

CN Logistics International (2130 HK)

A niche play with multiple growth drivers

Founded in 1991 and headquartered in Hong Kong, CN Logistics International (“CNL”) is a comprehensive logistics solutions provider, with a main focus on high-end fashion and fine wine products. Underpinned by the global presence, a focus on high-end customers as well as good management execution, CNL delivered net profit CAGR of 54% in 2019-21. In 1Q22, CNL delivered revenue growth / gross profit growth of 60% / 31% YoY. Going forward, CNL targets to further expand overseas market through both organic growth and M&A supported by CS Group, the parent company. Besides, CNL has strived to further diversify the customer base in terms of downstream industries.

- Long-standing relationship with renowned brands.** CNL has established long-standing relationship with renowned high-end fashion retailers and brands: (1) CNL has maintained >18 years of partnership with The Lane Crawford Joyce Group; (2) CNL has >10 years of partnership with **Kering Group (KER FP)**, a major global brand owner. Besides, CNL has solid cooperation with wholesalers and retailers of wine such as L’Imperatrice. Given these customers are less price sensitive to logistics services, CNL is able to enjoy sustainable growth alongside these brands and retailers.
- Setting stage for further growth in Europe.** CNL acquired all the minority shares in two subsidiaries (CN Italy and CN Switzerland) in 2021 for a consideration of EUR18mn (~HK\$165mn). CNL plans to develop Italy into its European business headquarters, providing logistics services for high-end brands and fine-wine companies as well as facilitating its B2C business.
- Cruise logistics a new growth driver.** CNL completed the acquisition of Allport Cruise from the parent company for a consideration of HK\$185mn (placement to parent company: 24.4mn shares x HK\$9.2) early this year (15x historical P/E). Allport Cruise is an air and ocean freight forwarding service provider for global cruise operators, including the provision of shipments of suppliers for dry-docks on a project basis and cruise replenishment. According to CNL, cruises are needed to be sent to dry dock for maintenance every three years. The maintenance period normally lasts for only 7-10 days, which requires on time delivery. CNL has already secured 15 contracts and we expect 4-5 additional contracts this year, which will take the total contracts to ~20. We expect this will contribute US\$2mn (~HK\$15.6mn) after tax profit in 2022E. CNL is confident of gaining market share in future (currently: >10%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21A
Revenue (HK\$ mn)	1,484	2,021	2,673
YoY growth (%)	-3.6	36.2	32.3
Net income (HK\$ mn)	24	56	83
EPS (HK\$)	n/a	0.222	0.329
YoY growth (%)	n/a	n/a	48.1
Consensus EPS (HK\$)	n/a	n/a	n/a
EV/EBITDA (x)	n/a	10.8	9.0
P/E (x)	n/a	43.8	29.6
P/B (x)	n/a	6.9	6.7
Yield (%)	n/a	1.5	3.0
ROE (%)	9.3	17.8	22.1
Net gearing (%)	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

NOT RATED

Current Price

HK\$9.73

China Logistics Sector

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Stock Data

Mkt Cap (HK\$ mn)	2,686
Avg 3 mths t/o (HK\$ mn)	11.3
52w High/Low (HK\$)	11.26/7.03
Total Issued Shares (mn)	276.1

Source: Bloomberg

Shareholding Structure

CS Logistics	57.4%
Others	42.6%

Note: CS Logistics is owned by LAU Shek Yau John.

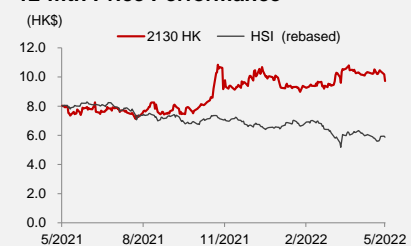
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.8%	3.6%
3-mth	8.4%	22.3%
6-mth	8.1%	28.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

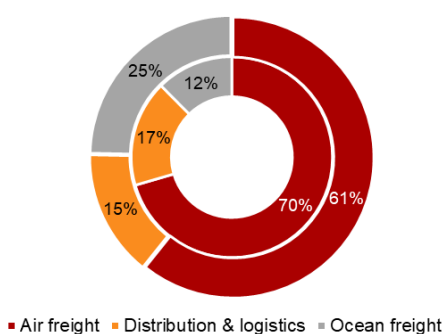
Auditor: KPMG

Business Overview

CN Logistics International Holdings Limited, founded in 1991 and headquartered in Hong Kong, is a leading comprehensive logistics solutions provider, with a main focus on high-end fashion and fine wine products. CNL primarily involves in three business segments: **(i) air freight forwarding services, (ii) distribution and logistics services, and (iii) ocean freight forwarding services**. The Company has been listed on HKEX since Oct 2020.

CNL's customer base includes direct customers and freight forwarder customers. Leveraging its global network and strong logistics capability, CNL has established long-standing relationship with well-known high-end fashion retailers, such as The Lane Crawford Joyce Group (>18 years of partnership) brand owners such as Kering Group (>10 years of partnership), as well as wholesaler and retailers of wine (e.g. L'Imperatrice).

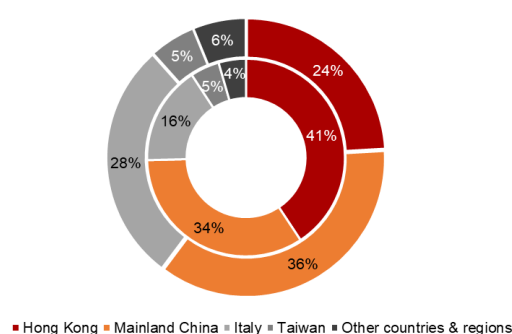
Figure 1: Revenue breakdown by business segment



Note: Inner circle represents 2020 data; outer circle represents 2021 data

Source: Company data, CMBIGM

Figure 2: Revenue breakdown by region



Note: Inner circle represents 2020 data; outer circle represents 2021 data

Source: Company data, CMBIGM

Business Segments

■ Air freight forwarding services (60.7% of total revenue in 2021)

The air freight forwarding business was the largest segment of the Company. The Company provides full-range services for high-value and time sensitive products, with the focus on high-end fashion and fine wine products, mainly in Mainland China, HK, Taiwan and Europe (Italy). The services include consignment arrangement, cargo space obtainment, freight documentation preparation, arrangement of customs clearance, etc.. In particular, CNL specializes in providing freight forwarding services for the export of wine from France and the U.K. to HK.

As the member of International Air Transport Association (IATA) in HK, Taiwan, Italy, France and Japan, CNL has the access of cargo space procurement for routes worldwide in these locations, and the ability to procure cargo space directly from airline carriers in Mainland China, which has enabled CNL to benefit from the limited supply of cargo space under the pandemic.

■ Distribution and logistics services (14.6% of total revenue in 2021)

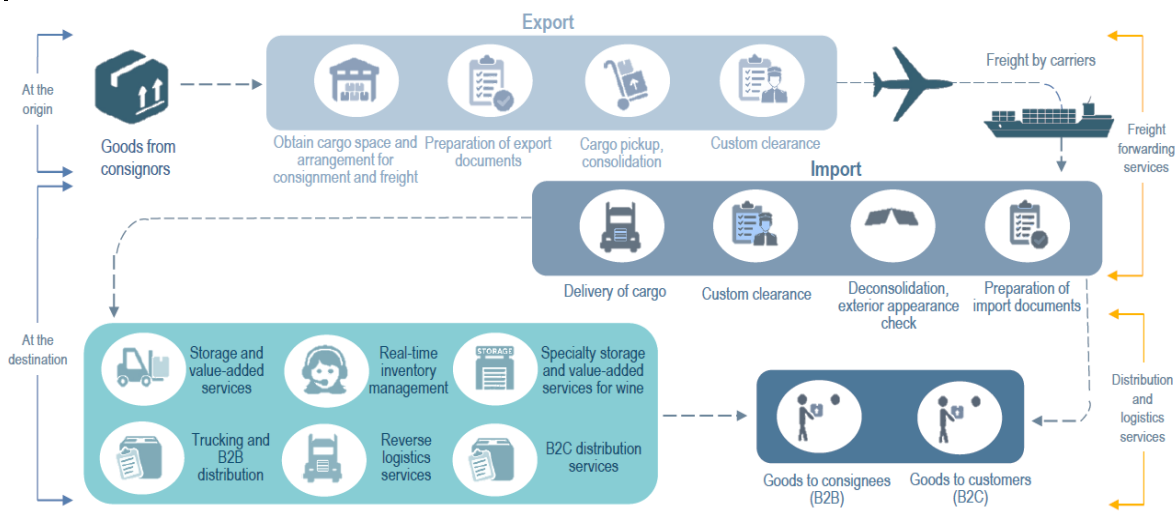
The distribution and logistics business involves a wide range of customized B2B logistics services, mainly in Mainland China, HK, Italy and Taiwan. Main services include vendor inventory management, goods pickup and packaging, delivery, quality control and other value-added services (e.g. supply chain management and storage services). The Company operates 24 highly-automated distribution centers with total GFA of ~1,235k sq.ft..

In particular, CNL specializes in providing distribution and logistics services for wine in HK, including specialty storage, logistics and other value-added services such as branded packaging, polymorph repacking, door-to-door and temperature-controlled delivery. The Company manages a storage and distribution space of ~58k sq.ft. for wine storage.

■ Ocean freight forwarding services (24.7% of total revenue in 2021)

For Ocean freight forwarding division, CNL primarily serves the existing air freight forwarding services customers and other customers in Italy and Taiwan (e.g. export of electronics and machineries from Taiwan and delivery of goods with relatively flexible schedule, such as furniture and household appliances).

Figure 3: Overview of CNL's full value chain logistics service



Source: Company data, CMBIGM

New business: cruise logistics + B2C services

In order to diversify its business portfolio, the Company has expanded its service portfolio to cruise logistics service and B2C services.

■ Horizontal expansion: Cruise logistics niche market

CNL has newly entered cruise logistics industry by fully acquiring Allport Cruise Group in Mar 2022, one of the few logistics service providers for global cruise operators, namely Carnival Cruise Line, Holland America Line, etc. The niche services include shipments of suppliers for dry docks on a project basis and cruise replenishment, which requires precise and on-time delivery of supplies. We believe the cruise logistics business not only can provide CNL with instant revenue contribution, but also build up its reputation in the US.

■ Expansion of B2C services: B2C distribution + e-commerce platform

In order to capture the booming B2C market opportunity, CNL extend its service to the field of B2C, particularly in B2C distribution service and e-commerce platform. Leveraging its long-standing business relationship with wine merchants, CNL launched an e-commerce platform for wine sales ("PJF Wines") jointly with eCargo in 2H21, targeting HK and Mainland China markets. The platform promotes worldwide high-end wines and provides one-stop logistics solutions to customers. CNL also started a B2C groupage platform in Mar 2022 to cater the growing demand for omni-channel logistics, especially from Europe and America to Asia.

Besides, CNL has established its strategic partnership with JD Logistics to expand its logistics network in Mainland China, and has collaborated with YesAsia, an online retailer that focuses on Asian fashion and cosmetic products, to grasp e-commerce market opportunities.

Expansion plan

Strategically expand into regional markets to capture post-pandemic market recovery

CNL adopts a light-asset model by operating local offices in 18 cities across 9 countries, including Mainland China, Hong Kong, Taiwan, Italy, Japan, Malaysia, Thailand, Vietnam, South Korea, France and Switzerland. With a network of >100 freight forwarder business partners, CNL's business covers 100 countries worldwide.

With the expectation of continuous recovery in European economy, CNL plans to establish the European Headquarters at Italy and new offices in Germany (exp. time of completion: 1H22). In 2021, the Company has acquired the remaining shares of its two non-wholly owned subsidiaries in Italy and Switzerland, namely CN Switzerland and CN Italy, to consolidate resources in Europe.

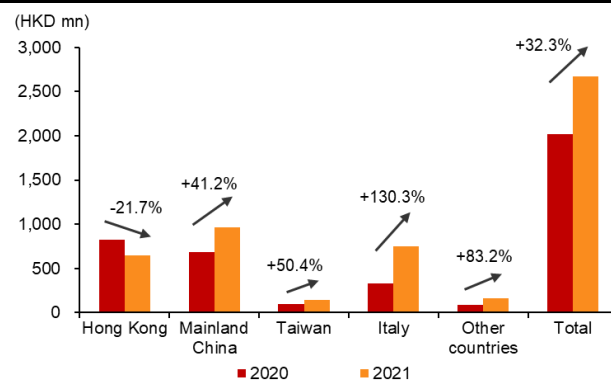
CNL also focuses on the South East Asia market by setting up its 1st regional office in Malaysia and plans to establish new offices in Vietnam, with the aim to grasp opportunities brought by RCEP. We expect the overseas market (esp. Europe and Southeast Asia) will be the Company's major growth drivers in the coming years driven by the continuous post-pandemic economic recovery.

Figure 4: CNL's office network (as of Apr 2022)



Source: Company data, CMBIGM

Figure 5: CNL's regional revenue by country



Source: Company data, CMBIGM

Capacity expansion underway

In 2020, CNL completed the 1st phase expansion and upgrade of its highly-automated flagship distribution center in Shanghai (Capex: RMB40mn), aiming to serve one of its key high-end fashion clients. The 2nd phase construction (Capex: ~RMB50mn) is currently in progress and expected to complete in 2Q22. The commencement will increase the storage capacity by 30%.

Besides, CNL is expanding its bonded warehouse, which is expected to complete in 3Q22. Upon commencement, the storage capacity will be doubled.

Launch of Green Solutions to cater the ESG trend

With the aim of catering the increasing demand of ESG services from brand customers (especially the luxury and high-end fashion industry), CNL launched “CNL Green Solutions Services”, which include recycling and reverse logistics services. CNL collaborates with vendors to recycle paper products, plastic bags and hangers to minimize waste and reutilize materials. The Company has 25 clients onboard in 2021 and targets to expand its customer base to 30 in 2022. We believe this can further enhance clients’ stickiness in the long term.

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