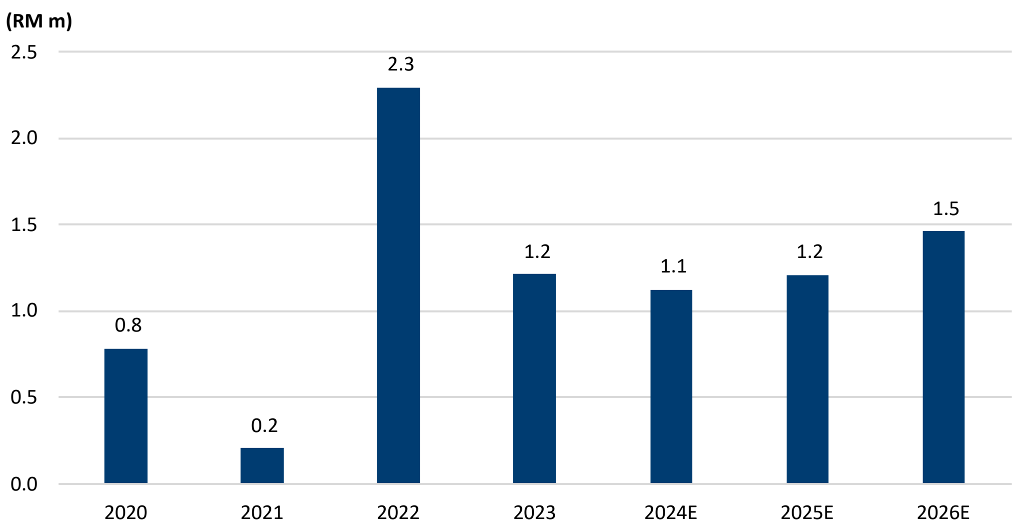
Table 24: AGX's net profit margin compared to its peers



Source: Company, Phillip Research forecasts

Low capex requirement. AGX's capex spending has been relatively low from 2020–23, averaging RM1–2m annually, in line with its asset-light business model. This capex was primarily used to fund acquiring essential equipment, warehouse renovations, and vehicles to support its freight operations. As part of its plan to utilize IPO proceeds, AGX plans to establish new warehouses and offices in Johor Bahru and Penang to strengthen its warehousing and 3PL services across the northern and southern region, to provide improved access to key seaports and airports. In Jun24, the company leased a new warehouse in PTP in Johor Bahru and expected to contribute in 2H24. Meanwhile, efforts are underway to identify a suitable location for a leased warehouse in Penang. AGX plans to open a new office in Busan, South Korea, to strengthen its regional sea freight forwarding services.

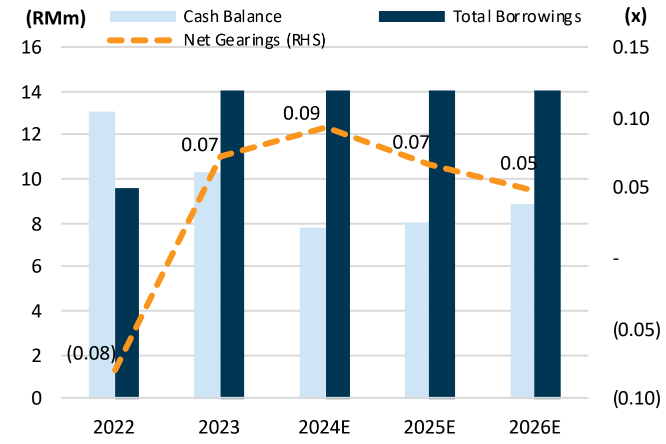
Table 25: AGX capex spending



Source: Company, Phillip Research forecasts

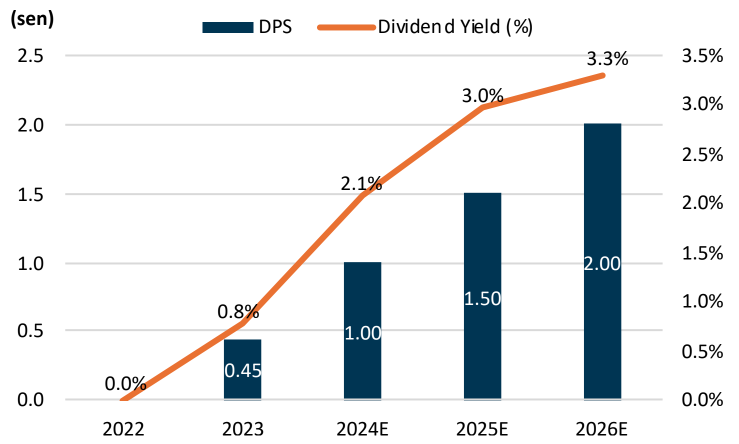
Healthy balance sheet. AGX's current net gearing is at a comfortable 0.27x as of the end of 3Q24. With low capex requirements, we expect this to decline to 0.07x by end25. The low gearing level provides ample room for AGX to gear up for future expansion opportunities, including establishing offices in new regions to broaden its global presence, if necessary. Besides that, this could open the possibility of higher dividend payouts, with the company's policy to distribute at least 30% of its net profit.

Table 26: AGX's balance sheet



Source: Company, Phillip Research forecasts

Table 27: Forward average 2.8% dividend yield



Source: Company, Phillip Research forecasts

Valuation and recommendation

Initiate coverage with a BUY TP of RM0.84. We initiate coverage on AGX with a BUY rating and target price of RM0.84, pegged to a target FY26E PER of 15x. We find AGX attractive for 1) its unique position in the niche aerospace logistics market, with direct exposure to AirAsia (via ADE), 2) its robust earnings growth potential (reflected in 3-year net profit CAGR of 41%), 3) its ability to capitalize on sustained elevated freight rates.

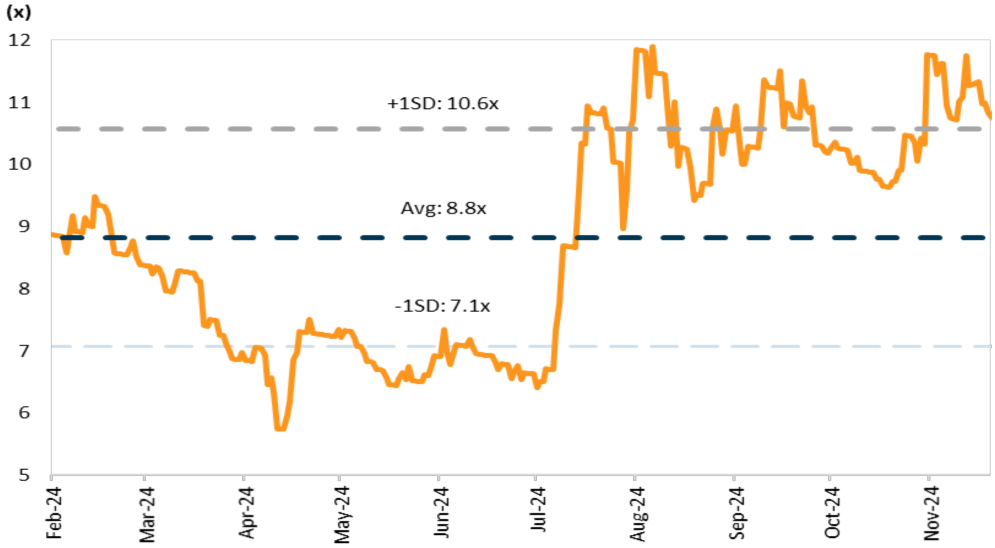
Stands out from niche aerospace specialisation. Our target PE is at a 20% premium relative to Malaysian-listed freight companies. We believe this premium is well-justified, as there are no directly comparable local peers due to AGX's unique exposure in the aerospace logistics market– a niche that offers a distinctive value proposition that sets it apart in the industry. Through its partnership with AirAsia, SEA's largest aircraft operator, AGX gains a significant advantage with access to a vast fleet, ensuring higher shipment volumes.

Table 28: Local peer comparison

Ticker	Stock	Rating	Price	TP	Year	Mkt Cap	Core PE (x)		Core EPS Growth (%)		P/BV	Div. Yield (%)	ROE (%)
			(RM)	(RM)	End	(RM m)	2023	2024E	2023E	2024E	2024E	2024E	2024E
AGX MK EQUITY	AGX	BUY	0.58	0.84	Dec	248.9	24.9	14.3	(27.4)	73.9	3.0	2.1	29.4
TASCO MK	Tasco*	N/R	0.70	N/R	Mar	560.0	8.1	9.0	(18.3)	(9.9)	0.9	3.5	9.9
HALG MK	Harbour-Link*	N/R	1.52	N/R	Jun	608.6	5.2	-	(21.0)	-	0.7	-	-
FM MK	FM Global Logistics*	N/R	0.57	N/R	Jun	318.3	8.7	8.6	(16.8)	1.4	0.8	6.7	8.8
CLH MK	CJ Century Logistics	N/R	0.23	N/R	Dec	136.7	11.7	20.0	(58.5)	(41.5)	0.3	2.1	1.5
TNL MK	Tiong Nam Logistics*	N/R	0.71	N/R	Mar	372.1	7.5	-	113.1	-	0.4	-	-
SWIFT MK	Swift-Haulage	N/R	0.47	N/R	Dec	415.4	6.5	10.4	27.1	(38.0)	0.6	2.9	5.5
TSMB MK	Tri-Mode System	N/R	0.29	N/R	Dec	47.3	18.9	-	(75.7)	-	0.5	-	-
Average							**11.4**	**12.5**	**(9.7)**	**(2.8)**	**0.9**	**3.5**	**11.0**
Average (excl. AGX)							**9.5**	**12.0**	**(7.2)**	**(22.0)**	**0.6**	**3.8**	**6.4**

*Source: Bloomberg, Phillip Research forecasts closing price as of 2 December 2024 *calendarized data*

Table 29: AGX's PE valuation since listing



Source: Bloomberg, Phillip Research forecasts

Key risks to our BUY call

Changes in local and international regulations. Any changes in regional and international regulatory requirements imposed by government authorities could harm AGX's operations. Non-compliance may result in license revocation or non-renewal, leading to operational disruptions.

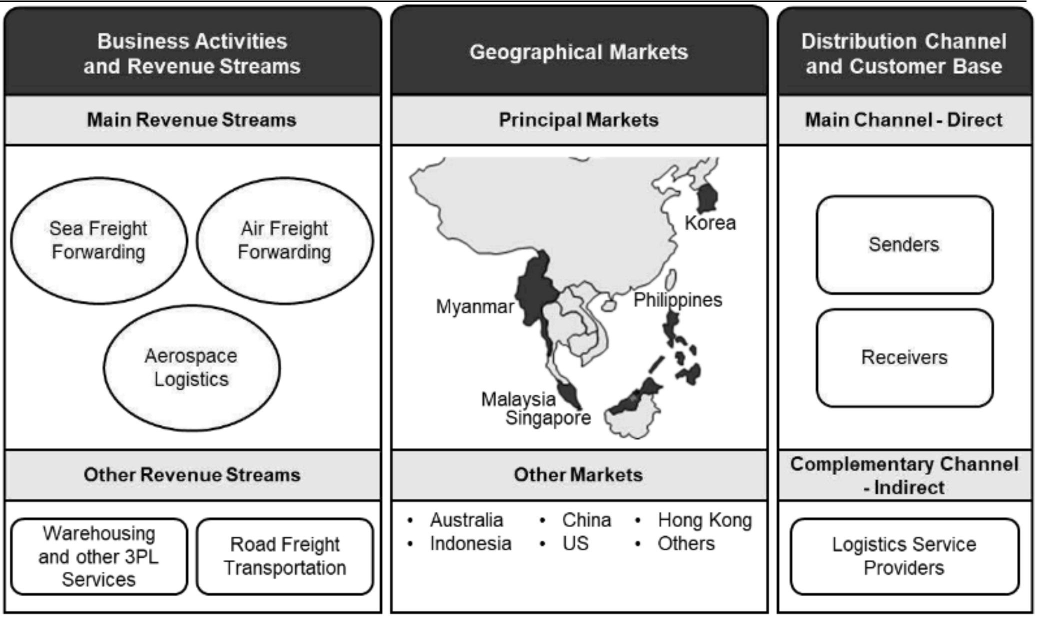
Decline in global demand for sea and air freight services. AGX's logistics services are integral to international shipments, facilitating freight movement between countries. As such, the company's volume is closely tied to the level of global trade. A downturn in demand for logistic services could negatively impact earnings.

Fluctuation in sea and air freight rates. The pricing of AGX's sea and air freight forwarding and aerospace logistics services depends on freight rates. These rates are subject to various factors, including global trade activity, container availability, sea and air freight demand, and the supply of vessels and aircraft. An unforeseen decline in freight rates could negatively affect earnings.

Company Background

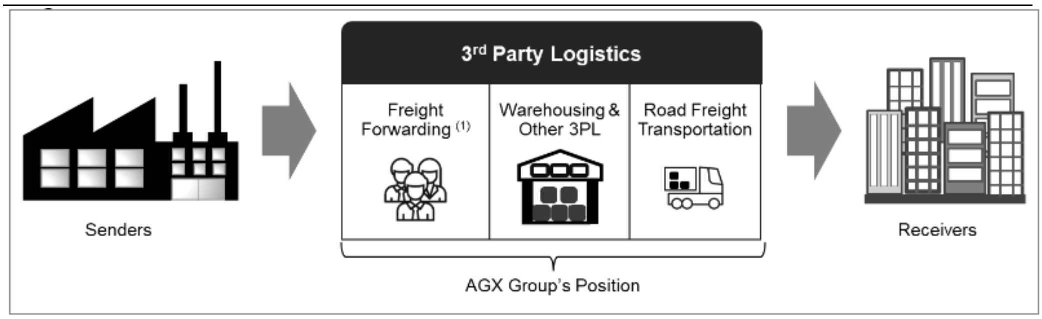
Global integrated logistics service provider. Established in 2004, AGX is an integrated 3PL service provider, primarily offering sea and air freight forwarding and aerospace logistics services since 2005. The company provides a comprehensive range of services to meet the diverse needs of its clients, including sea and air freight forwarding, aerospace logistics, road freight transportation, warehousing, and other 3PL services. AGX has a presence in eight countries, mainly across SEA, including Malaysia, Singapore, the Philippines, South Korea, Myanmar, Cambodia, Thailand, and Vietnam. With its global headquarters in Malaysia, the group operates 18 offices and 11 warehouses, supported by over 400 employees. AGX is also a registered NVOCC and an IATA-accredited Cargo Agent, enabling direct engagement with sea and air freight carriers.

Table 30: AGX's business model



Source: Company

Table 31: AGX's position in the logistics value chain



Source: Company

Direct and indirect distribution channels to provide a one-stop logistics solution. By leveraging these channels, AGX maximizes sales and broadens its market reach. Through direct channels, clients engage directly with AGX, while indirect channels involve partnerships with other logistics service providers, who collaborate with AGX to deliver logistics services to their customers. Direct channels typically account for c.80% of the company's total revenue, allowing AGX to offer more comprehensive, higher-value end-to-end logistics services. In contrast, indirect channels generally provide more specialized services. These channels help expand AGX's reach into regions where it does not have a physical presence, creating additional business opportunities.

Table 32: AGX's key customers

AirAsia
KUKDO CHEMICAL CO., LTD.
Autoliv
MOOG
Bay-Sports Manufacturing Inc.
molex one company > a world of innovation
CORONATION PREMIUM MFG INC

Source: Company, Phillip Research

Board of Directors and Management Profile

Dato' Rozalila Binti Abdul Rahman is the **Independent Non-Executive Director/Chairperson**, appointed to the Board in November 2022. With over 30 years of experience, she has expertise in product lifecycle management, consumer lifestyle and brand management, and client service management. Dato' Rozalila was also the CEO of Astro GS Shop Sdn Bhd, Chief Marketing Officer of Telekom Malaysia Berhad, and General Manager of Maxis Mobile Services Sdn Bhd. 1988 she graduated from the University of Putra Malaysia with a Bachelor of Food Science and Technology.

Dato' Ponnudorai A/L Periasamy is the Group's **Chief Executive Officer**. With over 15 years of experience in local and international freight forwarding and air freight sectors, Dato' Ponnudorai co-founded AGX Malaysia (formerly known as AGI Logistics Malaysia Sdn Bhd) in 2005. In 2016, he obtained a Procurement and Contract Professionals certificate accredited by the Chartered Institute of Logistics and Transport.

Mr. Neo Lip Pheng, Peter is the **Managing Director of AGX Myanmar**. He was appointed to the Board in Nov19. He joined AGX Singapore in 2011 as Regional Director and became a Board member in June 12. Peter was later appointed as the Managing Director of AGX Myanmar in 2023. He began his career as a sales executive with Jet Express (S) Pte Ltd in 1993 before leaving in 1998 to co-found AGI Freight Singapore Pte Ltd, which specializes in international freight forwarding. Peter holds a Diploma in marketing from the Chartered Institute of Marketing.

Mr. Jayasielan A/L Gopal, the **Managing Director of AGX Malaysia**, oversees AGX's business operations in Malaysia. With 24 years of experience in the local and international freight forwarding and air freight sectors, Mr. Jayasielan co-founded AGX Malaysia alongside Dato' Ponnudorai in 2005. He holds a Certificate in Procurement and Contract Professionals accredited by the Chartered Institute of Logistics and Transport in 2016.

Mr. Penu Mark is the **Managing Director of AGX Singapore**, a role he has held since co-founding the company in 2010 with Dato' Ponnudorai and Mr. Jayasielan. He holds a Bachelor of Engineering in Engineering and Management from Loughborough University, United Kingdom. Mark also founded Premier Supporters, a sole proprietorship focused on the wholesale and retail of football merchandise.

Mr. Maximino Baylen Gulmaya, Jr., is the Managing Director of AGX Philippines. He co-founded the company in 2012 and has served as its Managing Director. He is responsible for expanding the group's logistics network and overseeing product development and overall operations in the Philippines. He holds a Bachelor of Science in Customs Administration from the John B. Lacson Colleges Foundation in the Philippines.

Mr. Chang Poh Sheng is the **Chief Financial Officer**, managing all financial matters, including financial reporting and internal controls for the group. Mr. Chang has been a qualified accountant since 2001, certified by the Chartered Institute of Management Accountants in the United Kingdom. He is also a member of the Malaysian Institute of Accountants. Mr. Chang joined AGX as the CFO in 2018.

Mr. Yun Jaehoon is the **Managing Director of AGX Korea**, overseeing the expansion of AGX's logistic network and its overall operations. He co-founded AGX Korea in 2012. Mr. Yun graduated from Kyunmin University in South Korea in 2002, specializing in Office Automation, Trade Automation, and Logistics Management.

FINANCIALS

Income Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Revenue	234	187	251	348	396
Operating expenses	(216)	(166)	(228)	(313)	(355)
EBITDA	**18**	**21**	**23**	**36**	**42**
Depreciation	(5)	(6)	(5)	(9)	(10)
EBIT	**13**	**14**	**18**	**27**	**32**
Net int income/(expense)	(1)	(1)	(2)	(2)	(2)
Exceptional gains / (losses)	(0)	0	0	0	0
Associates' contribution	6	1	7	7	7
Pretax profit	**17**	**14**	**23**	**32**	**37**
Tax	(3)	(4)	(6)	(8)	(9)
Minority interest	0	0	0	0	0
Net profit	**14**	**10**	**17**	**24**	**28**
Core net profit	**14**	**10**	**17**	**24**	**28**

Balance sheet

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Fixed assets	3	4	7	7	12
Other long term assets	11	15	15	15	15
Total non-current assets	**14**	**19**	**23**	**22**	**27**
Cash and equivalents	13	10	8	8	9
Stocks	0	0	0	0	0
Debtors	49	66	88	122	139
Other current assets	10	4	4	4	4
Total current assets	**73**	**80**	**100**	**135**	**152**
Creditors	25	21	29	40	46
Short term borrowings	9	14	14	14	14
Other current liabilities	4	6	6	6	6
Total current liabilities	**38**	**41**	**49**	**60**	**66**
Long term borrowings	1	0	0	0	0
Other long term liabilities	4	7	7	7	7
Total long term liab.	**5**	**7**	**7**	**7**	**7**
Shareholders' Funds	**44**	**51**	**67**	**90**	**107**
Minority Interest	0	0	0	0	0

Cash Flow Statement

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Pretax Profit	17	14	23	32	37
Depreciation & amortisation	5	6	5	9	10
Working capital changes	3	(14)	(14)	(23)	(11)
Cash tax paid	(3)	(4)	(6)	(8)	(9)
Others	(3)	0	(7)	(7)	(7)
C/F from operation	**19**	**3**	**1**	**3**	**19**
Capex	(2)	(1)	(1)	(1)	(1)
Others	(1)	3	**4**	7	7
C/F from investing	**(3)**	**2**	**3**	**6**	**6**
Debt raised/(repaid)	(8)	(3)	0	0	0
Dividends paid	(1)	(7)	(5)	(7)	(8)
Others	(1)	(1)	(1)	(1)	(1)
C/F from financing	**(10)**	**(11)**	**(7)**	**(9)**	**(10)**
Net change in cash flow	6	(6)	(2)	0	15
Free Cash Flow	**17**	**2**	**(0)**	**2**	**18**

Financial Ratios and Margins

Y/E Dec (RMm)	2022	2023	2024E	2025E	2026E
Growth					
Revenue (%)	21.2	(20.3)	34.5	38.6	13.8
EBITDA (%)	37.2	14.4	9.9	56.4	16.6
Core net profit (%)	140.5	(27.4)	73.9	39.8	14.6
Profitability					
EBITDA margin (%)	7.8	11.1	9.1	10.3	10.5
PBT margin (%)	7.2	7.6	9.2	9.3	9.4
Core net profit margin (%)	5.9	5.3	6.9	7.0	7.0
Effective tax rate (%)	28.9	35.1	34.8	31.9	30.8
ROA (%)	15.3	10.5	15.7	17.4	16.6
Core ROE (%)	34.1	21.0	29.4	31.0	28.3
ROCE (%)	25.1	24.2	25.1	29.3	28.3
Dividend payout ratio (%)	0	20	30	30	30
Liquidity					
Current ratio (x)	1.9	2.0	2.0	2.2	2.3
Op. cash flow (RMm)	19	3	1	3	19
Free cashflow (RMm)	17	2	0	2	18
FCF/share (sen)	4	1	0	0	4
Asset management					
Debtors turnover (days)	77	128	128	128	128
Stock turnover (days)	0	0	0	0	0
Creditors turnover (days)	43	46	47	47	47
Capital structure					
Net gearing (%)	-8%	7%	9%	7%	5%
Interest cover (x)	5.9	10.1	10.1	10.9	16.1

Quarterly Profit & Loss

Y/E Dec (RMm)	1Q24	2Q24	3Q24
Revenue	**49**	**56**	**66**
Operating expenses	(47)	(51)	(60)
EBITDA	**2**	**5**	**6**
Depreciation	(2)	(2)	(2)
EBIT	0	3	4
Int income	0	0	0
Int expense	(0)	(1)	(1)
Associates' contribution	0	1	2
Exceptional items	0	0	(3)
Pretax profit	**0**	**4**	**3**
Tax	(0)	(1)	(1)
Minority interest	0	0	0
Net profit	**0**	**3**	**2**
Core net profit	**0**	**3**	**5**
Margins (%)			
EBITDA	4.5	9.4	9.5
PBT	0.8	6.9	4.6
Net profit	0.1	5.4	3.6

Source: Company, Phillip Research forecasts

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