

## MY: AGX Group Berhad - Carving a niche in aerospace logistics



Company Info  
Board: Ace  
Shariah

IPO Price: 7/2/2024: RM0.35  
Market Cap: RM151.5m  
Free Float: 29.5%

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### What does the company do?

- Incorporated in 2004, AGX Group (AGX) is an integrated third-party logistics (3PL) service provider covering Southeast Asia and Korea. AGX provides sea (36% of 9M23 revenue) and air freight forwarding (17%), aerospace logistics (37%), warehousing and other 3PL services (6%) and road freight transportation (4%) in the region.
- Headquartered in Malaysia (17% of 9M23 revenue), but foreign countries dominated the group's revenue with Philippines (39%) leading the contributors, followed by Singapore (9%), Korea (7%), Myanmar (4%) and other countries (ie. China, Japan and US).
- AGX's position in aerospace logistics lays out the group's competitive advantage vs its peers. The company is able to deliver both maintenance, repair and overhaul (MRO) and aircraft-on-ground (AOG) services for aircraft parts and equipment in Malaysia, Singapore and Philippines. Note that aerospace logistics provides better GP margin of more than 30% as compared to sea and air freight forwarding due to its time critical nature of business, which typically needs to be fulfilled within 24-48 hours.

### Is the company profitable?

- The group was profitable in FY20-22 with a 2-year net profit CAGR of 392% despite a revenue CAGR of 38%. This was on the back of PATAMI margin expansion from 0.5% in FY20 to 5.8% in FY22 – from improved operations and cost reduction.
- 9M23 PATAMI came in at RM9.2m, at 68% of FY22 net profit. The group's total GP margin increased by 12%-pts yoy to 33% in 8M23 (from 21% in 8M22), mainly lifted by GP margin improvement in 2 segments – sea freight forwarding and aerospace logistics (lower sea freight rates and lower air freight cost component).

### Does the company have debt or cash?

- As at end-September 2023, AGX has a net cash position of RM3.9m, representing 3% of its targeted market capitalisation (NCPS: 0.90 sen).

### Does the company pay any dividends?

- The group targets a dividend policy of 30% of net profit post-IPO. AGX has been paying dividends in FY21-9MFY23 with a payout ratio of 20%-44% of its net profit.

### Who owns the company?

- Mr. Penu Mark (Executive Director and Managing Director of AGX Singapore) and Mr. Neo Lip Pheng, Peter (Executive Director and Managing Director of AGX Myanmar) are the largest shareholders of the group.
- Mr. Jayasielan (Executive Director and Managing Director of AGX Malaysia) and Dato' Dorai are the second largest shareholders of the group, who have 44 years and 35 years of experience respectively in the logistics industry.

### What is the company's business direction?

- Currently, AGX operates 1 head office in Subang Jaya, Selangor, 1 office and rented-warehouse in Port Klang and 1 rented-warehouse in KLIA with a cumulative floor space of c. 63,346 sq.ft. The company plans to set up a new warehouse and office each at Pelabuhan Tanjung Pelepas (PTP), Johor Bahru (50,000 sq. ft.) and Penang (22,000 sq. ft.), which are expected to increase the floor space capacity by 53% post-expansion within Malaysia. As at end-August 2023, the utilisation rate of Malaysia warehouses stood at 67%.
- The coverage in the Southern and Northern region in Peninsular Malaysia could provide warehousing and 3PL services to customers in Singapore and establish a physical presence close to the seaports and airports in Penang. AGX also intends to set up a new office in Busan, South Korea for its regional exposure (vs. existing office in Seoul, Korea).
- The joint venture with All-Link (an international supply chain solutions provider), namely All-Link Singapore and All-Link Philippines (47.99%-owned by AGX) to serve All-Link's customers from China who have expanded their business to Southeast Asia is expected to provide another source of profit for the company.
- The accreditation as a Non-vessel operating common carrier (NVOCC) in 2022 and IATA Cargo Agent in 2023 through AGX Philippines is set to improve profit margins moving forward. The credentials allow the group for direct-dealing with sea (shipments to the US) and air freight common carriers to obtain better sea and air freights rates.

#### Key stock statistics

FYE Dec (RM m)	2020A	2021A	2022A	9M2023A
Revenue	122.5	193.4	234.4	138.2
GP	35.3	41.1	50.4	44.9
EBITDA	7.9	13.5	23.4	15.9
PATAMI	0.6	5.9	13.5	9.2
Basic EPS (sen)	0.1	1.4	3.1	2.1
Net Gearing (x)	1.3	0.0	Net Cash	Net Cash
DPS (sen)	0.0	0.3	1.4	0.7
Div. Yield (%)	0.0	0.8	3.9	2.0
P/E (x)	270.5	25.5	11.2	16.5
P/BV (x)	33.6	4.3	3.5	2.9
ROE (%)	10.6	28.2	33.5	18.7
ROA (%)	0.8	7.4	15.5	10.3

SOURCE COMPANY

#### Major shareholders (Post-IPO)

Name of shareholders	% of Shares
Penu Mark	17.60
Neo Lip Pheng, Peter	17.60
Jayasielan A/L Gopal	11.54
Dato' Ponnudurai A/L Periasamy	11.54

SOURCE COMPANY

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### Any corporate development?

- The IPO will raise a total proceed of RM33.8m. Of the proceeds raised, 49% (RM16m) will be used for working capital for freight charges, marketing expenses and enhancement of IT infrastructure, 26% (RM9m) for business expansion, 12% (RM4m) to repay borrowings and the rest (RM5m) for estimated listing expenses.
- Closing date of IPO application will be on 23 January 2024. The group will be listed on the ACE Market on 7 February 2024.

### Risks and mitigating factors

- Key risks to the group include fluctuations in sea and air freight rates which could affect business volume (47% of 8M23 total cost of sales), customers concentration risk (AirAsia Group - 27% of 8M23 revenue; Kukdo Chemical Co. Ltd – 7% of 8M23 revenue) and fluctuations in foreign exchange.
- AGX’s key competitive advantages are: 1) Asset-light model with low capex, 2) Wide network and diversified customer base from multiple platforms (ie. X2 Logistics Network, Lognet Global Logistics Network and JCTrans Logistics Network), 3) Exposure in the aerospace logistics with higher barriers of entry, 4) Better rates from registered licenses (ie. NVOCC and IATA Cargo Agent), and 5) Cost-plus business model which mitigates volatility in freight costs.

### Valuation?

- The IPO price of RM0.35 values AGX at 11.2x FY22 P/E and annualised 9M23 P/E of 12.4x (vs. Bursa Malaysia Transportation & Logistics Index FY22 and FY23 P/E of 21.6x and 17.6x respectively, according to Bloomberg).

**Figure 1: Business activities**

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

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

### Recommendation Framework

#### Stock Ratings

Definition:

**Add** The stock's total return is expected to exceed 10% over the next 12 months.

**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

**Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

**Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

**Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

**Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

**Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.