

September 30, 2016

Dear clients and colleagues,

Despite the current economic slowdown in China, mass consumption continues to grow rapidly. With the progressive implementation of the “One Belt, One Road” initiative, China is steadily integrating the economies of its neighbours into an ever-widening circle. In the coming years, the biggest growth in global logistics will be intra-Asian and between Asia and the rest of the world.

This week we would like to profile Kerry Logistics Network, a company that should benefit from the above secular trend. This company was an addition to our portfolio in Q2 2016, and we’ve met the management three times, the latest being in March of this year.

Kerry Logistics Network Limited (636 HK – HK\$10.66)

www.kerrylogistics.com

Business Overview

Founded in 1981, Kerry Logistics Network is a leading third-party logistics services provider in Asia. It has over 45 million square feet logistics facilities, 7,800+ self-owned trucks and 550+ office locations in 40 countries. It employs more than 22,500 people worldwide.

Its two main services are integrated logistics (warehousing and domestic freight management) and international freight forwarding. Its customers are primarily multinational corporations. Many of the Top 100 Brands employ Kerry Logistics across a wide spectrum of industries including fashion & lifestyle, electronics & technology, food & beverage, FMCG, industrial & material science, automotive and pharmaceutical & healthcare.

Investment Theme

Outsourcing: The 2016 Third-Party Logistics (3PL) Study showed that 70% of companies that use logistics services and 85% of 3PL providers believe that the use of 3PL services contributes to a reduction in overall logistics costs.

Management

The founding family (Kuok) owns 64% of the company through Kerry Group Limited and manages it actively. Robert Kuok, Malaysia’s richest person, controls an empire that includes the luxury hotel chain Shangri-La, Kerry Properties and commodities trader Wilmar.

Mr. George Yong-boon Yeo has been the Chairman since Aug 2012. He was previously the Minister of Foreign Affairs in the Singapore government.

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ESG

The company has very comprehensive ESG policies and reports. It won numerous awards in 2015, such as the Hong Kong Corporate Governance Excellence Award and Best Investor Relations in the Industrials sector by a Hong Kong Company. Management places a strong emphasis on caring for the environment, people and community. The board has three independent directors and a transparent structure.

Market Data

Market Cap HK\$18.0B, Net debt/EBITDA 0.8x, Dividend Yield 1.6%, P/E (2017/12) 14.7x, Ev/Sales 0.9x, Ev/EBITDA 8.6x, Gross Margin 16.2%, EBITDA Margin 14.3%, Profit Margin 8.6%, ROE 12%.

Competition

Logistics is a very fragmented industry. Some of the major competitors are Singapore Post, CJ Express, Hitachi, Kintetsu and Sinotrans.

Competitive Advantages

- Kerry Logistics Network has the first-mover advantage in many Asian countries.
- Excellent reputation. It won the Global Logistics Provider of the Year award (by Payload Asia Awards 2015) and the Asian 3PL of the Year award (by Supply Chain Asia Awards 2015).
- Asset ownership model enables it to offer greater reliability and flexibility to clients.

Growth Strategy

- Distribution: The company is continuously expanding in Asia, but Greater China remains the core market. The mid-term focus will be Central Asia and India.
- Consolidation: In the international freight forwarding business, the company aims to continue its acquisition of global competitors.

Risks

- The business is very sensitive to global economic activity.
- Large investments in facilities are required to maximize efficiency.

Have a great weekend.

The Global Alpha team

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