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Integrax has not lost sight of Vale

Courting process long but deal will 'open up more opportunities'

by **Shalini Kumar**

KUALA LUMPUR: Integrax Bhd, a port operator based in Lumut, has not abandoned discussions for a possible tie-up with Brazilian mining corporation and logistics operator, Vale International SA.

Integrax executive director Azman Shah Mohd Yusof said for the last six months the port operator has been busy with its engagement with Tenaga Nasional Bhd (TNB) due to the expansion of its power plant (TNB Janamanjung) in Manjung, Perak.

He described the negotiations with Vale as a long process and something that would open up more opportunities.

"It's a very long courting process, and although we are not ready to announce anything at the moment, we definitely see a lot of opportunities in the way that we can work with them. I'm positive that there will be good news soon," he told *The Edge Financial Daily*.

"For the last six months, we have been focusing more on TNB. The additional 1,000mw power plant unit in Manjung will commence in 2015 and another 1,000mw unit is scheduled to be operational in late 2017," he said.

Integrax's biggest customer is TNB as the port handles all the coal requirements for the utility's power plants in Manjung.

At present, TNB Janamanjung's capacity is 2,100mw. Once the two additional power plants are operational, its capacity will expand by another 2,000mw.

Integrax operates two terminals at the Lumut Port, namely Lumut

Maritime Terminal and Lekir Bulk Terminal (LBT), which essentially

handles the coal imported by TNB for its Janamanjung power plant. LMT mainly handles bulk cargoes consisting of dry bulk, break bulk and liquid bulk.

The commencement of TNB's additional two power plants in Manjung will double Integrax's coal handling traffic by 2017, from its throughput of 10.16 million tonnes recorded for the year ended Dec 31, 2012.

On its tie-up with Vale, Integrax first signed a transshipment agreement in 2009 but it soured in 2010 after two key shareholders in the port operator developed differences of opinion over how dealings with Vale's iron ore requirements should be handled.

The two shareholders concerned are brothers Harun Halim Rasip and Amin Halim Rasip. Eventually Harun resigned as Integrax director and chief executive officer in 2011 and subsequently sold his 22% interest in the company to TNB.

Harun was said to be against a tie-up with Vale because Integrax would have had to incur huge capital expenditure in order to handle Vale's iron ore.

Amin currently serves on Integrax's board of directors as deputy chairman.

An analyst from Kenanga Research explained that the disagreement between the two shareholders caused Integrax to lose out because because Vale was given the nod to build its own jetty in Teluk Rubiah.

Vale's ongoing discussions with Integrax is confined to the latter's involvement in Teluk Rubiah.

"The Teluk Rubiah award was actually a lost opportunity for Integrax to expand its capabilities and diversify its portfolio. How-

ever, now that discussions have resumed, the company is moving in the correct direction, and actually securing the tie-up with Vale will be a bonus for the company," said the analyst.

Kenanga Research recently released a report on Integrax, giving the stock a fair value of RM2.50 and an "outperform" call.

The analyst who covers the stock said he chose to highlight the stock as he felt it was undervalued compared to other port operators such as Westports Holdings Bhd and Bintulu Port Holdings Bhd.

"Despite Integrax being smaller in scale, I think the other port operators can be considered peers since all three companies cater to different sectors within the industry. The risk for Integrax is the fact that TNB is its only client. However that too is minimal since TNB is also the major shareholder," he said.

RHB Research also has a "buy" call on the stock with a target price of RM2.32. The stock trades at a price-earnings ratio of 12.6 times, a 25% discount compared to its peer average of 18 times.

For the nine months ended Sept 30 of financial year 2013 (9MFY13), Integrax brought in a net profit of RM30.18 million, compared with RM28.99 million a year ago. Revenue was RM69.37 million, up from RM67.65 million previously. Kenanga's analyst is forecasting a three-year compound net profit growth of 22.3%.

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“We also believe there is room for growth in dividend from its current payout of 30%, given its strong cash flow generating ability. A 50% payout would bring the dividend yield to a decent 4%,” he said.

As at June 2013, Integrax had net cash amounting to RM113.6 million. In addition, the company is also cash flow positive with cash flow from operations of RM50.1 million posted in FY12.

“We believe that earnings at Integrax are defensive in nature given that the bulk of its revenue is derived from the terminal usage agreement with TNB which spans more than 20 years. On top of that, net margins for the next three years are expected to be similar or higher than 40%,” the analyst said.

Integrax’s Azman Shah said the group would have a new 80-tonne grab ship unloader delivered to its terminal within the first quarter of next year to help handle coal for Janamanjung.

“We will continue to be a fundamentally solid company with strong medium and long-term growth potential due to the nature of our business as well as our approach to being a value chain integration partner to our customers,” he said.



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