

22 January 2014 | 80 pages

Logistics - Surface  
Asia | Hong Kong

# Kerry Logistics Network (0636.HK)

## Initiate at Buy, HK\$16 TP: Leveraging Know-How with Know-Who

- HK\$16 TP Based on 28x 14E P/E:** KLN has run 35% since its 19 Dec 13 IPO, outpacing the HSI and global peers. At 24x 14E P/E, it is now at a 6% premium to its global forwarding/logistics peers (22.9x 14E Cons. P/E) as the market rewards it for its unique and enviable Asian footprint, cash generative basket of assets and well-articulated acquisition growth strategy (not to mention heightened recent interest in the China logistics theme). Although a bit rich on our organic growth numbers, upside from accretive acquisitions (potentially doubling the ~10% est organic LT earnings CAGR), network synergies and/or strategic sale leasebacks to unlock value and pad returns warrants a 20-25% premium to its peers, in our view, or 28x 14E EPS. With 17% ETR, we initiate on KLN with a Buy. [See our new interactive model for directional earnings sensitivity based on user-defined assumptions.](#)
- Premium Service Provider with Long-Standing Customer Relationships:** Reflecting its diversified service portfolio and notable operational know-how, KLN is well positioned to further entrench itself with its long-standing global customers in strategic markets like Greater China (~68% of FY12 Gross Rev). Further, KLN's suite of premium value-added logistics solutions (catering to multinational customers) and integrated distribution/int'l transportation services tap into domestic consumption, e-commerce and shifting manufacturing trends.
- Logistics Strikes a Chord with Asian Investors:** We have seen heightened investor interest in the space following the recent deals announced by Tencent and [Alibaba](#) (as well as increased PE activity by [Carlyle](#) and [KKR](#) in Alibaba's alliance partner, Haier Electronics and its parent). While KLN is less exposed to the ecommerce theme and B2C delivery segment in China, it maintains logistics relationships with many online retailers, which we believe could be expanded further/across some other focal Asian markets (Taiwan, Singapore and Thailand).
- Key Risks:** Execution on the 'organic + acquisition' growth strategy underscoring current target valuations; muted global/economic growth; weaker China consumption/exports; costly acquisitions; and declining industrial property values.

### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(HK\$M)	(HK\$)	(%)	(x)	(x)	(%)	(%)
2011A	741	0.44	11.4	31.3	3.1	10.6	0.0
2012A	816	0.48	10.1	28.5	2.8	10.4	0.0
2013E	880	0.52	7.9	26.4	1.5	7.4	0.8
2014E	955	0.57	8.5	24.3	1.4	6.0	0.8
2015E	1,050	0.62	9.9	22.1	1.3	6.1	0.9

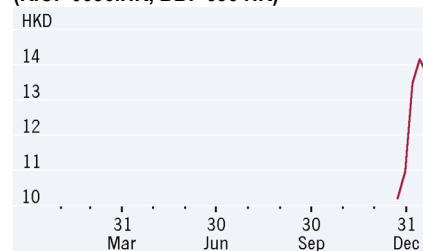
Source: Powered by dataCentral

### Initiation of Coverage

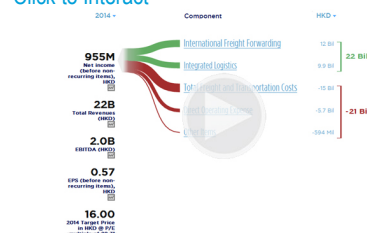
<b>Buy</b>	<b>1</b>
Price (20 Jan 14)	HK\$13.74
Target price	HK\$16.00
Expected share price return	16.4%
Expected dividend yield	0.8%
<b>Expected total return</b>	<b>17.2%</b>
Market Cap	HK\$23,219M
	US\$2,994M

### Price Performance

(RIC: 0636.HK, BB: 636 HK)



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### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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0636.HK: Fiscal year end 31-Dec						Price: HK\$13.74; TP: HK\$16.00; Market Cap: HK\$23,219m; Recomm: Buy					
Profit & Loss (HK\$m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	16,034	19,295	20,545	22,040	23,754	PE (x)	31.3	28.5	26.4	24.3	22.1
Cost of sales	-11,412	-13,971	-14,640	-15,672	-16,837	PB (x)	3.1	2.8	1.5	1.4	1.3
Gross profit	4,622	5,324	5,905	6,368	6,917	EV/EBITDA (x)	15.3	13.6	11.0	8.9	8.4
Gross Margin (%)	28.8	27.6	28.7	28.9	29.1	FCF yield (%)	0.7	-2.6	0.9	2.0	2.7
EBITDA (Adj)	1,441	1,657	1,847	2,032	2,227	Dividend yield (%)	0	0	0.8	0.8	0.9
EBITDA Margin (Adj) (%)	9.0	8.6	9.0	9.2	9.4	Payout ratio (%)	0	0	20	20	20
Depreciation	-285	-321	-394	-420	-450	ROE (%)	12.5	13.6	14.0	6.0	6.1
Amortisation	0	0	0	0	0	Cashflow (HK\$m)					
EBIT (Adj)	1,152	1,318	1,459	1,613	1,777	EBITDA	1,437	1,640	1,853	2,032	2,227
EBIT Margin (Adj) (%)	7.2	6.8	7.1	7.3	7.5	Working capital	-85	-557	-313	-161	-160
Net interest	-55	-63	-92	-94	-98	Other	-333	-212	-325	-409	-431
Associates	148	136	122	132	140	Operating cashflow					
Non-op/Except	130	265	783	0	0	Capex	-853	-1,468	-1,000	-1,000	-1,000
Pre-tax profit	1,375	1,657	2,272	1,650	1,819	Net acq/disposals	-227	-522	2	-1,030	-1,180
Tax	-254	-305	-311	-358	-401	Other	56	325	48	63	62
Extraord./Min.Int./Pref.div.	-251	-282	-308	-337	-368	Investing cashflow					
Reported net profit	871	1,069	1,653	955	1,050	Dividends paid	0	0	0	0	0
Net Margin (%)	5.4	5.5	8.0	4.3	4.4	Financing cashflow					
Core NPAT	741	816	880	955	1,050	Net change in cash	702	21	1,900	-564	-547
Per share data						Free cashflow to s/holders					
Reported EPS (\$)	0.52	0.63	0.98	0.57	0.62		167	-597	215	463	636
Core EPS (\$)	0.44	0.48	0.52	0.57	0.62						
DPS (\$)	0	0	0.10	0.11	0.12						
CFPS (\$)	0.60	0.52	0.72	0.87	0.97						
FCFPS (\$)	0.10	-0.35	0.13	0.27	0.38						
BVPS (\$)	4.38	4.95	9.04	9.81	10.64						
Wtd avg ord shares (m)	1,690	1,690	1,690	1,690	1,690						
Wtd avg diluted shares (m)	1,690	1,690	1,690	1,690	1,690						
Growth rates											
Sales revenue (%)	47.4	20.3	6.5	7.3	7.8						
EBIT (Adj) (%)	41.1	14.4	10.7	10.5	10.2						
Core NPAT (%)	11.4	10.1	7.9	8.5	9.9						
Core EPS (%)	11.4	10.1	7.9	8.5	9.9						
Balance Sheet (HK\$m)											
Cash & cash equiv.	2,908	2,940	4,839	4,275	3,728						
Accounts receivables	2,405	3,390	3,746	4,119	4,831						
Inventory	110	110	131	141	151						
Net fixed & other tangibles	4,989	5,999	6,547	7,211	7,913						
Goodwill & intangibles	1,762	2,313	2,573	2,536	2,506						
Financial & other assets	7,166	7,717	8,662	9,064	9,550						
<b>Total assets</b>	<b>19,341</b>	<b>22,468</b>	<b>26,498</b>	<b>27,346</b>	<b>28,679</b>						
Accounts payable	1,287	1,663	1,832	1,606	1,356						
Short-term debt	4,600	4,808	658	658	658						
Long-term debt	536	1,587	2,510	2,510	2,510						
Provisions & other liab	3,013	3,284	3,145	2,591	2,387						
<b>Total liabilities</b>	<b>9,437</b>	<b>11,342</b>	<b>8,144</b>	<b>7,364</b>	<b>6,911</b>						
Shareholders' equity	7,398	8,358	15,277	16,570	17,987						
Minority interests	2,506	2,768	3,076	3,413	3,781						
<b>Total equity</b>	<b>9,904</b>	<b>11,126</b>	<b>18,353</b>	<b>19,983</b>	<b>21,768</b>						
<b>Net debt</b>	<b>2,229</b>	<b>3,455</b>	<b>-1,672</b>	<b>-1,107</b>	<b>-560</b>						
Net debt to equity (%)	22.5	31.1	-9.1	-5.5	-2.6						

For definitions of the items in this table, please click [here](#).

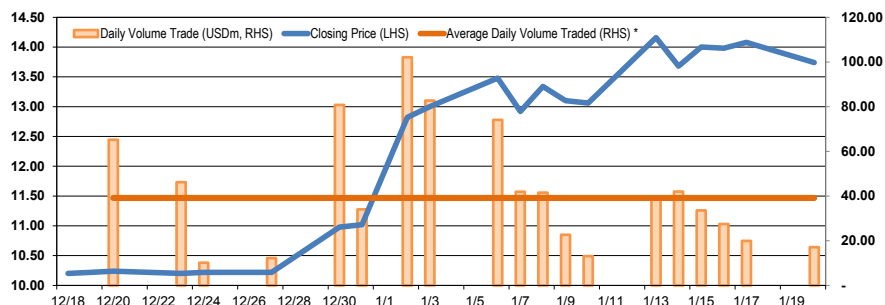
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## IPO Recap

Kerry Logistics Network (KLN) listed in Hong Kong on 19 Dec 2013 at HK\$10.20 a share, resulting in ~HK\$2.5bn (~US\$320m) in proceeds (based upon the issuance of 248.5m shares post green shoe or 15% of the total shares outstanding). Since listing, the shares have materially outperformed, up 35% (through 20 Jan) vs. -1% for the HSI and +4% for the global peer group (see the summary comp table below). As a result, KLN now trades at a 24.3x P/E our 2014E earnings versus 22.9x for its global peers and 9.8x for the HSI.

Figure 1. Kerry Logistics Network Daily Share Price and Volume Traded (US\$m)



Note: KLN listed on 19 Dec at HK\$10.20/share. \*Reflecting the IPO and the additional volume associated with the in specie distribution, US\$263m in volume traded that day (but is not shown above, the average daily volume in USD since listing excludes 19 Dec IPO volume and the large volume on 2 Jan). Source: Bloomberg; Citi Research

In addition to the strong share-price performance, we have also been surprised by the amount of liquidity in the name, with ~US\$40m trading on average per day (even excluding the listing date and heightened volume on the first trading day of the new year), although some of this initial flow was attributable to former Kerry Props (0683.HK; HK\$25.45; 1) shareholders likely rotating out of/monetizing the shares awarded as part of the *in specie* distribution. That said, taking into consideration the *in specie* distribution as well as the IPO, the public float now comprises roughly 33.7% of the total shares outstanding, aiding overall market liquidity in the name (with 23.8% at the privately-held Kerry Group level and the remaining 42.5% at the Kerry Props level). Based upon the acquisition pipeline, we could also envision a share placement scenario (or use of shares instead of cash) to fund the future expansion/integration, further improving the public float.

Figure 2. Summary Global Forwarding and Logistics Service Provider' Comp Sheet (as of January 20, 2014)

Name	Rating	Share Price	Target Price	MC USD m	EV (2) USD m	P/E(x) 2013E	P/E(x) 2014E	P/E(x) 2015E	EV/EBITDA 2013E	EV/EBITDA 2014E	EV/EBITDA 2015E	EPS Growth (%) 2013E	EPS Growth (%) 2014E	EPS Growth (%) 2015E
Kerry Logistics Network (1)	Buy	13.74	16.00	2,994	2,851	26.4	24.3	22.1	12.0	10.9	9.9	7.9%	8.5%	9.9%
KLN Peer Group (3)						25.3	22.9	18.6	13.8	11.4	10.0	6.0%	10.4%	9.5%
Global Logistics/Forwarding Service Providers Average						25.5	22.1	19.2	13.6	12.0	11.0	7.2%	15.3%	10.7%
Regional Logistics/Forwarding Service Providers Average						19.0	16.3	13.8	11.3	9.4	7.9	15.5%	16.0%	17.6%
Global Express Carriers Average						20.9	17.7	15.2	9.3	8.4	7.6	6.4%	15.5%	16.1%
Global Logistics Landlords Average						23.1	21.6	19.2	24.0	21.1	19.0	-1.4%	6.0%	10.7%
Total Average (excluding KLN)						21.7	18.7	16.1	11.4	10.2	9.2	6.3%	14.6%	14.9%

(1) KLN figures reflect our estimates. The EPS growth reflects annual change in net income, not including changes in share count. (2) The EV is calculated using the latest reported Net Debt figures on Bloomberg (KLN shows FY14E). Similarly, EV/EBITDA multiples represent Bloomberg Consensus EBITDA estimates with the exception of KLN, which reflects our forecasts. (3) For valuation purposes, KLN's Peer Group includes: Kuehne & Nagel International (KNIN.VX); Expeditors International of Washington Inc (EXPD.O); DSV A/S (DSV.CO); Panalpina (PWTN.S); UTi Worldwide Inc (UTIW.OQ) and Toll Holdings Ltd (TOL.AX). (4) KLN's ROE is depressed by the historical non-cash property revaluation gains, which inflate investment properties and retained earnings alike. (We have shown the ROE adjusted for the HK\$2,744m in cumulative reported property revaluation gains since 2005). Source: Bloomberg; Citi Research estimates

At 24.3x our FY14E P/E, KLN now trades at a 6% premium to its global forwarding / logistics peers (including such well known players as Kuehne & Nagel International (KNIN.VX); Expeditors International of Washington Inc (EXPD.O); DSV A/S (DSV.CO); Panalpina (PWTN.S), UTi Worldwide Inc (UTIW.OQ) and Australian-based Toll Holdings Ltd (TOL.AX), which average 22.9x 2014E Cons. P/E vs their own 13-year historical average of 18.9x or the +1 StDev level of 21.6x). We believe the market is rewarding KLN for its unique and enviable Asian footprint, cash generative basket of assets and well-articulated acquisition growth strategy (not to mention heightened recent interest in the China logistics theme). With upside to our estimates from accretive acquisitions (discussed below, potentially doubling the ~10% estimated organic LT earnings growth CAGR), network synergies and/or strategic sale leasebacks to unlock value and pad returns, we apply a P/E of 28x to our organic 2014E earnings of HK\$955m (+8.5% YoY) to arrive at a HK\$16 TP (+17% ETR).

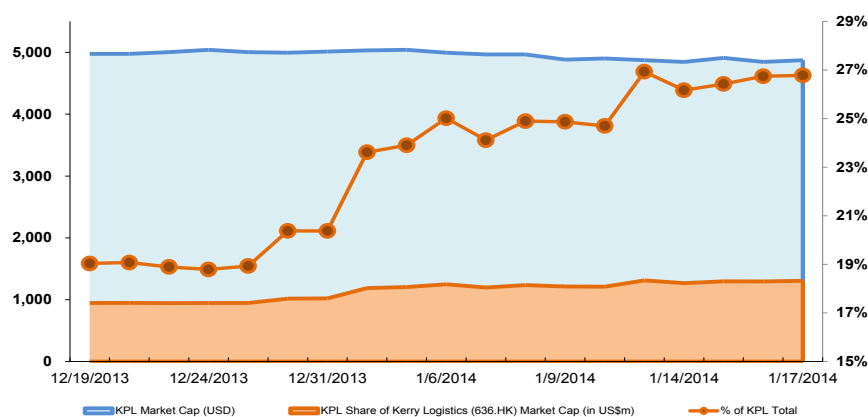
See our [new interactive model](#) for directional earnings sensitivity based on user-defined assumptions.

We anticipate additional color regarding management's growth strategy at the time of FY13 results sometime in mid-March. Recall, KLN provided core earnings guidance of not less than HK\$880m (+8% YoY, excl Prop revaluation gains) for the year in its IPO prospectus, which may provide some modest upside to our conservative estimate (which assumes that baseline figure).

### What Does it Mean for Kerry Props?

KLN represents ~27% of the Kerry Properties value, assuming no holding company/conglomerate discount beyond that already assigned to its traditional subsidiary property portfolio. In the figure below, we provide a look at the value of KPL's stake in KLN since listing as well as the % of KPL's total market cap (which has risen from ~19% to the current level following the 35% share-price appreciation at KLN vs the modest decline at KPL). As KLN will now be accounted for as an associate, the company's debt and repayment of the loan from a fellow KPL subsidiary will improve the KPL year-end FY13 balance sheet.

Figure 3. Kerry Props and its 42.5% Stake in Kerry Logistics



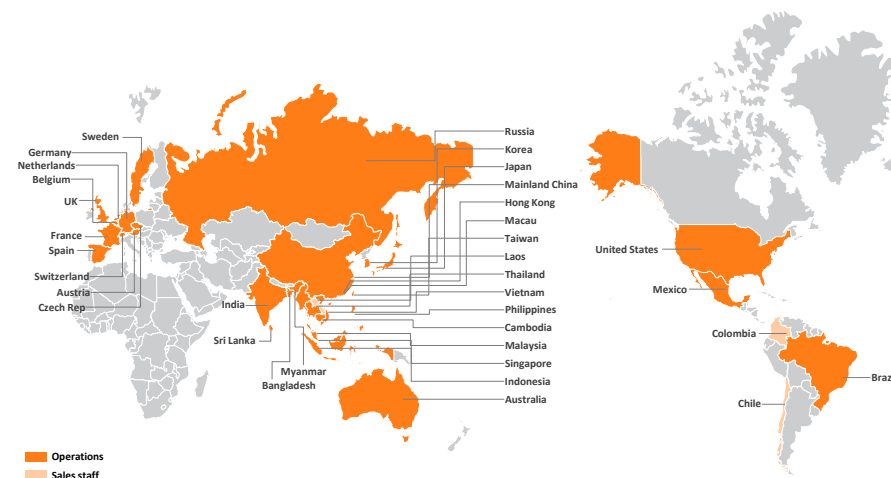
Source: Bloomberg; Citi Research

## Executive Summary

- **KLN is the largest international 3PL based in HK and third largest logistics service provider in Greater China**
- **Largest storage capacity in terms of total GFA of warehouses managed in Greater China and ASEAN**

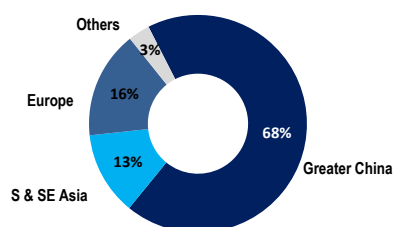
With a high-quality diversified service portfolio and notable operational know-how, we believe Kerry Logistics Network (KLN) is well positioned to further entrench itself with its long-standing customers in key strategic markets such as Greater China (comprising 68% of FY12 gross revenue). In addition to a suite of value added services (VAS) offered through its Integrated Logistics operation, KLN also provides domestic distribution and international transportation solutions (serving over 40 of the Top 100 Brands as ranked by Interbrand), allowing the company to tap into domestic consumption and shifting manufacturing trends alike across Asia.

Figure 4. Kerry Logistics Network Global Footprint



KLN maintains a presence in 35 countries and territories, including three through its sales staff, with more than 400 service locations (note, China is the largest trading partner for 128 countries in the world). As at 30 June 2013, KLN's sales and marketing team consisted of more than 1,200 employees located in 27 countries and territories covering global operations. Source: Company report; Citi Research

Figure 5. KLN FY12 Gross Revenue (Incl Purchased Transportation) by Region

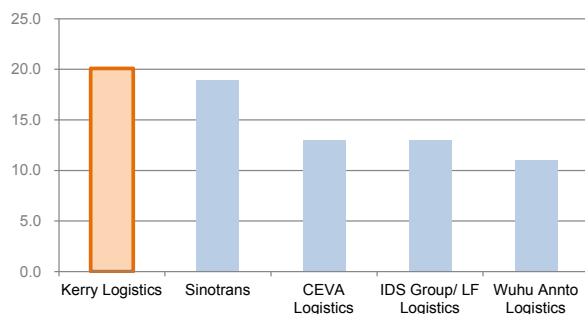


Note: Greater China includes Hong Kong, Taiwan and Macau as well as Mainland China. Source: Company report; Citi Research

**We believe KLN's committed approach to asset ownership within its logistics unit allowed KLN to focus on quality control and security, providing a unique service to its clients, particularly for those global customers increasingly looking at longer-term/tailored solutions in Asia.**

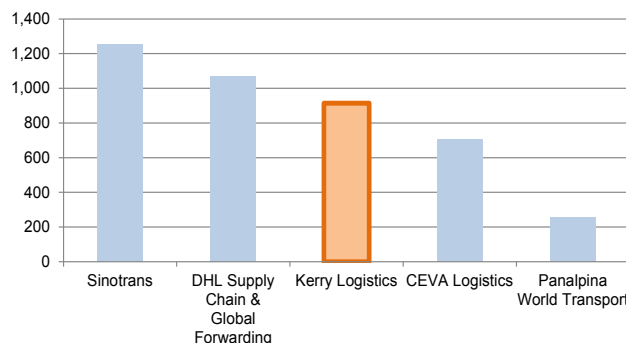
Leveraging its position in Greater China, KLN is expanding its logistics footprint in Southeast Asia (and its cross-border trucking network). Through its committed approach to asset ownership, we believe KLN provides a unique value proposition for those global customers increasingly looking at longer-term/tailored solutions across Asia and around the world. By building upon its successful acquisition integration history in China, Taiwan, the UK, Thailand (and recently Brazil and Mexico), KLN is also targeting complementary forwarding acquisitions in the US.

Figure 6. 2012 3PL Providers Warehousing in Greater China (sqft m)



Source: Company report; Armstrong Report; Citi Research

Figure 7. 2012 3PL Net Revenue in Greater China (US\$m)



Source: Company report; Armstrong Report; Citi Research

Figure 8. KLN Gross and Net Revenue Growth (2011-2015E)

In HK\$m	2011	2012	2013E	2014E	2015E
Logistics Operations	6,392.9	7,423.7	8,549.5	9,444.5	10,292.5
Growth YoY %	47.5%	16.1%	15.2%	10.5%	9.0%
Hong Kong Warehouse	497.0	474.2	476.1	490.5	510.1
Growth YoY %	4.1%	-4.6%	0.4%	3.0%	4.0%
Integrated Logistics	6,889.8	7,898.0	9,025.6	9,935.0	10,802.6
Growth YoY %	43.2%	14.6%	14.3%	10.1%	8.7%
Int'l Freight Forwarding	9,144.5	11,396.8	11,519.1	12,105.3	12,951.1
Growth YoY %	50.7%	24.6%	1.1%	5.1%	7.0%
Gross Operating Revenues	16,034.3	19,294.8	20,544.7	22,040.3	23,753.6
Growth YoY %	47.4%	20.3%	6.5%	7.3%	7.8%
Net Operating Revenues	5,427.8	6,192.4	6,707.6	7,236.9	7,845.8
Growth YoY %	48.9%	14.1%	8.3%	7.9%	8.4%

Source: Company report; Armstrong report; Citi Research estimates

During 2013, retail sales in the mainland for luxury and non-luxury goods increased 16.2% and 14.5% YoY, respectively (vs increases of 17.1% and 18.1% YoY in 2012), which is encouraging as KLN multinational customers tend to position themselves at the higher-end of the market (allowing KLN to achieve premium pricing on its value-added logistics service contracts). Meanwhile urban per capita disposable income went up 9.7% in nominal terms, and farmers' net income per capita rose by 12.4%, both faster than 9.5% nominal GDP growth.

## Well Positioned for Acquisition Growth

Building upon the company's successful acquisition integration history in China (Kerry EAS Logistics Limited and Kunshan Wisdom Logistics Co. Ltd), Taiwan (Kerry TJ Logistics), the UK (Kerry Logistics (HK) Limited, formerly Trident International), Korea, Germany and Thailand, amongst others, KLN is actively pursuing acquisitions to supplement its growth objectives. Reflecting the company's complementary global growth strategy, KLN recently completed acquisitions in Brazil and Mexico and is likely to target international freight forwarding opportunities in attractive and relatively underpenetrated markets like the US.

KLN is well positioned from an acquisition perspective for three key reasons:

1. With its principal operations in Greater China, KLN is looking to add exposure to North America and to a lesser extent Latin America and Europe, in which we sense opportunities are more prevalent (vs those in Asia) and valuations are somewhat more palatable/bids less competitive.
2. Due to its relatively small size versus its global peers (in terms of revenue or earnings), even small to mid-sized acquisitions can have a meaningful impact on KLN's earnings and be fairly easily assimilated / integrated. As its global peers are now far larger, only significant acquisitions will move the dial from an earnings perspective, which are few and far between these days (see the section below of recent sector acquisition history).
3. As many small- to mid-sized target acquisitions will likely still involve the founder/owner and have highly incentivized compensation structures, KLN can offer its new employees access to its Asian client base, while holding on to talented staff, providing benefits for both parties.

Should the company lever up over the next few years, we believe management would conservatively have access to nearly HK\$7.8bn (US\$1bn) in capital to pursue acquisitions/other growth initiatives.

Going forward, we believe KLN will have more freedom to lever up should it choose to pursue attractive growth/acquisition opportunities. That said, we don't expect the net gearing level to go much beyond 50-60% as management is relatively conservative, in our view.



KLN maintains a fairly diversified customer base, with its five largest relationships representing less than 8% of total gross revenue in 1H13.

Approximately ~52% of KLN's key Logistics Operations customers in Hong Kong have been with KLN for over five years.

Presence in 35 countries and counting

## Building Upon a Solid Foundation

KLN currently employs roughly 19,000 personnel across 700 offices/business centers (on six continents). While the company's core focus remains Greater China (China, Hong Kong, Taiwan and to a lesser extent Macau), it recently commenced operations at its new SE Asia logistics hub in Singapore, launched a JV in Vietnam in 1Q13 (according to its website, leveraging the company's existing ASEAN-China cross-border road network with twice weekly service between Shenzhen and Hanoi) and secured a large supply chain contract (for domestic distribution) in Thailand with both Samsonite and Continental last year.

Figure 9. KLN Global Facilities Split, by GFA

Countries & Territories	GFA Managed (sq.ft. '000)	% of GFA Managed
Greater China	24,807	63.6%
Rest of Asia	12,126	31.1%
Others (1)	2,074	5.3%

Note: 1) Mainly includes logistics facilities in Australia and Sweden.

Source: Company reports; Citi Research

Kerry Logistics is currently part of Kerry Props and is backed by the Kuok family (which also maintains interests in other large listed companies such as Shangri-La (0069.HK; HK\$14.62; 1) and Wilmar International (WLIL.SI; S\$3.26; 1). In addition to its KLN business, the Kerry Group (Kuok Family) is also involved in a whole host of ancillary ship broking, chartering and freight activities to support its commodity businesses.

## Complementary Service Portfolio

KLN splits its operations into two distinct segments; 1) Integrated Logistics (IL); and 2) International Freight Forwarding (IFF).

**Integrated Logistics (IL)** comprised **41% of FY12 total gross revenue** and an **estimated 63% of FY12 net revenue** (which excludes purchased transportation expense), includes warehousing and value-added services (VAS), trucking and distribution services and returns management-related services as well as other ancillary services.

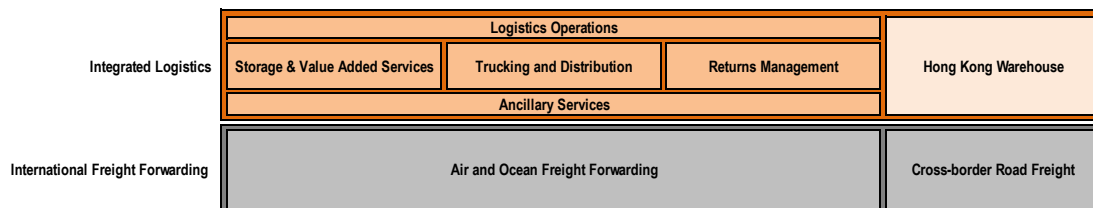
Meanwhile, **International Freight Forwarding (IFF)** comprised **59% of FY12 total gross revenue** and an **estimated 37% of FY12 net revenue** (which excludes purchased transportation expense), includes air and ocean freight forwarding/related services as well as cross-border road network between China and Southeast Asia.

Figure 10. KLN Segment Revenue and Contribution Detail (2012, HK\$m)

	Segment Revenue	Split	
IL	7,898	41%	
IFF	11,397	59%	
<b>Total</b>	<b>19,295</b>	<b>100%</b>	
	Segment Contribution	Split	Margin
IL	1,141	79%	14.4%
IFF	300	21%	2.6%
<b>Total</b>	<b>1,441</b>	<b>100%</b>	<b>7.5%</b>

Source: Company reports; Citi Research

Figure 11. KLN Service Offering



Source: Company report; Citi Research



## Global Peer Valuations

See the figure below for comparative 2010-12 revenue CAGRs and EBIT margins. We believe net revenue and net operating margins remove some of the impact associated with differing forwarding/logistics business mix between operators.

Reflecting KLN's strong top-line growth trends (despite the challenging global macro climate) and competitive EBIT margins (which have been quite stable on a gross and net revenue basis) over the past few years vs. its peers in the Non-Asset/Asset-Light Global Forwarding/Logistics space, we believe the company merits a premium valuation to historical peer multiples.

While KLN's more geographically diversified peers have struggled from weaker global consumer demand, we are seeing better momentum of late in the US and Europe relative to the outlook in China/ASEAN. That said, we believe KLN's 'organic+acquisition' growth strategy can provide steady top- and bottom-line improvement, particularly given its smaller size, unique presence in Asia and intention to grow its footprint in the US, which is fairly insignificant currently (note only 16% of its gross revenue was derived from within its Europe segment in FY12).

Figure 12. Comparative Non-Asset and Asset Light Global Forwarding and Contract Logistics 2010-12 Revenue CAGRs and EBIT Margins

	KLN	EXPD	UTIW	DSV	KNIN	PWTN	Average	Average Ex UTIW and PWTN
Gross Revenue 2010-12 CAGR	33.2%	0.1%	0.6%	2.7%	0.8%	-3.9%	0.1%	1.2%
Net Revenue 2010-12 CAGR	30.3%	3.8%	1.0%	3.9%	1.1%	-0.5%	1.9%	2.9%
Average 2010-12 Gross Op Margin	7.2%	9.4%	2.3%	5.5%	4.4%	1.4%	4.6%	6.4%
Average 2010-12 Net Op Margin	21.6%	31.3%	6.6%	24.5%	12.3%	6.0%	16.2%	22.7%

Note. We estimate roughly 63% of KLN's 2012 Net Revenue was generated by its Logistics segment, with the rest from International Freight Forwarding. UTIW and KNIN also generate just over half of their Net Revenue from Logistics, while the remaining three maintain a relative bias towards Forwarding (which generally leads to an inflated gross revenue figure associated with additional purchased transportation). Source: Company reports; Citi Research estimates

On average since 2000, the Non-Asset and Asset Light Global Forwarding and Contract Logistics operators have maintained an average historical consensus forward P/E of 18.9x.

Since 2000 (or their respective listing date for newer public entities), Kuehne & Nagel International (KNIN.VX); Expeditors International of Washington Inc (EXPD.O); DSV A/S (DSV.CO); Panalpina (PWTN.S)), UTi Worldwide Inc (UTIW.OQ) and Australian-based Toll Holdings Ltd (TOL.AX) have traded at an average forward-rolling P/E of 18.9x, with +1stDev around 21.6x. However, reflecting improved investor sentiment and rising western GDP trends, the global forwarding/logistics peers are trading at an average 2014E Cons. P/E of 22.9x.

While KLN listed around 18x 2014E P/E (on our estimates), the name now trades at 24.3x our FY14E P/E (following the 35% run in the share price), implying a 6% premium to its peers. Although KLN is far more exposed to China/Asia demand trends as well as the continued penetration of those markets by its multinational customers, we believe the market is rewarding KLN for its unique and enviable Asian footprint, cash generative basket of assets and well-articulated acquisition growth strategy (not to mention heightened recent interest in the China logistics theme). Moreover, we see upside to our earnings estimates from accretive acquisitions (potentially doubling the ~10% estimated organic LT earnings growth CAGR) as well as network synergies and/or strategic sale leasebacks to unlock value and pad returns. As such, we apply a 28x (20-25% premium to the global peer's average currently) to our organic 2014E earnings of HK\$955m (+9% YoY) to arrive at a HK\$16 TP (+17% ETR).

We anticipate additional color regarding management's growth strategy at the time of FY13 results sometime in mid-March. Recall, KLN provided core earnings guidance of not less than HK\$880m (+8% YoY, excl Prop revaluation gains) for the year in its IPO prospectus, which may provide some modest upside to our conservative estimate (which assumes that baseline figure).

Figure 13. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' 12-Month Rolling Forward P/E (based on Consensus)

EPS (HK\$m)	2014E 0.57	2015E 0.62		
Net Income (HK\$m)	955.0	1,050.0		
Growth YoY %	9%	10%		
Net Income (US\$m)	123.2	135.5		
2014E EBITDA (HK\$m) (1)	2,032.4	2,227.0		
Growth YoY %	10%	10%		
EBITDA Margin	9%	9%		
2014E EBITDA (US\$m)	262.2	287.4		
2014E EBITDAR (HK\$m) (1, 4)	2,481.1	2,709.5		
Growth YoY %	9.3%	9.2%		
EBITDAR Margin	11.3%	11.4%		
2014E EBITDAR (US\$m)	320.1	349.6		
			13.74 Share Price	
			16.00 Citi Target Price	
			0.11 2014E DPS	
			0.8% 2014E Dividend Yield	
			17.3% Estimated Total Return	
	Global Fwd'g Peers			
	13-Yr Avg	+1StDev	Current Avg	
Target 2014 P/E Multiple	18.9x	21.6x	22.9x	
Market Premium to Current Global Peer Average				
Implied Share Price (HK)	10.68	12.21	12.94	
Implied Valuation (HK\$m)	18,050	20,628	21,870	
Implied Valuation (US\$m)	2,329	2,662	2,821.90	
Implied 2015E P/E	17.2x	19.6x		
FY14 Net Debt/(Net Cash), <u>Excluding OBD</u> (HK\$m) (2)	(1,107)			
Enterprise Value (HK\$m)	16,942	19,521	20,762	
Enterprise Value (US\$m)	2,186	2,519	2,679.00	
Implied Target 2014 EV/EBITDA Multiple	8.3x	9.6x	10.2x	
FY14 Net Debt/(Net Cash), <u>Including OBD</u> (HK\$m) (3)	2,033.3			
Enterprise Value (HK\$m)	20,083	22,662	23,903	
Enterprise Value (US\$m)	2,591	2,924	3,084.26	
Implied Target 2014 EV/EBITDAR Multiple	8.1x	9.1x	9.6x	
USD/HKD	7.75			

KLN									
Current	Target Multiple Range								
24.3x	25.0x	26.0x	27.0x	28.0x	29.0x	30.0x	31.0x		
6%	9%	14%	18%	22%	27%	31%	35%		
13.74	14.13	14.69	15.26	15.82	16.39	16.95	17.52		
23,218	23,875	24,830	25,785	26,740	27,695	28,650	29,605		
2,996	3,081	3,204	3,327	3,450	3,574	3,697	3,820		
22.1x	22.7x	23.6x	24.6x	25.5x	26.4x	27.3x	28.2x		
22,111	22,768	23,723	24,678	25,633	26,588	27,543	28,498		
2,853	2,938	3,061	3,184	3,307	3,431	3,554	3,677		
10.9x	11.2x	11.7x	12.1x	12.6x	13.1x	13.6x	14.0x		
25,252	25,909	26,864	27,819	28,774	29,729	30,684	31,639		
3,258	3,343	3,466	3,589	3,713	3,836	3,959	4,082		
10.2x	10.4x	10.8x	11.2x	11.6x	12.0x	12.4x	12.8x		

Note: (1) We note that the company's Share of Results from Associates (principally 25% stake in CCT and 15% stake in AAT), which comprised 17% of its total FY12 Adjusted Net Income (and an estimated 14% in FY13/14), are not included in the company's subsidiary EBITDA or EBITDAR calculations. The company's ~36.5% stake in Kerry TJ (consolidated) and ~80% stake in Kerry Siam Seaport are captured in the figure, with Minority interest netted off below the line. The 30% of Kerry EAS in China not held by KLN is also removed as a Minority interest. (2) FY14 net debt includes proceeds from the proposed equity offering and partial paydown of the interest free subsidiary loan. (3) We have assumed the off-balance-sheet debt at seven times operating lease expense, which has been added to the FY14 net debt/(net cash) forecast. (4) 2014E EBITDAR includes the operating lease charges on land and buildings expense. Source: FactSet; Citi Research estimates.

Excluding the net cash forecast at year-end FY14, our 28x target P/E-implied valuation, translates into 12.6x FY14E EV/EBITDA (versus 10.9x currently and 11.4x on average for its peers, see below). However, KLN's company's Share of Results from Associates (principally 25% stake in CCT and 15% stake in AAT), which comprised 17% of its total FY12 Adjusted Net Income (and an estimated 14% in FY13/14), are not included in the company's subsidiary EBITDA or EBITDAR calculations. The company's ~36.5% stake in Kerry TJ (consolidated) and ~80% stake in Kerry Siam Seaport are captured in the figure, with Minority interest netted off below the line. The 30% of Kerry EAS in China not held by KLN is also removed as a Minority interest.

Figure 14. Global Forwarding and Logistics Service Provider' Comp Sheet (as of January 20, 2013)

Name	RIC Code	Year End	Rating	Share Currency	Share Price	Target Price	Mk cap USD m	EV (2) USD m	P/E 2013 2014 2015	P/B 2013 2014	ROE (4) 2013 2014	Div Yield 2013 2014	EV/EBITDA 2013 2014 2015	EPS Growth 2013 2014 2015
Kerry Logistics Network (1)	0636.HK	31 Dec	1	HKD	13.74	16.00	2,994	2,851	26.4 24.3 22.1	1.5 1.4	7.4% 6.0%	0.8% 0.8%	12.0 10.9 9.9	7.9% 8.5% 9.9%
Peer Group (3)				N/A					25.3 22.9 18.6	4.0 3.7	15.5% 17.5%	1.9% 2.1%	13.8 11.4 10.0	6.0% 10.4% 9.5%
Kuehne & Nagel	KNIN.VX	31 Dec	1	CHF	127.60	130.00	16,825	15,788	25.6 22.7 20.5	6.0 5.6	24.1% 25.6%	2.9% 3.3%	14.8 13.6 12.7	8.8% 12.8% 10.6%
Expeditors Intl	EXPD.O	31 Dec	NR	USD	43.77	NR	8,998	7,589	25.1 22.2 20.3	4.2 4.0	17.4% 18.7%	1.3% 1.7%	12.3 11.0 10.0	11.0% 13.2% 9.4%
DSV	DSV.CO	31 Dec	NR	DKK	183.20	NR	5,989	7,134	19.3 17.0 15.4	5.3 4.7	28.4% 28.2%	0.8% 0.9%	12.8 11.9 11.3	0.3% 13.2% 10.4%
Nippon Express	9062.T	31 Mar	2	JPY	499.00	580	4,914	6,357	20.6 15.8 13.9	1.0 1.0	4.9% 6.2%	2.0% 2.0%	7.5 6.9 6.7	3.2% 30.2% 13.8%
Panalpina	PWTN.S	31 Dec	3	CHF	145.40	118.00	3,794	3,439	42.4 30.9 23.3	4.5 4.1	10.4% 14.3%	1.3% 1.5%	19.2 14.8 12.0	N/A N/A N/A
UTi Worldwide	UTIW.OQ	31 Jan	NR	USD	17.20	NR	1,802	2,107	N/A 30.6 19.2	2.3 2.1	1.8% 7.3%	0.3% 0.4%	16.6 10.2 7.7	N/A N/A N/A
Global Logistics/Forwarding Service Providers Avg									25.5 22.1 19.2	4.6 4.3	18.9% 20.5%	1.9% 2.2%	13.6 12.0 11.0	7.2% 15.3% 10.7%
Haier Electronics	1169.HK	31 Dec	1	HKD	22.85	25.60	7,593	6,855	22.3 18.3 15.0	6.7 4.8	29.7% 28.4%	0.7% 0.9%	14.6 11.7 9.4	20.5% 21.9% 22.3%
Toll Holdings	TOL.AX	30 Jun	2	AUD	5.77	5.6	3,646	4,827	14.1 13.8 12.8	1.5 1.5	10.6% 10.9%	4.7% 5.0%	7.4 7.0 6.5	3.9% 2.5% 7.6%
Sinotrans Ltd	0598.HK	31 Dec	NR	HKD	3.39	NR	1,857	1,803	15.0 12.7 10.8	1.0 1.0	7.0% 7.8%	1.2% 1.4%	5.5 4.8 4.1	17.3% 18.2% 18.3%
Regional Logistics/Forwarding Service Providers Avg									19.0 16.3 13.8	4.4 3.3	21.2% 20.6%	1.9% 2.1%	11.3 9.4 7.9	15.5% 16.0% 17.6%
United Parcel	UPS.N	31 Dec	2	USD	99.91	106.00	92,751	98,715	21.4 18.5 16.2	N/A N/A	N/A N/A	2.5% 2.7%	10.9 9.9 9.0	3.3% 15.7% 13.8%
Deutsche Post	DPWGN.DE	31 Dec	1	EUR	26.64	24.00	43,640	47,515	17.6 16.1 14.2	3.1 2.8	16.9% 17.8%	2.8% 3.1%	8.4 7.7 7.1	14.7% 9.0% 13.6%
Fedex Corp	FDX.N	31 May	1	USD	140.51	170.00	43,871	42,926	21.0 17.3 14.0	2.5 2.3	12.4% 13.3%	0.4% 0.5%	6.9 6.0 5.3	4.7% 21.6% 23.4%
TNT Express	TNTE.AS	31 Dec	2	EUR	6.97	6.30	5,148	4,689	38.9 19.7 14.9	1.5 1.5	1.3% 6.7%	1.1% 1.9%	8.2 7.2 6.2	N/A N/A N/A
Global Express Carriers Avg									20.9 17.7 15.2	2.7 2.5	13.9% 15.0%	2.0% 2.2%	9.3 8.4 7.6	6.4% 15.5% 16.1%
GLP	GLPL.SI	31 Mar	1	SGD	2.91	3.54	10,852	12,966	33.3 30.7 26.0	1.3 1.2	3.9% 4.1%	1.1% 1.1%	33.4 28.3 24.7	-6.5% 8.4% 17.8%
Goodman Group	GMG.AX	30 Jun	2	AUD	4.76	5.12	7,208	8,974	14.2 13.5 12.7	1.2 1.2	10.6% 10.7%	4.2% 4.5%	14.7 13.5 12.5	5.8% 5.8% 6.0%
Ascendas REIT	AEMN.SI	31 Mar	1	SGD	2.18	2.50	4,103	5,778	16.1 15.9 15.1	1.1 1.1	7.0% 6.9%	6.3% 6.5%	18.6 17.2 16.7	-0.3% 1.2% 5.3%
Mapletree Logist	MAPL.SI	31 Mar	2	SGD	1.03	1.15	1,973	3,327	14.1 13.6 13.6	1.1 1.0	N/A 8.0%	6.8% 7.0%	17.4 16.9 16.5	N/A 3.7% 0.3%
Global Logistics Landlords Avg									23.1 21.6 19.2	1.2 1.2	6.6% 6.8%	3.4% 3.5%	24.0 21.1 19.0	-1.4% 6.0% 10.7%
Total Avg Ex KLN									21.7 18.7 16.1	3.1 2.8	14.7% 15.6%	2.1% 2.3%	11.4 10.2 9.2	6.3% 14.6% 14.9%
Total Avg w KLN									21.8 18.7 16.2	3.1 2.8	14.6% 15.5%	2.1% 2.3%	11.4 10.2 9.2	6.3% 14.5% 14.8%

(1) KLN figures reflect our estimates. The EPS growth reflects annual change in net income, not including changes in share count. (2) The EV is calculated using the latest reported Net Debt figures on Bloomberg (KLN shows FY14E). Similarly, EV/EBITDA multiples represent Bloomberg Consensus EBITDA estimates with the exception of KLN, which reflects our forecasts. (3) For valuation purposes, KLN's Peer Group includes: Kuehne & Nagel International (KNIN.VX); Expeditors International of Washington Inc (EXPD.O); DSV A/S (DSV.CO); Panalpina (PWTN.S); UTi Worldwide Inc (UTIW.OQ) and Toll Holdings Ltd (TOL.AX). (4) KLN's ROE is depressed by the historical non-cash property revaluation gains, which inflate investment properties and retained earnings alike. (We have shown the ROE adjusted for the HK\$2,744m in cumulative reported property revaluation gains since 2005). Source: Bloomberg; Citi Research estimates

## Investment Property Valuation

KLN ended 1H13 with investment property assets on its balance sheet of HK\$6.2bn (~US\$800m), an increase of HK\$460m (~US\$60m), versus year-end 2012 to reflect the non-cash property revaluation recorded in 1H13. Note, only those properties in which KLN leases out a majority of the space to third parties are classed as 'Investment Property' (and thus subject to Independent Professional Valuation adjustment); the balance sheet figure 'Property, Plant and Equipment' likely understates the fair market value of its self-used facilities.

See the breakdown below by property and implied value per square foot GFA as per the prevailing rental rates/yields and outlook for demand over the near-to intermediate term.

Figure 15. KLN: Investment Properties Valuation (Carried Out by Independent Professional Valuers)

Property	Total GFA (sq.ft.)	% of Total GFA	Total Value (Local/Specified Currency)	Attributable Value to the Group (in US\$)	Interest to the Group	% of Total Attributable Value	Implied value per sq.ft.	Implied value per sq.ft. (Assuming USD FX rate as of 30 Sept, 2013)
Hong Kong			HKD				(HK\$)	(US\$)
Kerry Warehouse (Chai Wan)	535,037	7.7%	469,000,000	60,484,131	100%	7.6%	877	113
Kerry TC Warehouse 12	180,122	2.6%	175,800,000	22,671,877	100%	2.8%	976	126
Kerry Warehouse (Shatin)	431,530	6.2%	396,000,000	51,069,757	100%	6.4%	918	118
Kerry Warehouse (Sheung Shui)	356,253	5.2%	366,000,000	47,200,836	100%	5.9%	1,027	132
Kerry Warehouse (Fanling 1)	283,580	4.1%	275,000,000	35,465,109	100%	4.4%	970	125
Kerry Warehouse (Kwai Chung)	286,628	4.1%	261,000,000	33,659,612	100%	4.2%	911	117
Kerry TC Warehouse 2	490,942	7.1%	667,000,000	86,019,009	100%	10.8%	1,359	175
Kerry Warehouse (Tsuen Wan)	591,973	8.6%	608,000,000	78,410,131	100%	9.8%	1,027	132
Kerry Cargo Centre	1,443,356	20.9%	1,976,000,000	254,832,927	100%	31.9%	1,369	177
<b>Hong Kong Total</b>	<b>4,599,421</b>		<b>5,193,800,000</b>	<b>669,813,389</b>	<b>100%</b>	<b>83.9%</b>	<b>1,129</b>	<b>146</b>
PRC			RMB				(RMB)	(US\$)
EAS Building	149,610	2.2%	188,000,000	21,492,732	70%	2.7%	1,257	205
4 Blocks of Buildings (Tianjin)	72,347	1.0%	34,650,000	3,961,293	70%	0.5%	479	78
Level 18, Block B, Wuhan International Building <sup>4</sup>	7,996	0.1%	No Commercial Value	No Commercial Value	70%	N/A	N/A	N/A
Unit C, Level 22, Dihao Plaza (Hainan)	1,808	0.0%	1,090,000	124,612	70%	0.0%	603	98
Block 1, No. 64 Biaoshan Road (Qingdao) <sup>4</sup>	5,067	0.1%	No Commercial Value	No Commercial Value	70%	N/A	N/A	N/A
Shenzhen Kerry Futian Logistics Centre	268,656	3.9%	129,000,000	21,068,104	100%	2.6%	480	78
Kerry Fuzhou Logistics Centre	108,946	1.6%	22,000,000	3,593,010	100%	0.5%	202	33
Kerry Hefei Logistics Centre	204,383	3.0%	47,750,000	7,798,465	100%	1.0%	234	38
Kerry Chongqing Logistics Centre – Phase 1	224,976	3.3%	72,000,000	11,758,942	100%	1.5%	320	52
<b>PRC Total</b>	<b>1,043,789</b>		<b>494,490,000</b>	<b>69,797,158</b>	<b>93%</b>	<b>8.7%</b>	<b>439</b>	<b>72</b>
Vietnam			USD				(US\$)	(US\$)
Kerry Vietnam Logistics Centre	670,576	9.7%	23,330,000	23,470,160	100%	2.9%	35	35
Vietnam Danang Logistics Centre	114,529	1.7%	2,710,000	2,748,696	100%	0.3%	24	24
Kerry Hung Yen Logistics Centre	107,586	1.6%	2,890,000	2,904,822	100%	0.4%	27	27
<b>Vietnam Total</b>	<b>892,691</b>		<b>28,930,000</b>	<b>28,930,000</b>	<b>100%</b>	<b>3.6%</b>		<b>32</b>
Singapore							(SGD)	(US\$)
Kerry Tampines Logistics Centre	371,466	5.4%	37,500,000	29,851,934	50%	3.7%	202	161
<b>Total</b>	<b>6,907,367</b>		<b>Attributable Value to the Group (in HK\$)</b>	<b>Attributable Value to the Group (in US\$)</b>				
<b>Attributable Total</b>	<b>6,650,586</b>	<b>96.3%</b>	<b>6,190,815,142</b>	<b>798,392,482</b>		<b>100.0%</b>	<b>931</b>	<b>120</b>

Note: Properties held for long-term rental yields or for capital appreciation, or both, that are not occupied by KLN is classified as investment properties. Property occupied by KLN generates cash flows that are attributable to property and other assets used in the production or supply process is classified as property, plant and equipment (PP&E). Investment property accounted for ~35% of the GFA of the entire property portfolio as at 30 Sept 2013. Investment properties are measured initially at cost, including related transaction costs and borrowing costs. After initial recognition, they are carried at fair value. Valuations of KLN's investment properties have been carried out by independent professional valuers. PP&E are stated at historical cost less aggregate depreciation and accumulated impairment losses. Investment properties in Hong Kong accounted for 83.4% of the net book value of all of KLN's investment properties.

Source: Company report; Citi Research

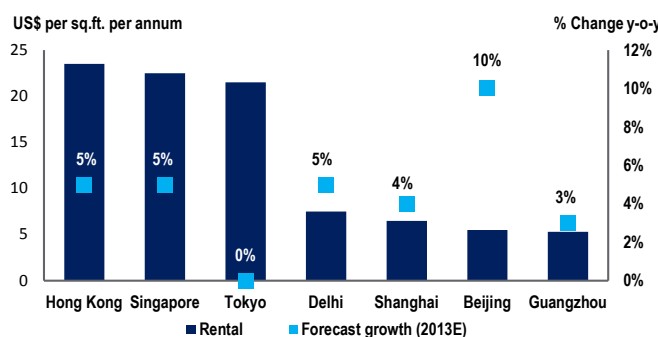
Figure 16. KPL (Logistics Segment) and KLN Fair Value Adjustment on Investment Property (HK\$m) – 2005-1H13

	2005	2006	2007	2008	2009	2010	2011	2012	1H13 Total (2005-1H13)	
Fair Value Adjustment on Investment Property (HK\$m)	664.0	594.5	324.2	24.8	106.7	176.0	130.3	265.2	458.3	2,743.9
										As of 1H13
Total Investment Property										6,228.9
Total Shareholder Equity										9,102.4
Total Shareholder Equity (including Minority Interest)										11,898.2

Note: KLN's ROE is depressed by the historical non-cash property revaluation gains, which inflate investment properties and retained earnings alike. We have shown the ROE adjusted for the HK\$2,744m in cumulative property revaluation gains since 2005.

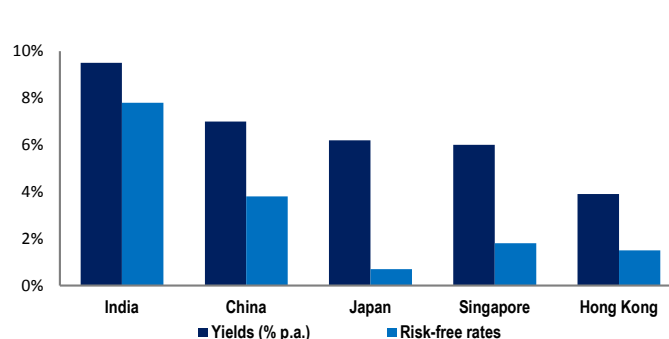
Source: Company report; Citi Research

Figure 17. Asia logistics / Industrial Rentals (by Key Markets)



Source: Colliers; Company report; Citi Research

Figure 18. Asia logistics / Industrial Yields (by Key Centers)



Note: Risk-free rates refer to long-term government bond yields.

Source: CEIC; Trading Economics; Company report; Citi Research

**Redevelopment Potential: We also believe that KLN will benefit from future conversion of logistics/industrial space should certain of its owned properties be targeted for commercial, retail or residential redevelopment.**

Note, as part of the HK\$3.8bn loan repayment KLN is in 2H13 transferring its Kerry D.G. Warehouse (Kowloon Bay) facility to KPL for a HK\$400m consideration (in which we also expect KLN to record a gain on the sale due to the estimated current book value of the asset as it was largely 'self-used' and not revalued as investment property, having no impact on the above schedule/valuation).

## Sale Leasebacks Could Pad Returns While Unencumbering the Balance Sheet

While we appreciate KLN's unique approach towards asset ownership, we believe that the company's balance sheet and returns may be enhanced through the greater use of sale-lease-back arrangements or other long-term lease options. Admittedly, asset ownership provides KLN a number of competitive advantages and selling points when pursuing new business, such as: 1) greater product security for its customers; 2) an ability to invest in/upgrade/customize facilities to better serve customers' requirements; resulting in longer-term contracts; and 3) mitigated exposure to rapid rental cost escalation and thus better margin/profit visibility amongst others.

KLN does currently lease facilities in new locations as a means to mitigate vacancy/tenant risk, however, in our view, sale-lease-back agreements on some of its more mature logistics facilities (with little to no redevelopment potential longer-term) would also help management fund its future acquisition growth, while also improving the high-single-digit return on capital observed over the past few years (versus mid-teens for its global peers).

## Historical Peer Valuations & Growth Trends

While global trade has recovered to some extent following the large decline associated with the Global Financial Crisis (GFC), relatively muted GDP/consumer demand growth in the US and Europe has continued to weigh on export growth in Asia, impacting Forwarding Revenue and EBIT margins alike. In the figures below, we provide a look at the same valuations, pre and post the GFC (which we define as before and after January 1, 2008).

On average since 2000 (or since their listing), the Non-Asset and Asset-Light Global Forwarding and Contract Logistics operators (DSV A/S; Expeditors International of Washington Inc; Kuehne & Nagel International; Panalpina; Toll Holdings Ltd) have traded at a historical consensus forward P/E of 18.9x, which peaked in the 2007 and collapsed during the GFC (with 21.6x representing a one standard deviation premium to the 13-year average).

Figure 19. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' Twelve Month Forward Rolling P/E (based upon FactSet Consensus) – 2000-Present (Ex KLN)



Constituents include EXPD, UTIW, KNIN, PWTN, DSV and TOL. Note – PWTN and UTIW data only available since 2005 and 2001, respectively, following their listings. Source: FactSet Consensus Estimates; Citi Research

Figure 20. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' Twelve Month Forward Rolling P/E (based upon FactSet Consensus) – Pre GFC, 2000-2007



Constituents include EXPD, UTIW, KNIN, PWTN, DSV and TOL.  
Source: FactSet Consensus Estimates; Citi Research

Figure 21. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' Twelve Month Forward Rolling P/E (based upon FactSet Consensus) – Post GFC, 2008-Present (Ex KLN)



Constituents include EXPD, UTIW, KNIN, PWTN, DSV and TOL.  
Source: FactSet Consensus Estimates; Citi Research



In the figure below, we provide a look at the above valuations by constituent.

Figure 22. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' Twelve Month Forward Rolling Forward P/E (based upon FactSet Consensus) – Excluding KLN

EXPD	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 99-Pres	26.1	Average 99-07	27.6	Average 08-Pres	24.0
	+1 St Dev	32.9	+1 St Dev	35.7	+1 St Dev	27.6
	-1 St Dev	19.3	-1 St Dev	19.6	-1 St Dev	20.5
	Estimated Growth	17%	Estimated Growth	19%	Estimated Growth	14%
	Fwd Revisions	-4%	Fwd Revisions	-2%	Fwd Revisions	-8%
UTIW	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 01-Pres	20.9	Average 01-07	23.5	Average 08-Pres	18.2
	+1 St Dev	26.3	+1 St Dev	27.6	+1 St Dev	23.4
	-1 St Dev	15.5	-1 St Dev	19.5	-1 St Dev	12.9
	Estimated Growth	24%	Estimated Growth	20%	Estimated Growth	28%
	Fwd Revisions	-9%	Fwd Revisions	10%	Fwd Revisions	-26%
KNIN	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 97-Pres	16.1	Average 97-07	14.5	Average 08-Pres	18.9
	+1 St Dev	20.0	+1 St Dev	18.2	+1 St Dev	21.2
	-1 St Dev	12.2	-1 St Dev	10.8	-1 St Dev	16.7
	Estimated Growth	13%	Estimated Growth	14%	Estimated Growth	12%
	Fwd Revisions	1%	Fwd Revisions	7%	Fwd Revisions	-9%
PWTN	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 05-Pres	19.3	Average 05-07	18.6	Average 08-Pres	19.6
	+1 St Dev	25.1	+1 St Dev	21.0	+1 St Dev	26.1
	-1 St Dev	13.5	-1 St Dev	16.2	-1 St Dev	13.0
	Estimated Growth	56%	Estimated Growth	17%	Estimated Growth	70%
	Fwd Revisions	-28%	Fwd Revisions	21%	Fwd Revisions	-38%
DSV	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 97-Pres	14.6	Average 97-07	15.0	Average 08-Pres	13.9
	+1 St Dev	18.3	+1 St Dev	19.3	+1 St Dev	16.1
	-1 St Dev	11.0	-1 St Dev	10.8	-1 St Dev	11.7
	Estimated Growth	21%	Estimated Growth	20%	Estimated Growth	22%
	Fwd Revisions	1%	Fwd Revisions	8%	Fwd Revisions	-8%
TOL	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 00-Pres	16.5	Average 00-07	19.7	Average 08-Pres	12.7
	+1 St Dev	21.0	+1 St Dev	23.3	+1 St Dev	14.7
	-1 St Dev	11.9	-1 St Dev	16.1	-1 St Dev	10.7
	Estimated Growth	14%	Estimated Growth	18%	Estimated Growth	10%
	Fwd Revisions	0%	Fwd Revisions	12%	Fwd Revisions	-12%
Average	Total	Rolling Forward P/E	Pre GFC	Rolling Forward P/E	Post GFC	Rolling Forward P/E
	Average 00-Pres	18.9	Average 00-07	19.7	Average 08-Pres	17.9
	+1 St Dev	21.6	+1 St Dev	22.2	+1 St Dev	20.5
	-1 St Dev	16.2	-1 St Dev	17.3	-1 St Dev	15.2
	Estimated Growth	24%	Estimated Growth	18%	Estimated Growth	26%
	Fwd Revisions	-6%	Fwd Revisions	9%	Fwd Revisions	-17%

Note: We have defined the period before 2008 as Pre GFC. While the timing of the GFC is difficult to pinpoint (i.e. we could use the large write-downs recorded by the major US banks in late 2007 or the collapse of Lehman Brothers in September 2008). Companies such as Panalpina have not been listed nearly as long as KNIN and EXPD. Further PWTN and UTIW figures are likely skewed dramatically by company-specific restructuring issues. EXPD and UTIW estimates were also impacted by the expensing of stock options post 2005 (FAS 123). Source: FactSet Consensus Estimates; Citi Research Estimates

### Growth Expectations versus Earnings Revisions

In the figure above, we provide two additional metrics to provide some context around forward P/E valuation multiples in the context of growth expectations.

With forward valuations often predicated on future earnings growth expectations, we believe it is useful to compare the actual growth vs. those expectations a year prior.

The above term '**Estimated Growth**', reflects the average estimated YoY growth implied by consensus for the out year (relative to the front year, i.e. the expected change in 2014 consensus earnings over 2013 consensus earnings).



While the *Estimated Growth* metric captures the YoY change in future expectations today (or at the time), the *Earnings Revisions* metric captures how right or wrong those expectations were over time.

We have shown 2012 results (or fiscal 2013 for UTIW, which has a January year end), including Gross and Net Revenue by segment (including our estimates for KLN. The figures have been converted into USD for comparability (assuming the average 2012 cross rate).

On average, out-year consensus earnings estimates have implied 24% growth above the front-year consensus earnings estimate for the six peers. Prior to the GFC, expected out-year earnings growth averaged 18%, but have averaged 26% growth since January 2008. Note, with weaker fundamentals and relatively depressed earnings, the expectation for higher YoY growth post the GFC is likely more a reflection of the low base effect than better growth prospects.

The second metric we've provided, '*Earnings Revisions*' (i.e. the change in the out-year consensus estimate over the course of a 12-month period), reflects the accuracy of out-year estimates. For example, we compared the consensus estimate for FY13 as of June 2012, and then again in June 2013, and recorded the YoY change in consensus.

In other words, as shown above, despite the 24% expected average annual growth in out-year estimates over the past ten years, those out-year estimates have been revised down 6% on average as each year progressed (proving initial analyst growth expectations were overly bullish).

Prior to the GFC, out-year estimates were actually revised up 9% on average (which likely lead to the exceptional share price performance in the space). However, since the GFC, these estimates have been revised downward, at -17% on average as each year progressed (reflecting initial analyst optimism for a recovery and the operating leverage associated with incremental revenue/freight volume, but which failed to materialize as the recent global trade environment).

#### Non-Asset/Asset-Light Global Forwarding and Contract Logistics Comparison

Below, we provide an operational comparison of the Non-Asset/Asset-Light Global Forwarding and Contract Logistics service providers. While global trade has recovered to some extent following the large decline associated with the GFC, relatively muted GDP/consumer demand growth in the US and Europe has continued to weigh on export growth in Asia, impacting Forwarding Revenue and EBIT margins alike.

Figure 23. Comparative Air and Ocean Freight Forwarding Volume Trends (2010-2012)

Airfreight Volume Growth (Tonnage)	C10	C11	C12
Kerry Logistics (Estimated)		6%	-5%
Uti Worldwide	26%	-3%	-10%
Expeditors Int'l	35%	0%	-6%
DSV	29%	5%	-1%
Kuehne+Nagel	25%	13%	2%
Panalpina	22%	-5%	-6%
Market (1)	19%	-1%	-2%
Ocean Freight Volume Growth (TEUs)	C10	C11	C12
Kerry Logistics (Estimated)		72%	-2%
Uti Worldwide	13%	2%	2%
Expeditors Int'l	20%	2%	-2%
DSV	19%	3%	0%
Kuehne+Nagel	16%	11%	6%
Panalpina	13%	6%	6%
Market (1)	11%	6%	3%

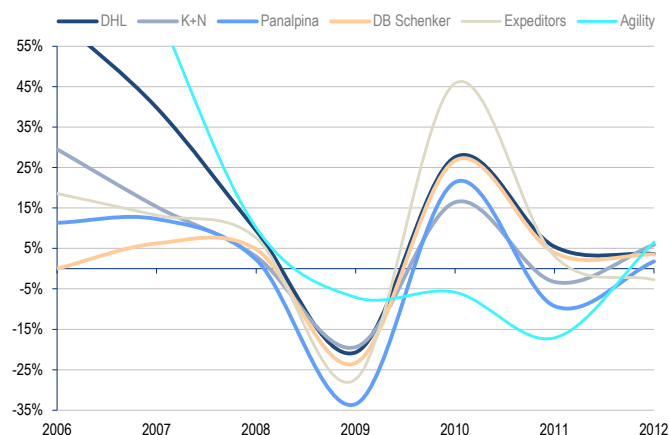
(1) According to Panalpina and K+N annual presentations.

Source: Company reports; Citi Research

On the Airfreight side, market volume remains weak (posting YoY declines in each of the past two years); Kerry outperformed the market in 2011, but like its peers, struggled in 2012, with tonnage down an estimated 5%. Similarly on the Ocean side, volume growth has been unimpressive, although Kerry made major inroads in 2011 by our estimate. In fact, reflecting solid organic growth as the company

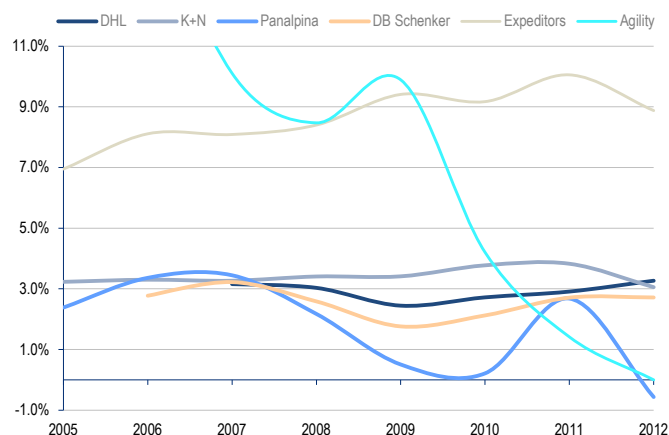
leverages its IL platform and recent acquisition, the company has posted far better top-line growth trends. Unfortunately, with stubbornly weak demand and freight rates generally, forwarders have not been able to offset weaker volume with better gross yields (i.e. favorable purchased transportation rates), leading to fairly soft earnings growth the past few years.

Figure 24. Freight Forwarding Peers – Revenue Growth (%)



Source: Company data, Citi Research

Figure 25. Freight Forwarding Peers – EBIT Margin (%)




Source: Company data, Citi Research

We believe Net Revenue (Gross Revenue, less all purchased transportation and consolidation expense) is a far more useful metric when comparing peer operations as each operators respective business mix can skew Gross Revenue composition due to the large purchased transportation component within the forwarding business.

On this basis, we estimate roughly 63% of KLN's 2012 Net Revenue was generated by its Logistics segment, with the rest from International Freight Forwarding. UTIW and KNIN also generate just over half of their Net Revenue from Logistics, while the remaining three maintain a relative bias towards Forwarding.

Figure 26. Citi Non-Asset and Asset Light Global Forwarding and Contract Logistics Comparison









Current Market Cap (in US\$m) - as of Jan 20, 2014

Recent Share Price Performance (1 month)

Recent Share Price Performance (3 months)

Recent Share Price Performance (12 months)

KLN	EXPD	UTIW	DSV	KNIN	PWTN
2,994	8,998	1,802	5,984	16,822	3,794
34%	0.5%	-0.2%	5.3%	10.2%	-3.1%
N/A	-0.3%	13.6%	18.3%	14.3%	8.5%
N/A	2.1%	16.4%	25.2%	11.3%	49.6%

in US\$m	FX Menu	HKD	USD	USD	DKK	CHF	CHF
Shown in - - - > 2012 Exchange Rate:	USD	7.75	1.00	1.00	5.80	0.94	0.94
Gross Revenue, Including Customs, Duty and Taxes							8,599
Gross Revenue (Excluding Customs, Duty and Taxes)							
2012 Gross Airfreight Revenue		598	2,601	1,444	3,907	6,039	3,311
2012 Gross Ocean Freight Revenue		873	1,975	1,267		8,859	2,788
2012 Gross Road and Rail Revenue					3,425	4,409	
2012 Gross Transportation Revenue (1)		1,471	4,576	2,977	7,332	19,308	6,098
2012 Gross Customs Brokerage Revenue			1,405	118			
2012 Gross Contract Logistics/Solutions Revenue		1,019		1,513	894	4,763	956
2012 Other Non-Logistics Related Gross Revenue					(479)		
2012 Total Gross Revenue		2,490	5,981	4,608	7,746	18,252	7,054
Net Revenue (Excluding Purchase Transportation, Consolidation Costs, Customs, Duty and Taxes)							
2012 Net Airfreight Revenue		136	617	316		892	668
% of Total		17%	34%	20%	750	14%	43%
2012 Net Ocean Freight Revenue		156	433	203		1,359	490
% of Total		20%	24%	13%	0%	21%	31%
2012 Net Road and Rail Revenue					736	946	
% of Total					42%	15%	
2012 Net Transportation Revenue (1)		292	1,050	519	1,486	3,197	1,159
% of Total		37%	58%	33%	86%	49%	74%
2012 Net Customs Brokerage Revenue			774	112			
% of Total			42%	7%			
2012 Net Contract Logistics/Distribution/Solutions Revenue		507		877	248	3,300	403
% of Total		63%		55%	14%	51%	26%
2012 Other Non-Logistics Related Net Revenue							
2012 Total Net Revenue		799	1,824	1,587	1,734	6,497	1,562
Financials							
2012 EBIT		170	531	66	438	745	82
2012 EBITDA		214	571	128	530	982	141
2012 Core Net Income		105	333	41	301	584	47
Free Cash Flow (Average 08-12, 10-12 for KLN)		(46)	340	53	129	806	80

Notes: (1) Total Transportation includes Airfreight, Ocean Freight, Truck Brokerage and Rail Intermodal activities. (2) Same Currency Comparison converts 2012 results reported in home currency to currency of choice.

Source: Company reports; Citi Research

In the figure below, we look at the growth trends over the past two to five years (on a CAGR basis). Note, figures are displayed in reporting currencies.

Figure 27. Citi Non-Asset and Asset Light Global Forwarding and Contract Logistics Comparison

In Local Currency - See FX Adjusted Summary for Same Currency Comparison - >	HKD	USD	USD	DKK	CHF	CHF
	KLN	EXPD	UTIW	DSV	KNIN	PWTN
<b>Gross Revenue (Excluding Customs, Duty and Taxes)</b>						
2012 Gross Airfreight Revenue	\$4,632	\$2,601	\$1,444		SFr. 5,665	SFr. 3,105
Gross Airfreight Revenue Growth (10-12, 2yr CAGR)	37.1%	-4.0%	-5.3%		0.3%	-5.8%
Gross Airfreight Revenue Growth (07-12, 5yr CAGR)		1.6%	-1.5%	kr 22,654	1.9%	-5.5%
2012 Gross Ocean Freight Revenue	\$6,765	\$1,975	\$1,267		SFr. 8,310	SFr. 2,615
Gross Ocean Freight Revenue Growth (10-12, 2yr CAGR)	37.0%	0.5%	3.2%	8.1%	-1.0%	-2.9%
Gross Ocean Freight Revenue Growth (07-12, 5yr CAGR)		1.6%	2.8%	20.1%	-0.7%	-4.2%
2012 Gross Road and Rail Revenue				kr 19,855	SFr. 4,136	
Gross Ocean Revenue Growth (10-12, 2yr CAGR)				-3.0%	10.3%	
Gross Ocean Revenue Growth (07-12, 5yr CAGR)				-2.7%	5.3%	
2012 Other Freight Forwarding Revenue			\$266			
<b>2012 Gross Transportation Revenue (1)</b>	<b>\$11,397</b>	<b>\$4,576</b>	<b>\$2,977</b>	<b>kr 42,509</b>	<b>SFr. 18,111</b>	<b>SFr. 5,720</b>
Gross Transportation Revenue Growth (10-12, 2yr CAGR)	37.0%	-2.1%	-1.3%	2.4%	1.7%	-4.5%
Gross Transportation Revenue Growth (07-12, 5yr CAGR)		1.6%	1.0%	5.9%	1.3%	-4.9%
2012 Gross Customs Brokerage Revenue		\$1,405	\$118			
Gross Customs Brokerage Revenue Growth (10-12, 2yr CAGR)		8.6%	4.0%			
Gross Customs Brokerage Revenue Growth (07-12, 5yr CAGR)		6.9%	3.7%			
<b>2012 Gross Contract Logistics/Solutions Revenue</b>	<b>\$7,898</b>		<b>\$1,513</b>	<b>kr 5,181</b>	<b>SFr. 4,468</b>	<b>SFr. 896</b>
Gross Contract Logistics/Solutions Revenue Growth (10-12, 2yr CAGR)	28.1%		4.4%	3.2%	-0.2%	0.4%
Gross Contract Logistics/Solutions Revenue Growth (07-12, 5yr CAGR)			1.0%	4.1%	-2.3%	-6.8%
Other Non-Logistics Related Gross Revenue				(kr 2,778)		
<b>2012 Total Gross Revenue</b>	<b>\$19,295</b>	<b>\$5,981</b>	<b>\$4,608</b>	<b>kr 44,912</b>	<b>SFr. 17,120</b>	<b>SFr. 6,617</b>
Total Gross Revenue Growth (10-12, 2yr CAGR)	33.2%	0.1%	0.6%	2.7%	0.8%	-3.9%
Total Gross Revenue Growth (07-12, 5yr CAGR)		2.7%	1.1%	5.2%	0.0%	-5.2%
<b>Net Revenue (Excluding Purchase Transportation, Consolidation Costs, Customs, Duty and Taxes)</b>						
2012 Net Airfreight Revenue	\$1,053	\$617	\$316		SFr. 837	SFr. 627
Net Airfreight Revenue Growth (10-12, 2yr CAGR)	36.7%	-1.8%	-2.9%		5.7%	-3.0%
Net Airfreight Revenue Growth (07-12, 5yr CAGR)		3.2%	-0.2%	kr 4,346	6.9%	-7.5%
2012 Net Ocean Freight Revenue	\$1,211	\$433	\$203		SFr. 1,275	SFr. 460
Net Ocean Freight Revenue Growth (10-12, 2yr CAGR)	39.5%	5.9%	2.8%	7.0%	2.1%	0.8%
Net Ocean Freight Revenue Growth (07-12, 5yr CAGR)		4.5%	3.0%	18.5%	2.3%	-2.7%
2012 Net Road and Rail Revenue				kr 4,269	SFr. 887	
Net Ocean Revenue Growth (10-12, 2yr CAGR)				2.0%	3.7%	
Net Ocean Revenue Growth (07-12, 5yr CAGR)				-2.3%	14.1%	
<b>2012 Net Transportation Revenue (1)</b>	<b>\$2,264</b>	<b>\$1,050</b>	<b>\$519</b>	<b>kr 8,615</b>	<b>SFr. 2,999</b>	<b>SFr. 1,087</b>
Net Transportation Revenue Growth (10-12, 2yr CAGR)	38.2%	1.2%	-0.5%	4.4%	3.5%	-1.5%
Net Transportation Revenue Growth (07-12, 5yr CAGR)		3.7%	2.1%	5.3%	6.4%	-3.8%
2012 Net Customs Brokerage Revenue		\$774	\$112			
Net Customs Brokerage Revenue Growth (10-12, 2yr CAGR)		5.9%	4.6%			
Net Customs Brokerage Revenue Growth (07-12, 5yr CAGR)		6.0%	3.5%			
<b>2012 Net Contract Logistics/Distribution/Solutions Revenue</b>	<b>\$3,928</b>		<b>\$877</b>	<b>kr 1,438</b>	<b>SFr. 3,095</b>	<b>SFr. 378</b>
Net Contract Logistics/Solutions Revenue Growth (10-12, 2yr CAGR)	26.4%		1.6%	-0.8%	-1.0%	2.5%
Net Contract Logistics/Solutions Revenue Growth (07-12, 5yr CAGR)			0.5%	4.9%	-4.1%	-4.7%
Other Non-Logistics Related Net Revenue				kr 1		
<b>2012 Total Net Revenue</b>	<b>\$6,192</b>	<b>\$1,824</b>	<b>\$1,587</b>	<b>kr 10,054</b>	<b>SFr. 6,094</b>	<b>SFr. 1,465</b>
Total Net Revenue Growth (10-12, 2yr CAGR)	30.3%	3.8%	1.0%	3.9%	1.1%	-0.5%
Total Net Revenue Growth (07-12, 5yr CAGR)		4.7%	1.3%	5.5%	0.3%	-4.1%
<b>Earnings (2012)</b>						
2012 EBIT (4)	\$1,318	\$531	\$66	kr 2,540	SFr. 699	SFr. 77
EBIT Growth (10-12, 2yr CAGR)	27.1%	-1.5%	-26.5%	7.4%	-4.4%	123.4%
EBIT Growth (07-12, 5yr CAGR)		4.6%	-15.1%	6.2%	-1.4%	-24.4%
2012 EBITDA (3,4)	\$1,657	\$571	\$128	kr 3,074	SFr. 921	SFr. 132
EBITDA Growth (07-12, 2yr CAGR)	28.4%	-1.2%	-16.6%	6.3%	-4.2%	45.7%
EBITDA Growth (07-12, 5yr CAGR)		4.3%	-8.5%	7.7%	-1.9%	-18.1%
2012 Operating Ratio (Expense/Gross Revenue excluding Customs, Duty and Taxes)	93.2%	91.1%	98.6%	94.3%	95.9%	98.8%
Average Change in OR (11-12, bp)	-34 bp	-15 bp	-63 bp	24 bp	-23 bp	47 bp
Average Change in OR (08-12, bp)		16 bp	-40 bp	5 bp	-6 bp	-48 bp
2012 Operating Ratio (Expense/Net Revenue)	78.7%	70.9%	95.8%	74.7%	88.5%	94.8%
Average Change in OR (11-12, bp)	-55 bp	-161 bp	-185 bp	82 bp	-68 bp	210 bp
Average Change in OR (08-12, bp)		-1 bp	-118 bp	17 bp	-20 bp	-239 bp
2012 Adjusted Net Income	\$816	\$333	\$41	kr 1,745	SFr. 548	SFr. 44
EPS Growth (10-12, 2yr CAGR) (4)	10.7%	-0.6%	-23.8%	24.1%	-4.7%	-34.1%
EPS Growth (07-12, 5yr CAGR) (4)		5.3%	-17.2%	10.5%	-1.4%	-26.8%
Return on Average Total Capital (excluding off-balance sheet debt) (Average 08-12) (6) (7)	6.4%	19.0%	7.1%	12.7%	23.2%	10.0%

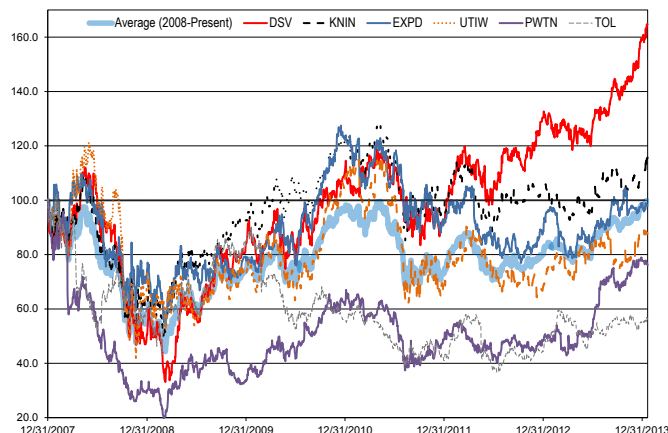
Notes: (1) Total Transportation includes Airfreight, Ocean Freight, Truck Brokerage and Rail Intermodal activities. (2) Same Currency Comparison converts 2012 results reported in home currency to currency of choice. (3) Depreciation and Amortization of Intangibles excludes goodwill impairments or amortization of goodwill. (4) EBIT, EBITDA and EPS are adjusted for special items. For KLN we do not show EPS growth, only Net Income growth. (5) Days to Cover Trade Receivable calculated as Average Trade Receivables/Gross Revenue \* 254 Operating Days per Year. European Forwarders calculate DSOs on a different basis than American Forwarders in that they use the Gross Revenue including Customs and Duties. (6) Return on Average Total Capital is calculated as Adjusted Net Income + Tax-affected Net Interest / Total Debt excluding Off-balance Sheet Debt + Total Equity including Minority Interest. (7) For Kerry we have excluded the large MI portion of Shareholders Equity, KLN's Returns only reflects 2010-12. (8) Free Cash Flow defined as reported Cash Flow from Operations less Net Capital Expenditures for Fixed Assets.

Source: Company reports; Citi Research

### Non-Asset and Asset Light Share Price Performance

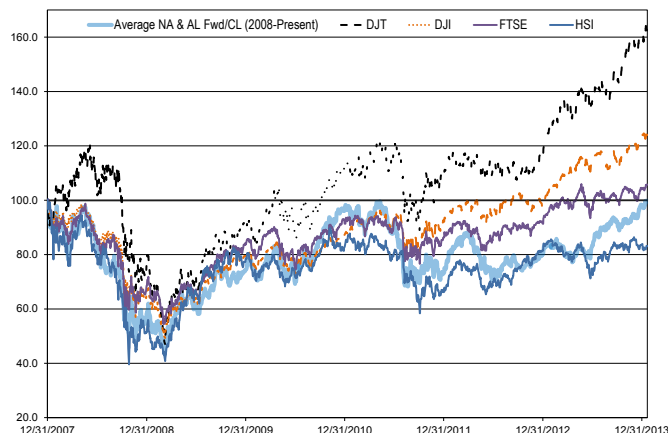
Since the GFC, the International Freight Forwarders and Contract Logistics Providers have generally struggled, with the index still slightly below 12/31/2007 levels (and trailing the performance of the Dow Jones Transport Index, Dow Jones Industrials Index and the FTSE modestly, but exceeding the HSI).

**Figure 28. Non-Asset and Asset Light Global Forwarding and Contract Logistics Share Price Performance – Post GFC, 2008-Present**



Non-Asset and Asset Light Global Forwarding and Contract Logistics Index constituents include EXPD, UTIW, KNIN, PWTN, DSV and TOL. Source: FactSet; Citi Research

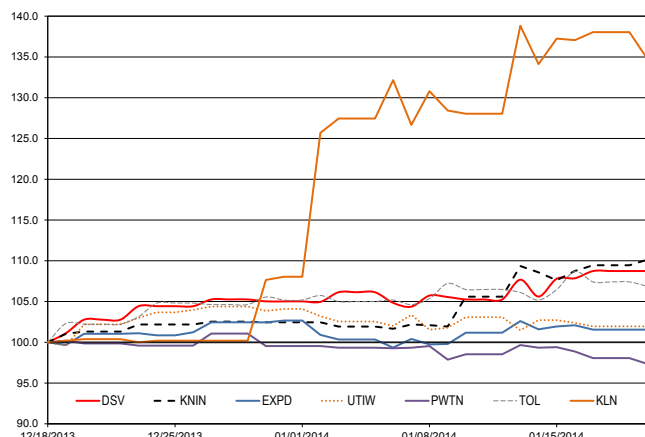
**Figure 29. Global Forwarding and Contract Logistics Index Performance – Post GFC, 2008-Present vs HSI/DJI/DJT and FTSE**



Non-Asset and Asset Light Global Forwarding and Contract Logistics Index constituents include EXPD, UTIW, KNIN, PWTN, DSV and TOL. Other Index Data: Dow Jones Transportation Index (DJT); Dow Jones Industrials Index; Hang Seng Index (HSI) and FTSE. Source: FactSet; Citi Research

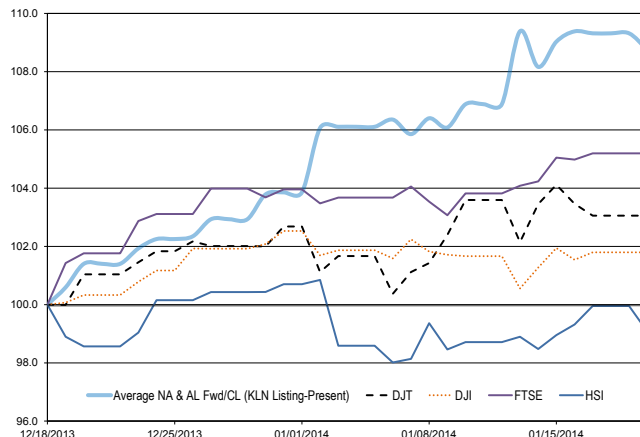
Below, we look at the same performance since the KLN listing. KLN itself has increased 35% since the December 19<sup>th</sup> IPO, however KNIN, DSV and TOL have also performed fairly well (up 7-10%). Only PWTN has declined over the past one month or so. Meanwhile, the HSI has not recovered to the same extent as the Dow or FTSE.

**Figure 30. Non-Asset and Asset Light Global Forwarding and Contract Logistics Share Price Performance – Post KLN Listing-Present**



Non-Asset and Asset Light Global Forwarding and Contract Logistics Index constituents include KLN, EXPD, UTIW, KNIN, PWTN, DSV and TOL. Source: FactSet; Citi Research

**Figure 31. Global Forwarding and Contract Logistics Index Performance – Post KLN Listing-Present vs HSI/DJI/DJT and FTSE**



Non-Asset and Asset Light Global Forwarding and Contract Logistics Index constituents include KLN, EXPD, UTIW, KNIN, PWTN, DSV and TOL. Other Index Data: Dow Jones Transportation Index (DJT); Dow Jones Industrials Index; Hang Seng Index (HSI) and FTSE. Source: FactSet; Citi Research

Figure 32. Sector Share Price Performance (as of January 20, 2013)

Company Name	Reuters	Rating	Share					Product					Mkt Cap	3M	EPSG (%)			P/E			P/B
	Ticker		Cur	TP	Price	Country	1w	1m	3m	YTD	12m	2 Yr	US\$m	Volume (USD mn)	2012	2013	2014	2012	2013	2014	2014
FREIGHT FORWARDERS/LOGISTICS PROVIDERS																					
Kuehne & Nagel	KNIN.VX	1	CHF	130.00	127.60	Switzerland	2.1	10.2	14.3	9.0	11.3	11.2	16,822	19.34	(8.9)	8.8	12.8	27.8	25.6	22.7	5.6
Expeditors Int'l	EXPD.O	NR	USD	na	43.77	United States	(1.0)	0.5	(0.3)	(1.1)	2.1	(1.4)	8,998	50.10	(12.3)	11.0	13.2	27.9	25.1	22.2	4.0
CH Robinson WW	CHRW.O	2	USD	57.00	59.13	United States	2.9	4.6	(1.8)	1.3	(9.7)	(12.6)	8,965	111.36	5.3	(2.1)	11.0	21.4	21.9	19.7	9.0
Hyundai Glovis	086280.KS	2	KRW	255,000.00	231,000.00	Rep of Korea	3.6	5.7	2.0	0.0	11.9	10.5	8,158	12.40	38.7	5.4	13.5	17.4	16.5	14.5	3.0
Yamato Hld	9064.T	2	JPY	2,250.00	1,983.00	Japan	(1.7)	(6.9)	(10.7)	(6.7)	38.4	60.3	8,055	37.60	(40.5)	84.9	22.1	44.2	23.9	19.6	1.5
DSV	DSV.CO	NR	DKK	na	183.20	Denmark	0.5	5.3	18.3	3.0	25.2	57.3	5,984	11.09	21.2	0.3	13.2	19.3	19.3	17.0	4.7
Nippon Express	9062.T	2	JPY	580.00	499.00	Japan	(0.4)	(2.9)	(0.4)	(2.0)	37.8	65.8	4,908	15.38	215.5	(12.2)	9.0	19.3	22.0	20.2	1.0
Panalpina	PWTN.S	3	CHF	118.00	145.40	Switzerland	(2.9)	(3.1)	8.5	(2.7)	49.6	50.5	3,794	4.98	(65.3)	58.5	42.1	78.5	49.5	34.8	4.1
Kerry Logistics	0636.HK	1	HKD	16.00	13.74	Hong Kong	(3.0)	34.2	na	24.7	na	na	2,994	53.69	na	na	8.7	na	25.4	23.4	1.8
Landstar Sys	LSTR.OQ	NR	USD	na	58.15	United States	1.5	3.1	(0.0)	1.2	1.2	18.2	2,658	6.13	16.4	(10.1)	14.3	21.0	23.4	20.4	5.6
CJ Korea Express	000120.KS	NR	KRW	na	112,500.00	South Korea	7.1	21.6	25.7	12.5	(3.0)	25.0	2,417	5.04	(2.0)	na	na	23.6	nm	27.0	1.0
Wesco Aircraft	WAIR.N	1	USD	26.00	21.90	United States	2.1	(1.7)	14.5	(0.1)	62.3	66.8	2,087	1.19	2.7	22.4	14.6	22.0	18.0	15.7	2.1
Sinotrans Ltd	0598.HK	NR	HKD	na	3.39	Hong Kong	9.7	16.9	62.2	15.7	145.7	124.5	1,857	6.31	-	17.3	18.2	17.6	15.0	12.7	1.0
UTI Worldwide	UTIW.OQ	NR	USD	na	17.20	United States	0.5	(0.2)	13.6	(2.1)	16.4	9.0	1,802	2.64	23.5	(53.6)	(58.7)	20.5	44.1	106.8	2.3
Qube Holdings	QUB.AX	2	AUD	1.90	2.12	Australia	2.4	5.5	(3.6)	2.4	19.4	53.1	1,734	1.74	na	na	18.6	nm	25.4	21.4	1.8
Hub Group	HUBG.OQ	NR	USD	na	41.05	United States	(2.2)	4.4	12.5	2.9	15.4	18.0	1,545	3.02	12.3	4.4	10.2	22.4	21.5	19.5	2.5
KWE	9375.T	1	JPY	4,550.00	4,260.00	Japan	3.5	4.2	15.9	0.7	42.8	91.9	1,470	2.24	21.1	(4.3)	(2.6)	16.1	16.8	17.2	1.6
JSL	JSLG3.SA	2H	BRL	18.00	15.30	Brazil	0.9	(2.5)	2.0	(4.1)	0.7	93.7	1,416	1.38	41.2	9.2	60.6	41.3	37.8	23.6	2.9
SITC Int'l Hld	1308.HK	1H	HKD	5.47	3.62	China	7.7	16.8	20.3	6.2	26.0	87.4	1,207	0.93	0.4	17.9	22.9	12.9	11.0	8.9	1.4
Roadrunner Tr	RRTS.N	NR	USD	na	28.84	United States	1.3	10.9	4.5	7.0	53.7	89.5	1,081	1.47	42.7	14.4	23.1	24.6	21.5	17.5	2.1
Universal Truck	UACL.O	1	USD	35.00	31.51	United States	1.5	10.4	13.4	3.3	72.9	72.9	948	0.62	58.0	12.4	17.4	19.8	17.7	15.0	7.6
CWT	CWTD.SI	NR	SGD	na	1.35	Singapore	(0.7)	1.1	(3.9)	(0.7)	1.1	30.0	633	0.28	71.4	2.8	15.5	9.3	9.1	7.9	1.1
Tegma	TGMA3.SA	1	BRL	37.00	19.00	Brazil	1.5	7.3	(17.1)	5.6	(44.1)	(25.1)	535	1.77	(15.0)	(9.3)	82.5	15.0	16.6	9.1	2.4
Yusen Logistics	9370.T	2	JPY	1,200.00	1,293.00	Japan	(0.3)	0.1	12.6	(2.7)	44.3	34.5	523	0.76	(30.2)	(55.7)	25.1	21.6	48.7	38.9	0.8
Gateway Distri	GATE.BO	NR	INR	na	135.00	India	(5.9)	(4.9)	27.9	(3.6)	(1.7)	1.3	238	0.08	36.3	(4.3)	4.4	11.1	11.6	11.1	1.5
Weighted Average							1.2	5.2	6.9	2.8	20.0	30.4	90,829		(0.2)	13.2	14.6	27.3	24.0	22.1	3.9
EXPRESS CARRIERS																					
United Parcel	UPS.N	2	USD	106.00	99.91	United States	(0.3)	(3.3)	7.4	(4.9)	24.5	32.5	92,751	83.33	4.1	1.1	15.7	22.1	21.8	18.9	8.3
Fedex Corp	FDX.N	1	USD	170.00	140.51	United States	0.0	(1.5)	11.1	(2.3)	40.8	53.4	43,871	61.75	33.3	(5.7)	14.4	21.3	22.6	19.8	2.0
Deutsche Post	DPWGN.DE	1	EUR	24.00	26.64	Germany	2.5	1.1	10.9	0.5	54.3	109.9	43,605	133.11	13.2	16.1	(0.4)	19.5	16.8	16.8	3.0
TNT Express	TNTE.AS	2	EUR	6.30	6.97	Netherlands	1.8	4.4	5.5	3.3	27.7	13.9	5,143	15.92	(68.0)	338.7	197.9	nm	53.9	18.1	1.3
Weighted Average							0.5	(1.6)	9.1	(2.8)	35.5	55.1	185,371		11.1	3.1	16.7	21.3	21.7	18.6	5.4
GLOBAL LOGISTICS LANDLORDS																					
GLP	GLPL.SI	1	SGD	3.54	2.91	China	(0.3)	1.7	(6.1)	0.7	5.8	53.6	10,854	19.27	12.4	9.9	(11.4)	33.4	30.4	34.3	1.3
Goodman Group	GMG.AX	2	AUD	5.12	4.76	Australia	(0.2)	(2.5)	(5.2)	0.6	6.5	46.5	7,185	18.98	6.3	5.7	6.1	15.5	14.7	13.8	1.2
Ascendas REIT	AEMN.SI	1	SGD	2.50	2.18	Singapore	0.5	2.3	(6.8)	(0.9)	(13.1)	13.3	4,104	10.80	5.8	4.8	(1.8)	16.6	15.8	16.1	1.1
GLP Reit	3281.T	1	JPY	117,000.00	102,900.00	Japan	2.6	2.8	1.0	0.1	49.7	na	2,069	6.28	na	na	53.1	na	42.3	27.6	1.6
Mapletree Logist	MAPL.SI	2	SGD	1.15	1.03	Singapore	(0.5)	2.0	(5.1)	(2.4)	(10.7)	18.3	1,973	2.64	na	1.8	5.5	15.9	15.6	14.8	1.1
Mapletree Indl	MAPI.SI	1	SGD	1.53	1.30	Singapore	(2.3)	(0.8)	(4.8)	(3.0)	(7.2)	23.8	1,701	2.34	53.0	10.5	0.3	16.0	14.5	14.5	1.1
Cache Logis	CALT.SI	NR	SGD	na	1.11	China	2.3	1.4	(5.1)	(0.4)	(11.5)	12.4	675	1.04	(46.4)	32.2	5.1	18.8	14.2	13.5	1.1
CAMBRIDGE Ind	CMIT.SI	NR	SGD	na	0.70	Singapore	0.0	2.2	2.2	0.7	2.0	42.1	675	1.30	22.6	5.3	57.5	18.3	17.4	11.0	0.8
Sabana Shari'ah	SABA.SI	NR	SGD	na	1.07	Singapore	0.5	1.9	(2.3)	(0.9)	(9.7)	18.2	579	0.71	(8.3)	2.6	(3.8)	13.9	13.5	14.1	1.0
Weighted Average							(0.0)	0.8	(5.1)	(0.1)	3.8	39.4	29,816		10.6	7.8	2.5	22.8	22.6	22.6	1.2
GLOBAL TRANSPORTATION - GEOGRAPHICAL SUMMARY (MARKET CAP WEIGHTED)																					
ASIA							(0.5)	(0.3)	(3.5)	(2.6)	4.4	13.3	360,752		(8.2)	7.3	19.4	20.4	21.4	17.0	1.4
AUSTRALIA/NZ							0.7	0.4	(1.8)	0.5	17.3	35.1	57,404		(17.5)	19.9	10.9	53.0	32.4	31.0	2.4
CEEMEA							1.0	4.8	6.0	2.6	35.5	91.6	37,011		35.3	(1.8)	21.8	20.0	20.0	16.2	1.7
EUROPE							1.3	5.7	13.0	4.2	44.8	81.9	465,387		20.9	10.5	25.5	21.6	20.6	16.4	3.0
JAPAN							0.6	1.0	(3.6)	(1.4)	38.5	65.6	144,289		21.7	42.5	11.2	25.0	19.7	18.2	1.4
LATIN AMERICA							1.2	(0.4)	(0.3)	(1.4)	(7.2)	30.4	90,618		10.1	13.3	13.4	20.6	17.4	16.9	3.0
NORTH AMERICA							0.1	1.7	12.1	0.3	44.4	65.1	761,914		9.1	14.0	16.4	22.9	19.9	17.3	5.0

Based upon Citi Research Rating System; 1 = Buy, 2 = Neutral, 3 = Sell. Estimates for all unrated stocks reflects I/B/E/S consensus. Source: DataCentral; Citi Research

## Key Risks

As stated above, we believe some of the key risks for KLN include (but are not limited to):

- Deteriorating consumer demand in Greater China;
- Muted global economic growth relative to our forecasts;
- Weaker export demand trends from Greater China;
- Migration away from outsourced logistics services or migration to manufacturing basins in which KLN does not have a presence;
- Costly acquisitions;
- Rising interest rates; and
- Declining industrial property values.

Despite the company's growing global presence, nearly 70% of its gross revenue is currently derived from the Greater China market, making it particularly susceptible to a slowdown in China and across Asia generally. As a result, downside risks to China's GDP growth forecasts and/or weaker global trade growth next year could have an adverse effect on KLN's operational performance.

Further, as KLN is leveraged to the domestic consumption story as well as the export/manufacturing side, slower than expected growth in the mainland middle class or reform-related impacts could weigh on the outlook. Of course, in a scenario like we observed in the GFC, in which global GDP and consumer demand waned noticeably, no service provider was completely insulated.

We also believe US Fed tapering over the next 12-18 months could impact KLN's financing costs and acquisition economics going forward, particularly if it is looking to build its footprint in the US.

The impact of changing fuel prices also has a large bearing on gross revenue trends within the International Freight forwarding segment, particularly if the company were unable to pass all of those costs through to its shipper customers. We also believe unfavorable forward looking capacity arrangement with its transportation service providers could leave KLN vulnerable to increased spot air and ocean freight capacity prices.

Similarly on the contract logistics side, KLN's inability to properly gauge the staff/costs associated with new intermediate- to longer-term contracts (i.e. build in profitable margins, while remaining competitive versus others in the space) can result in increased market share, but at sub-par returns. Acquisition of companies that have previously made similar long-term customer commitments at unprofitable terms and/or with onerous earn-out payments could have an adverse impact on KLN.



## Revenue Growth Outlook

Figure 33. KLN – Gross and Net Revenue (HK\$m) (2010-2015E)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
Gross Operating Revenues										
Logistics Operations	4,333.0	6,392.9	3,418.3	4,005.4	7,423.7	3,958.9	4,590.6	8,549.5	9,444.5	10,292.5
Growth YoY %		47.5%			16.1%	15.8%	14.6%	15.2%	10.5%	9.0%
Hong Kong Warehouse	477.6	497.0	233.7	240.6	474.2	234.1	242.1	476.1	490.5	510.1
Growth YoY %		4.1%			-4.6%	0.2%	0.6%	0.4%	3.0%	4.0%
<b>Integrated Logistics</b>	<b>4,810.6</b>	<b>6,889.8</b>	<b>3,652.0</b>	<b>4,246.0</b>	<b>7,898.0</b>	<b>4,193.0</b>	<b>4,832.6</b>	<b>9,025.6</b>	<b>9,935.0</b>	<b>10,802.6</b>
<b>Growth YoY %</b>		<b>43.2%</b>			<b>14.6%</b>	<b>14.8%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>10.1%</b>	<b>8.7%</b>
<b>International Freight Forwarding</b>	<b>6,069.3</b>	<b>9,144.5</b>	<b>5,302.3</b>	<b>6,094.5</b>	<b>11,396.8</b>	<b>5,328.8</b>	<b>6,190.3</b>	<b>11,519.1</b>	<b>12,105.3</b>	<b>12,951.1</b>
<b>Growth YoY %</b>		<b>50.7%</b>			<b>24.6%</b>	<b>0.5%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>5.1%</b>	<b>7.0%</b>
<b>Gross Operating Revenues</b>	<b>10,879.9</b>	<b>16,034.3</b>	<b>8,954.2</b>	<b>10,340.5</b>	<b>19,294.8</b>	<b>9,521.8</b>	<b>11,023.0</b>	<b>20,544.7</b>	<b>22,040.3</b>	<b>23,753.6</b>
<b>Growth YoY %</b>		<b>47.4%</b>			<b>20.3%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.5%</b>	<b>7.3%</b>	<b>7.8%</b>
Segment Split by Gross Revenues										
Integrated Logistics	44%	43%	41%	41%	41%	44%	44%	44%	45%	45%
International Freight Forwarding	56%	57%	59%	59%	59%	56%	56%	56%	55%	55%
<b>Total Net Revenue (1)</b>	<b>3,645.8</b>	<b>5,427.8</b>	<b>2,947.2</b>	<b>3,245.2</b>	<b>6,192.4</b>	<b>3,202.1</b>	<b>3,505.5</b>	<b>6,707.6</b>	<b>7,236.9</b>	<b>7,845.8</b>
<b>Growth YoY %</b>		<b>48.9%</b>			<b>14.1%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>7.9%</b>	<b>8.4%</b>
<b>Net Revenue Yield</b>	<b>33.5%</b>	<b>33.9%</b>	<b>32.9%</b>	<b>31.4%</b>	<b>32.1%</b>	<b>33.6%</b>	<b>31.8%</b>	<b>32.6%</b>	<b>32.8%</b>	<b>33.0%</b>
<b>Change YoY %</b>		<b>34bp</b>			<b>-176bp</b>	<b>71bp</b>	<b>42bp</b>	<b>56bp</b>	<b>19bp</b>	<b>20bp</b>
Segment Split by Net Revenues										
Integrated Logistics	67%	64%	63%	64%	63%	67%	68%	67%	69%	69%
International Freight Forwarding	33%	36%	37%	36%	37%	33%	32%	33%	31%	31%

Note: (1) Net revenue represents Gross Revenue less Purchased Transportation Expense.

Source: Company reports; Citi Research estimates

Figure 34. KLN - Net Revenue (Excl IFF purchased Transportation Costs) (HK\$m) (2010-2015E)

Net Revenue (Excl IFF purchased Transportation Costs) (1)(2)	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Integrated Logistics Net Revenue</b>	<b>2,459.5</b>	<b>3,495.7</b>	<b>1,849.9</b>	<b>2,078.1</b>	<b>3,927.9</b>	<b>2,151.7</b>	<b>2,367.5</b>	<b>4,519.3</b>	<b>4,979.4</b>	<b>5,421.9</b>
<b>Growth YoY %</b>		<b>42.1%</b>			<b>12.4%</b>	<b>16.3%</b>	<b>13.9%</b>	<b>15.1%</b>	<b>10.2%</b>	<b>8.9%</b>
<b>Logistics Net Revenue Yield</b>	<b>51.1%</b>	<b>50.7%</b>	<b>50.7%</b>	<b>48.9%</b>	<b>49.7%</b>	<b>51.3%</b>	<b>49.0%</b>	<b>50.1%</b>	<b>50.1%</b>	<b>50.2%</b>
<b>Change YoY %</b>		<b>-39bp</b>			<b>-100bp</b>	<b>66bp</b>	<b>5bp</b>	<b>34bp</b>	<b>5bp</b>	<b>7bp</b>
Ocean Freight Forwarding Net Revenue	622.8	1,024.0	614.5	597.0	1,211.5	560.9	570.7	1,131.5	1,132.5	1,197.4
Growth YoY %		64.4%			18.3%	-8.7%	-4.4%	-6.6%	0.1%	5.7%
Airfreight Forwarding Net Revenue	563.5	908.1	482.8	570.1	1,053.0	489.5	567.3	1,056.8	1,125.0	1,226.6
Growth YoY %		61.1%			16.0%	1.4%	-0.5%	0.4%	6.4%	9.0%
<b>International Freight Forwarding</b>	<b>1,186.3</b>	<b>1,932.0</b>	<b>1,097.3</b>	<b>1,167.1</b>	<b>2,264.4</b>	<b>1,050.3</b>	<b>1,138.0</b>	<b>2,188.3</b>	<b>2,257.4</b>	<b>2,424.0</b>
<b>Growth YoY %</b>		<b>62.9%</b>			<b>17.2%</b>	<b>-4.3%</b>	<b>-2.5%</b>	<b>-3.4%</b>	<b>3.2%</b>	<b>7.4%</b>
<b>Ocean Net Revenue Yield</b>	<b>17.3%</b>	<b>19.4%</b>	<b>19.4%</b>	<b>16.6%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>15.7%</b>	<b>16.9%</b>	<b>16.3%</b>	<b>16.4%</b>
<b>Change YoY %</b>		<b>209bp</b>			<b>-145bp</b>	<b>-122bp</b>	<b>-87bp</b>	<b>-106bp</b>	<b>-51bp</b>	<b>6bp</b>
<b>Airfreight Net Revenue Yield</b>	<b>22.9%</b>	<b>23.6%</b>	<b>22.6%</b>	<b>22.9%</b>	<b>22.7%</b>	<b>21.8%</b>	<b>22.2%</b>	<b>22.0%</b>	<b>21.7%</b>	<b>21.7%</b>
<b>Change YoY %</b>		<b>68bp</b>			<b>-83bp</b>	<b>-80bp</b>	<b>-67bp</b>	<b>-73bp</b>	<b>-26bp</b>	<b>-3bp</b>
<b>Forwarding Net Revenue Yield</b>	<b>19.5%</b>	<b>21.1%</b>	<b>20.7%</b>	<b>19.2%</b>	<b>19.9%</b>	<b>19.7%</b>	<b>18.4%</b>	<b>19.0%</b>	<b>18.6%</b>	<b>18.7%</b>
<b>Change YoY %</b>		<b>158bp</b>			<b>-126bp</b>	<b>-98bp</b>	<b>-77bp</b>	<b>-87bp</b>	<b>-35bp</b>	<b>7bp</b>
<b>Total Net Revenue (Post IFF Purchased Trans Costs)</b>	<b>3,645.8</b>	<b>5,427.8</b>	<b>2,947.2</b>	<b>3,245.2</b>	<b>6,192.4</b>	<b>3,202.1</b>	<b>3,505.5</b>	<b>6,707.6</b>	<b>7,236.9</b>	<b>7,845.8</b>
<b>Growth YoY %</b>		<b>48.9%</b>			<b>14.1%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>7.9%</b>	<b>8.4%</b>
<b>Net Revenue Yield</b>	<b>33.5%</b>	<b>33.9%</b>	<b>32.9%</b>	<b>31.4%</b>	<b>32.1%</b>	<b>33.6%</b>	<b>31.8%</b>	<b>32.6%</b>	<b>32.8%</b>	<b>33.0%</b>
<b>Change YoY %</b>		<b>34bp</b>			<b>-176bp</b>	<b>71bp</b>	<b>42bp</b>	<b>56bp</b>	<b>19bp</b>	<b>20bp</b>
Segment Split by Net Revenues										
Integrated Logistics	67%	64%	63%	64%	63%	67%	68%	67%	69%	69%
International Freight Forwarding	33%	36%	37%	36%	37%	33%	32%	33%	31%	31%

Note: (1) Net revenue represents Gross Revenue less Purchased Transportation Expense. (2) We estimate the split between the Forwarding and Contract Logistics Net Revenue as it is not reported. We also estimate the split between air and ocean freight forwarding net revenue.

Source: Company reports; Citi Research estimates

Figure 35. KLN – Estimated Gross Revenue by Country/Region (HK\$m) (2010-2015E)

by Country of Origin	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
China - Integrated Logistics (1)	1,442.9	2,135.2	1,145.1	1,453.2	2,598.3	1,385.6	1,722.8	3,108.4	3,526.4	3,882.7
Growth YoY %		48.0%			21.7%	21.0%	18.6%	19.6%	13.4%	10.1%
China - Int'l Freight Forwarding (1)	3,277.4	5,002.0	2,773.1	3,364.1	6,137.2	2,861.6	3,554.5	6,416.0	6,734.3	7,234.7
Growth YoY %		52.6%			22.7%	3.2%	5.7%	4.5%	5.0%	7.4%
China - Other	1.2	7.2	1.9	7.8	9.7	2.0	0.0	2.0	0.0	0.0
<b>China</b>	<b>4,721.6</b>	<b>7,144.5</b>	<b>3,920.1</b>	<b>4,825.1</b>	<b>8,745.2</b>	<b>4,249.2</b>	<b>5,277.3</b>	<b>9,526.5</b>	<b>10,260.7</b>	<b>11,117.3</b>
<b>Growth YoY %</b>		<b>51.3%</b>			<b>22.4%</b>	<b>8.4%</b>	<b>9.4%</b>	<b>8.9%</b>	<b>7.7%</b>	<b>8.3%</b>
HK - Integrated Logistics (1)	1,126.6	1,355.3	728.1	793.8	1,521.9	807.6	877.8	1,685.4	1,752.8	1,838.3
Growth YoY %		20.3%			12.3%	10.9%	10.6%	10.7%	4.0%	4.9%
HK - Warehouse	477.6	497.0	233.7	240.6	474.2	234.1	242.1	476.1	490.5	510.1
Growth YoY %		4.1%			-4.6%	0.2%	0.6%	0.4%	3.0%	4.0%
HK - Int'l Freight Forwarding (1)	412.7	438.9	233.3	245.4	478.7	261.1	267.1	528.2	557.3	586.0
Growth YoY %		6.4%			9.1%	11.9%	8.9%	10.4%	5.5%	5.1%
HK - Other	(0.1)	9.4	(4.3)	(1.4)	(5.7)	1.6	0.0	1.6	0.0	0.0
<b>Hong Kong</b>	<b>2,016.8</b>	<b>2,300.6</b>	<b>1,190.8</b>	<b>1,278.3</b>	<b>2,469.1</b>	<b>1,304.4</b>	<b>1,387.0</b>	<b>2,691.3</b>	<b>2,800.6</b>	<b>2,934.3</b>
<b>Growth YoY %</b>		<b>14.1%</b>			<b>7.3%</b>	<b>9.5%</b>	<b>8.5%</b>	<b>9.0%</b>	<b>4.1%</b>	<b>4.8%</b>
<b>Taiwan</b>	<b>847.5</b>	<b>1,871.9</b>	<b>916.2</b>	<b>1,062.5</b>	<b>1,978.7</b>	<b>972.6</b>	<b>1,115.6</b>	<b>2,088.2</b>	<b>2,203.1</b>	<b>2,313.2</b>
<b>Growth YoY %</b>		<b>120.9%</b>			<b>5.7%</b>	<b>6.2%</b>	<b>5.0%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.0%</b>
ASEAN - Integrated Logistics (1)	810.3	990.9	581.1	680.9	1,262.0	772.0	844.3	1,616.3	1,907.3	2,193.4
Growth YoY %		22.3%			27.4%	32.8%	24.0%	28.1%	18.0%	15.0%
ASEAN - Int'l Freight Forwarding (1)	509.8	1,307.7	593.9	545.8	1,139.7	628.8	527.9	1,156.7	1,156.8	1,189.9
Growth YoY %		156.5%			-12.8%	5.9%	-3.3%	1.5%	0.0%	2.9%
ASEAN - Other	0.6	(0.2)	(6.0)	(0.3)	(6.3)	3.3	0.0	3.3	0.0	0.0
<b>ASEAN</b>	<b>1,320.7</b>	<b>2,298.3</b>	<b>1,168.9</b>	<b>1,226.5</b>	<b>2,395.4</b>	<b>1,404.0</b>	<b>1,372.2</b>	<b>2,776.3</b>	<b>3,064.1</b>	<b>3,383.2</b>
<b>Growth YoY %</b>		<b>74.0%</b>			<b>4.2%</b>	<b>20.1%</b>	<b>11.9%</b>	<b>15.9%</b>	<b>10.4%</b>	<b>10.4%</b>
<b>Europe</b>	<b>1,623.2</b>	<b>1,917.4</b>	<b>1,478.4</b>	<b>1,605.6</b>	<b>3,084.0</b>	<b>1,308.5</b>	<b>1,572.9</b>	<b>2,881.3</b>	<b>3,080.3</b>	<b>3,309.0</b>
<b>Growth YoY %</b>		<b>18.1%</b>			<b>60.8%</b>	<b>-11.5%</b>	<b>-2.0%</b>	<b>-6.6%</b>	<b>6.9%</b>	<b>7.4%</b>
<b>Others (Australia, Korea, US, Brazil, Mexico etc)</b>	<b>350.2</b>	<b>501.7</b>	<b>279.9</b>	<b>342.6</b>	<b>622.4</b>	<b>283.1</b>	<b>298.0</b>	<b>581.1</b>	<b>631.6</b>	<b>696.6</b>
<b>Growth YoY %</b>		<b>43.2%</b>			<b>24.1%</b>	<b>1.2%</b>	<b>-13.0%</b>	<b>-6.6%</b>	<b>8.7%</b>	<b>10.3%</b>
<b>Total Operating Revenues</b>	<b>10,879.9</b>	<b>16,034.3</b>	<b>8,954.2</b>	<b>10,340.5</b>	<b>19,294.8</b>	<b>9,521.8</b>	<b>11,023.0</b>	<b>20,544.7</b>	<b>22,040.3</b>	<b>23,753.6</b>
<b>Growth YoY %</b>		<b>47.4%</b>			<b>20.3%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.5%</b>	<b>7.3%</b>	<b>7.8%</b>
<b>Integrated Logistics Gross Revenue by Country (1)</b>										
China	30%	31%	31%	34%	33%	33%	36%	34%	35%	36%
Hong Kong	33%	27%	26%	24%	25%	25%	23%	24%	23%	22%
Taiwan	18%	27%	25%	25%	25%	23%	23%	23%	22%	21%
South and Southeast Asia	17%	14%	16%	16%	16%	18%	17%	18%	19%	20%
Europe	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Others	2%	1%	1%	0%	1%	1%	1%	1%	1%	1%
<b>Int'l Freight Forwarding Gross Revenue by Country (1)</b>										
China	54%	55%	52%	55%	54%	54%	57%	56%	56%	56%
Hong Kong	7%	5%	4%	4%	4%	5%	4%	5%	5%	5%
Taiwan	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
South and Southeast Asia	8%	14%	11%	9%	10%	12%	9%	10%	10%	9%
Europe	27%	21%	28%	26%	27%	25%	25%	25%	25%	26%
Others	4%	5%	4%	5%	5%	5%	4%	5%	5%	5%

Note: (1) represents our best estimate of the segment revenue split by country as it is not provided.

Source: Company reports; Citi Research estimates

## Segment Earnings and Margin Trends

Figure 36. Segment EBIT Contribution (HK\$m) – 2010-2015E

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Logistics Operations</b>	<b>434.1</b>	<b>588.53</b>	<b>338.73</b>	<b>390.89</b>	<b>729.62</b>	<b>401.16</b>	<b>447.58</b>	<b>848.74</b>	<b>948.23</b>	<b>1,053.95</b>
Growth YoY %		35.6%			24.0%	18.4%	14.5%	16.3%	11.7%	11.1%
Operating Margin	10.0%	9.2%	9.9%	9.8%	9.8%	10.1%	9.8%	9.9%	10.0%	10.2%
<b>HK Warehouse</b>	<b>349.2</b>	<b>370.85</b>	<b>201.67</b>	<b>209.38</b>	<b>411.06</b>	<b>207.49</b>	<b>214.11</b>	<b>421.60</b>	<b>438.27</b>	<b>459.29</b>
Growth YoY %		6.2%			10.8%	2.9%	2.3%	2.6%	4.0%	4.8%
Operating Margin	73.1%	74.6%	86.3%	87.0%	86.7%	88.6%	88.5%	88.5%	89.3%	90.0%
<b>Integrated Logistics</b>	<b>783.3</b>	<b>959.38</b>	<b>540.40</b>	<b>600.27</b>	<b>1,140.67</b>	<b>608.65</b>	<b>661.69</b>	<b>1,270.34</b>	<b>1,386.49</b>	<b>1,513.24</b>
Growth YoY %		22.5%			18.9%	12.6%	10.2%	11.4%	9.1%	9.1%
<b>International Freight Forwarding</b>	<b>95.6</b>	<b>255.91</b>	<b>160.28</b>	<b>139.95</b>	<b>300.23</b>	<b>157.29</b>	<b>133.09</b>	<b>290.38</b>	<b>319.58</b>	<b>362.63</b>
Growth YoY %		167.8%			17.3%	-1.9%	-4.9%	-3.3%	10.1%	13.5%
<b>Gross Operating Margin</b>	<b>1.6%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>2.3%</b>	<b>2.6%</b>	<b>3.0%</b>	<b>2.2%</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.8%</b>
<b>Net Operating Margin</b>	<b>8.1%</b>	<b>13.2%</b>	<b>14.6%</b>	<b>12.0%</b>	<b>13.3%</b>	<b>15.0%</b>	<b>11.7%</b>	<b>13.3%</b>	<b>14.2%</b>	<b>15.0%</b>
<b>Total Segment Results</b>	<b>878.8</b>	<b>1,215.29</b>	<b>700.68</b>	<b>740.22</b>	<b>1,440.90</b>	<b>765.94</b>	<b>794.78</b>	<b>1,560.73</b>	<b>1,706.08</b>	<b>1,875.87</b>
Growth YoY %		38.3%			18.6%	9.3%	7.4%	8.3%	9.3%	10.0%
<b>Gross Operating Margin</b>	<b>8.1%</b>	<b>7.6%</b>	<b>7.8%</b>	<b>7.2%</b>	<b>7.5%</b>	<b>8.0%</b>	<b>7.2%</b>	<b>7.6%</b>	<b>7.7%</b>	<b>7.9%</b>
<b>Net Operating Margin</b>	<b>24.1%</b>	<b>22.4%</b>	<b>23.8%</b>	<b>22.8%</b>	<b>23.3%</b>	<b>23.9%</b>	<b>22.7%</b>	<b>23.3%</b>	<b>23.6%</b>	<b>23.9%</b>
Unallocated administrative expenses	(73.9)	(75.9)	(55.2)	(95.6)	(150.9)	(68.0)	(73.0)	(140.9)	(155.8)	(160.7)
Finance income	11.5	12.6	9.6	18.8	28.3	19.7	19.7	39.4	62.4	61.5
Other	(62.4)	(63.3)	(45.7)	(76.9)	(122.6)	(48.2)	(53.3)	(101.5)	(93.4)	(99.2)
<b>Operating Profit/(Loss) - Pre Prop Reval</b>	<b>816.4</b>	<b>1,152.0</b>	<b>655.0</b>	<b>663.3</b>	<b>1,318.3</b>	<b>717.7</b>	<b>741.5</b>	<b>1,459.2</b>	<b>1,612.6</b>	<b>1,776.6</b>
Growth YoY %		41.1%			14.4%	9.6%	11.8%	10.7%	10.5%	10.2%
% of Segment Results										
Logistics Operations	49%	48%	48%	53%	51%	52%	56%	54%	56%	56%
Hong Kong Warehouse	40%	31%	29%	28%	29%	27%	27%	27%	26%	24%
Integrated Logistics	89%	79%	77%	81%	79%	79%	83%	81%	81%	81%
International Freight Forwarding	11%	21%	23%	19%	21%	21%	17%	19%	19%	19%

Source: Company reports; Citi Research estimates

Figure 37. KLN – EBIT, EBITDA and EBITDAR as well as Growth and Margins (2010-2015E)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Operating Profit/(Loss) - Pre Prop Reval</b>	<b>816.4</b>	<b>1,152.0</b>	<b>655.0</b>	<b>663.3</b>	<b>1,318.3</b>	<b>717.7</b>	<b>741.5</b>	<b>1,459.2</b>	<b>1,612.6</b>	<b>1,776.6</b>
Growth YoY %		41.1%			14.4%	9.6%	11.8%	10.7%	10.5%	10.2%
Operating Margin (Gross Revenue)	7.5%	7.2%	7.3%	6.4%	6.8%	7.5%	6.7%	7.1%	7.3%	7.5%
Change YoY %		-32bp			-35bp	22bp	31bp	27bp	21bp	16bp
Operating Margin (Net Revenue)	22.4%	21.2%	22.2%	20.4%	21.3%	22.4%	21.2%	21.8%	22.3%	22.6%
Change YoY %		-117bp			7bp	19bp	71bp	46bp	53bp	36bp
<b>Other for Reported Adjusted EBITDA</b>	<b>(16.76)</b>	<b>3.76</b>	<b>10.12</b>	<b>7.54</b>	<b>17.66</b>	<b>(6.35)</b>	<b>-</b>	<b>(6.35)</b>	<b>-</b>	<b>-</b>
<b>Adjusted EBITDA - Pre Prop Reval</b>	<b>1,005.5</b>	<b>1,440.7</b>	<b>820.3</b>	<b>837.1</b>	<b>1,657.4</b>	<b>903.0</b>	<b>943.8</b>	<b>1,846.8</b>	<b>2,032.4</b>	<b>2,227.0</b>
Growth YoY %		43.3%			15.0%	10.1%	12.7%	11.4%	10.1%	9.6%
Adjusted EBITDA Margin (Gross Revenue)	9.2%	9.0%	9.2%	8.1%	8.6%	9.5%	8.6%	9.0%	9.2%	9.4%
Change YoY %		-26bp			-40bp	32bp	47bp	40bp	23bp	15bp
<b>EBITDAR - Pre Prop Reval</b>	<b>1,138.1</b>	<b>1,792.6</b>	<b>984.5</b>	<b>1,022.7</b>	<b>2,007.2</b>	<b>1,102.1</b>	<b>1,168.1</b>	<b>2,270.3</b>	<b>2,481.1</b>	<b>2,709.5</b>
Growth YoY %		57.5%			12.0%	11.9%	14.2%	13.1%	9.3%	9.2%
EBITDAR Margin (Gross Revenue)	10.5%	11.2%	11.0%	9.9%	10.4%	11.6%	10.6%	11.1%	11.3%	11.4%
Change YoY %		72bp			-78bp	58bp	71bp	65bp	21bp	15bp
Fair Value Adjustment on Inv Prop Reval	176.0	130.3	0.0	265.2	265.2	458.3	0.0	458.3	0.0	0.0
<b>Reported Operating Profit/(Loss)</b>	<b>992.4</b>	<b>1,282.3</b>	<b>655.0</b>	<b>928.5</b>	<b>1,583.5</b>	<b>1,176.0</b>	<b>741.5</b>	<b>1,917.5</b>	<b>1,612.6</b>	<b>1,776.6</b>
Growth YoY %		29.2%			23.5%	79.5%	-20.1%	21.1%	-15.9%	10.2%
<b>Operating Margin (Gross Revenue)</b>	<b>9.1%</b>	<b>8.0%</b>	<b>7.3%</b>	<b>9.0%</b>	<b>8.2%</b>	<b>12.4%</b>	<b>6.7%</b>	<b>9.3%</b>	<b>7.3%</b>	<b>7.5%</b>

Source: Company reports; Citi Research estimates

## Financial Statements

Figure 38. KLN – Income Statement (HK\$m) (2010-2015E)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Integrated Logistics</b>	<b>4,810.6</b>	<b>6,889.8</b>	<b>3,652.0</b>	<b>4,246.0</b>	<b>7,898.0</b>	<b>4,193.0</b>	<b>4,832.6</b>	<b>9,025.6</b>	<b>9,935.0</b>	<b>10,802.6</b>
<b>Growth YoY %</b>		<b>43.2%</b>			<b>14.6%</b>	<b>14.8%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>10.1%</b>	<b>8.7%</b>
<b>International Freight Forwarding</b>	<b>6,069.3</b>	<b>9,144.5</b>	<b>5,302.3</b>	<b>6,094.5</b>	<b>11,396.8</b>	<b>5,328.8</b>	<b>6,190.3</b>	<b>11,519.1</b>	<b>12,105.3</b>	<b>12,951.1</b>
<b>Growth YoY %</b>		<b>50.7%</b>			<b>24.6%</b>	<b>0.5%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>5.1%</b>	<b>7.0%</b>
<b>Gross Operating Revenues</b>	<b>10,879.9</b>	<b>16,034.3</b>	<b>8,954.2</b>	<b>10,340.5</b>	<b>19,294.8</b>	<b>9,521.8</b>	<b>11,023.0</b>	<b>20,544.7</b>	<b>22,040.3</b>	<b>23,753.6</b>
<b>Growth YoY %</b>		<b>47.4%</b>			<b>20.3%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.5%</b>	<b>7.3%</b>	<b>7.8%</b>
Segment Split by Gross Revenues										
Integrated Logistics	44%	43%	41%	41%	41%	44%	44%	44%	45%	45%
International Freight Forwarding	56%	57%	59%	59%	59%	56%	56%	56%	55%	55%
<b>Total Net Revenue (post Purchased Transportation)</b>	<b>3,645.8</b>	<b>5,427.8</b>	<b>2,947.2</b>	<b>3,245.2</b>	<b>6,192.4</b>	<b>3,202.1</b>	<b>3,505.5</b>	<b>6,707.6</b>	<b>7,236.9</b>	<b>7,845.8</b>
<b>Growth YoY %</b>		<b>48.9%</b>			<b>14.1%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>7.9%</b>	<b>8.4%</b>
<b>Net Revenue Yield</b>	<b>33.5%</b>	<b>33.9%</b>	<b>32.9%</b>	<b>31.4%</b>	<b>32.1%</b>	<b>33.6%</b>	<b>31.8%</b>	<b>32.6%</b>	<b>32.8%</b>	<b>33.0%</b>
<b>Change YoY %</b>		<b>34bp</b>			<b>-176bp</b>	<b>71bp</b>	<b>42bp</b>	<b>56bp</b>	<b>19bp</b>	<b>20bp</b>
Segment Split by Net Revenues										
Integrated Logistics	67%	64%	63%	64%	63%	67%	68%	67%	69%	69%
International Freight Forwarding	33%	36%	37%	36%	37%	33%	32%	33%	31%	31%
<b>Total Freight and Transportation Costs</b>	<b>(7,234.2)</b>	<b>(10,606.5)</b>	<b>(6,007.1)</b>	<b>(7,095.3)</b>	<b>(13,102.4)</b>	<b>(6,319.7)</b>	<b>(7,517.4)</b>	<b>(13,837.2)</b>	<b>(14,803.5)</b>	<b>(15,907.8)</b>
Employee Benefit Expense	(902.0)	(1,405.1)	(817.7)	(932.9)	(1,750.6)	(944.9)	(1,044.7)	(1,989.6)	(2,142.1)	(2,325.5)
Costs of Goods Sold	(642.4)	(805.9)	(430.9)	(437.7)	(868.6)	(392.8)	(410.1)	(803.0)	(868.4)	(928.9)
Depreciation of PP&E	(205.8)	(284.9)	(155.2)	(166.2)	(321.4)	(191.7)	(202.3)	(393.9)	(419.7)	(450.4)
Operating Lease Charges - Land/Buildings	(98.3)	(256.6)	(116.0)	(134.3)	(250.3)	(122.8)	(140.2)	(263.1)	(275.0)	(294.2)
Others	(146.9)	(244.3)	(136.5)	(171.7)	(308.2)	(123.6)	(155.6)	(279.2)	(296.7)	(317.0)
<b>Direct Operating Expense</b>	<b>(9,229.7)</b>	<b>(13,603.4)</b>	<b>(7,663.3)</b>	<b>(8,938.1)</b>	<b>(16,601.5)</b>	<b>(8,095.6)</b>	<b>(9,470.4)</b>	<b>(17,566.0)</b>	<b>(18,805.5)</b>	<b>(20,223.8)</b>
<b>Growth YoY %</b>		<b>47.4%</b>			<b>22.0%</b>	<b>5.6%</b>	<b>6.0%</b>	<b>5.8%</b>	<b>7.1%</b>	<b>7.5%</b>
<b>Administrative Expense</b>	<b>(855.1)</b>	<b>(1,286.3)</b>	<b>(641.7)</b>	<b>(761.6)</b>	<b>(1,403.3)</b>	<b>(739.0)</b>	<b>(830.8)</b>	<b>(1,569.8)</b>	<b>(1,685.5)</b>	<b>(1,815.5)</b>
<b>Growth YoY %</b>		<b>50.4%</b>			<b>9.1%</b>	<b>15.2%</b>	<b>9.1%</b>	<b>11.9%</b>	<b>7.4%</b>	<b>7.7%</b>
<b>Total Operating Expense</b>	<b>(10,063.5)</b>	<b>(14,882.3)</b>	<b>(8,299.2)</b>	<b>(9,677.2)</b>	<b>(17,976.4)</b>	<b>(8,804.1)</b>	<b>(10,281.5)</b>	<b>(19,085.6)</b>	<b>(20,427.7)</b>	<b>(21,977.0)</b>
<b>Growth YoY %</b>		<b>47.9%</b>			<b>20.8%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>7.0%</b>	<b>7.6%</b>
<b>Operating Profit/(Loss) - Pre Prop Reval</b>	<b>816.4</b>	<b>1,152.0</b>	<b>655.0</b>	<b>663.3</b>	<b>1,318.3</b>	<b>717.7</b>	<b>741.5</b>	<b>1,459.2</b>	<b>1,612.6</b>	<b>1,776.6</b>
<b>Growth YoY %</b>		<b>41.1%</b>			<b>14.4%</b>	<b>9.6%</b>	<b>11.8%</b>	<b>10.7%</b>	<b>10.5%</b>	<b>10.2%</b>
Operating Margin (Gross Revenue)	7.5%	7.2%	7.3%	6.4%	6.8%	7.5%	6.7%	7.1%	7.3%	7.5%
Change YoY %		-32bp			-35bp	22bp	31bp	27bp	21bp	16bp
Other for Reported Adjusted EBITDA	(16.76)	3.76	10.12	7.54	17.66	(6.35)	-	(6.35)	-	-
<b>Adjusted EBITDA - Pre Prop Reval</b>	<b>1,005.5</b>	<b>1,440.7</b>	<b>820.3</b>	<b>837.1</b>	<b>1,657.4</b>	<b>903.0</b>	<b>943.8</b>	<b>1,846.8</b>	<b>2,032.4</b>	<b>2,227.0</b>
<b>Growth YoY %</b>		<b>43.3%</b>			<b>15.0%</b>	<b>10.1%</b>	<b>12.7%</b>	<b>11.4%</b>	<b>10.1%</b>	<b>9.6%</b>
Adjusted EBITDA Margin (Gross Revenue)	9.2%	9.0%	9.2%	8.1%	8.6%	9.5%	8.6%	9.0%	9.2%	9.4%
Change YoY %		-26bp			-40bp	32bp	47bp	40bp	23bp	15bp
Fair Value Adj on Invest Property Reval	176.0	130.3	0.0	265.2	265.2	458.3	0.0	458.3	0.0	0.0
<b>Reported Operating Profit/(Loss)</b>	<b>992.4</b>	<b>1,282.3</b>	<b>655.0</b>	<b>928.5</b>	<b>1,583.5</b>	<b>1,176.0</b>	<b>741.5</b>	<b>1,917.5</b>	<b>1,612.6</b>	<b>1,776.6</b>
<b>Growth YoY %</b>		<b>29.2%</b>			<b>23.5%</b>	<b>79.5%</b>	<b>-20.1%</b>	<b>21.1%</b>	<b>-15.9%</b>	<b>10.2%</b>
<b>Operating Margin (Gross Revenue)</b>	<b>9.1%</b>	<b>8.0%</b>	<b>7.3%</b>	<b>9.0%</b>	<b>8.2%</b>	<b>12.4%</b>	<b>6.7%</b>	<b>9.3%</b>	<b>7.3%</b>	<b>7.5%</b>
Finance Costs	(23.1)	(55.4)	(27.4)	(35.7)	(63.1)	(45.1)	(46.8)	(91.8)	(94.5)	(97.7)
Gain on Sale							325.0	325.0		
Share of Results from Associates	208.8	148.5	69.1	67.3	136.4	71.6	50.0	121.6	132.2	139.8
Income / (Loss) Before Tax	1,178.2	1,375.4	696.7	960.1	1,656.8	1,202.5	1,069.7	2,272.3	1,650.4	1,818.7
Tax Rate (Less Prop Reval)	-20%	-20%	-22%	-22%	-22%	-20%	-22%	-21%	-22%	-22%
Tax Benefit / (Expense)	(200.1)	(253.9)	(150.9)	(154.1)	(304.9)	(146.5)	(164.2)	(310.7)	(358.0)	(401.0)
<b>Income from Normal Activities</b>	<b>978.1</b>	<b>1,121.4</b>	<b>545.8</b>	<b>806.0</b>	<b>1,351.9</b>	<b>1,056.0</b>	<b>905.5</b>	<b>1,961.5</b>	<b>1,292.3</b>	<b>1,417.7</b>
<b>Growth YoY %</b>		<b>14.7%</b>			<b>20.5%</b>	<b>93.5%</b>	<b>12.3%</b>	<b>45.1%</b>	<b>-34.1%</b>	<b>9.7%</b>
Minority Interests	(144.8)	(250.7)	(116.1)	(166.4)	(282.5)	(152.5)	(155.6)	(308.0)	(337.3)	(367.7)
<b>Reported Net Income</b>	<b>833.3</b>	<b>870.7</b>	<b>429.7</b>	<b>639.7</b>	<b>1,069.4</b>	<b>903.6</b>	<b>749.9</b>	<b>1,653.5</b>	<b>955.0</b>	<b>1,050.0</b>
<b>Growth YoY %</b>		<b>4.5%</b>			<b>22.8%</b>	<b>N/A</b>	<b>17.2%</b>	<b>54.6%</b>	<b>-42.2%</b>	<b>9.9%</b>
<b>Prop Reval and Extraordinary Items</b>	<b>(168.1)</b>	<b>(130.0)</b>	<b>0.0</b>	<b>(253.7)</b>	<b>(253.7)</b>	<b>(448.5)</b>	<b>(325.0)</b>	<b>(773.5)</b>	<b>0.0</b>	<b>0.0</b>
<b>Core Net income (Ex PropReval &amp; Gains)</b>	<b>665.2</b>	<b>740.7</b>	<b>429.7</b>	<b>386.0</b>	<b>815.7</b>	<b>455.1</b>	<b>424.9</b>	<b>880.0</b>	<b>955.0</b>	<b>1,050.0</b>
<b>Growth YoY %</b>		<b>11.4%</b>			<b>10.1%</b>	<b>5.9%</b>	<b>10.1%</b>	<b>7.9%</b>	<b>8.5%</b>	<b>9.9%</b>
<b>Core EPS</b>								<b>0.52</b>	<b>0.57</b>	<b>0.62</b>

Core EPS assumes a share count of 1,689.8m shares at year-end FY13 following the IPO.

Source: Company reports; Citi Research estimates

Figure 39. KLN – Balance Sheet (HK\$m) (2010-2015E)

	2010	2011	2012	2013E	2014E	2015E
Intangible assets	835.4	1,185.7	1,773.8	2,042.2	2,013.5	1,990.8
Investment properties	4,998.8	5,143.1	5,767.6	6,228.9	6,328.9	6,528.9
Leasehold land and land use rights	408.8	576.3	538.9	530.9	523.0	515.0
Property, plant and equipment	4,502.6	4,989.2	5,998.5	6,546.8	7,210.8	7,913.0
Associates	818.1	1,002.4	938.9	1,053.3	1,053.3	1,053.3
Available-for-sale investments	50.8	52.0	61.5	61.1	61.1	61.1
<b>Total Non-current Assets</b>	<b>11,614.4</b>	<b>12,948.7</b>	<b>15,079.2</b>	<b>16,463.3</b>	<b>17,190.5</b>	<b>18,062.1</b>
Inventories	130.6	110.3	109.9	130.8	141.5	151.3
Trade Receivables	2,028.9	2,405.2	3,389.7	3,745.9	4,118.5	4,830.9
Other Receivables	480.7	953.4	935.6	1,308.0	1,610.0	1,896.0
Tax recoverable	4.7	10.8	9.3	3.4	3.4	3.4
Restricted and pledged bank deposits	15.7	4.6	4.5	7.0	7.0	7.0
Cash and bank balances	2,210.6	2,907.6	2,939.6	4,839.4	4,275.2	3,728.2
<b>Total Current assets</b>	<b>4,871.1</b>	<b>6,392.0</b>	<b>7,388.6</b>	<b>10,034.4</b>	<b>10,155.6</b>	<b>10,616.8</b>
<b>Total Assets</b>	<b>16,485.5</b>	<b>19,340.7</b>	<b>22,467.9</b>	<b>26,497.7</b>	<b>27,346.1</b>	<b>28,679.0</b>
<b>Total Current Liabilities</b>	<b>6,451.2</b>	<b>8,137.4</b>	<b>8,916.9</b>	<b>4,747.3</b>	<b>3,967.0</b>	<b>3,514.2</b>
<b>Total Non-current liabilities</b>	<b>1,097.2</b>	<b>1,299.5</b>	<b>2,425.2</b>	<b>3,397.0</b>	<b>3,397.0</b>	<b>3,397.0</b>
<b>Assets Less Liabilities</b>	<b>8,937.2</b>	<b>9,903.8</b>	<b>11,125.7</b>	<b>18,353.4</b>	<b>19,982.1</b>	<b>21,767.7</b>
<b>Total Shareholders Equity and Minority Interest</b>	<b>8,937.2</b>	<b>9,903.8</b>	<b>11,125.7</b>	<b>18,353.0</b>	<b>19,982.6</b>	<b>21,767.9</b>
<b>Citi Estimated Cumulative Property Revaluation (2005-1H13)</b>	<b>1,890</b>	<b>2,020</b>	<b>2,286</b>	<b>2,744</b>	<b>2,744</b>	<b>2,744</b>
<b>Citi Estimated Total SH Equity (Incl MI) less Prop Reval</b>	<b>7,047.0</b>	<b>7,883.3</b>	<b>8,840.1</b>	<b>15,609.1</b>	<b>17,238.7</b>	<b>19,024.0</b>

Source: Company reports; Citi Research estimates

Below we provide a look at the prospective capital structure associated assuming the company repays its interest-free loan from a fellow subsidiary and restructures its balance sheet (assuming a portion of the loan is also capitalized).

Figure 40. Select Balance Sheet Detail Summary (HK\$m) (2010-2015E)

	2010	2011	2012	2013E	2014E	2015E
<b>Total Debt/Equity (Incl MI) (%)</b>	<b>47.5</b>	<b>51.9</b>	<b>57.5</b>	<b>17.3</b>	<b>15.9</b>	<b>14.6</b>
<b>Net Debt/Equity (Incl MI) (%)</b>	<b>22.8</b>	<b>22.5</b>	<b>31.1</b>	<b>(9.1)</b>	<b>(5.5)</b>	<b>(2.6)</b>
<b>Total Debt/Total Cap (%)</b>	<b>32.2</b>	<b>34.2</b>	<b>36.5</b>	<b>14.7</b>	<b>13.7</b>	<b>12.7</b>
<b>Interest Coverage (x)</b>						
Current Ratio	0.76	0.79	0.83	2.11	2.56	3.02
Quick Ratio	0.73	0.77	0.82	2.09	2.52	2.98
<b>Total Debt</b>	<b>4,249</b>	<b>5,136</b>	<b>6,395</b>	<b>3,168</b>	<b>3,168</b>	<b>3,168</b>
<b>Average SH Equity</b>		<b>9,420</b>	<b>10,515</b>	<b>14,739</b>	<b>19,168</b>	<b>20,875</b>
<b>Net Debt (Excl OBD)</b>	<b>2,038.3</b>	<b>2,228.5</b>	<b>3,455.5</b>	<b>(1,671.6)</b>	<b>(1,107.5)</b>	<b>(560.5)</b>
<b>Change in Net Debt</b>		<b>190.2</b>	<b>1,227.0</b>	<b>(5,127.1)</b>	<b>564.1</b>	<b>547.0</b>
<b>NPV of Lease Commitments</b>	<b>387.4</b>	<b>686.4</b>	<b>632.8</b>	<b>835.8</b>	<b>927.4</b>	<b>994.7</b>
<b>7x Rent for Off-balance Sheet Debt Calc</b>	<b>928.6</b>	<b>2,463.7</b>	<b>2,448.8</b>	<b>2,964.4</b>	<b>3,140.8</b>	<b>3,377.6</b>
<b>Reported ROE (%)</b>	<b>9.3%</b>	<b>9.2%</b>	<b>10.2%</b>	<b>11.2%</b>	<b>5.0%</b>	<b>5.0%</b>
<b>Adj Core ROE (%), Exlc Prop Reval (2005-1H13)(1)</b>	<b>9.4%</b>	<b>9.9%</b>	<b>9.8%</b>	<b>7.2%</b>	<b>5.8%</b>	<b>5.8%</b>

Note: (1) our adjusted Core ROE excludes the property revaluation reserve (2010-1H13) as it inflates shareholders equity relative to its global peers, which do not account for investment property accordingly.

Source: Company reports; Citi Research estimates

Figure 41. KLN – Cash Flow Statement (HK\$m) (2010-2015E)

	2010	2011	2012	2013E	2014E	2015E
Profit before taxation	1,178.2	1,375.4	1,656.8	2,272.3	1,650.4	1,818.7
Share of results of associates	(208.8)	(148.5)	(136.4)	(121.6)	(132.2)	(139.8)
Interest income	(11.5)	(12.6)	(28.3)	(39.4)	(62.4)	(61.5)
Dividend income from available-for-sale investments	(1.6)	(2.0)	(0.0)	(0.8)	(0.8)	(0.8)
Finance costs	23.1	55.4	63.1	91.8	94.5	97.7
Change in fair value of investment properties	(176.0)	(130.3)	(265.2)	(458.3)	0.0	0.0
Gain on remeasurement of previously held equity interest in an acquiree company	(54.2)	–				
Gain on sale of an available-for-sale investment	(0.1)	–		(325.0)	0.0	
Impairment of goodwill	40.4	7.3	7.0			
Provision for impairment of receivables	22.1	4.0	22.1	9.4	0.0	0.0
Reversal of provision for impairment of receivables	(1.1)	(5.0)	(0.5)	(0.9)	0.0	0.0
Share options expense	11.1	1.8	56.4	13.6	0.0	0.0
Amortization of intangible assets		3.7	38.0	66.6	58.7	52.7
Depreciation of property, plant and equipment and amortization of leasehold land and land use rights	210.4	292.3	329.3	384.6	444.0	505.7
<b>Operating cash flow before working capital changes</b>	<b>1,037.6</b>	<b>1,451.4</b>	<b>1,735.7</b>	<b>1,882.3</b>	<b>2,052.2</b>	<b>2,272.7</b>
<b>Net cash generated from operations</b>	<b>765.1</b>	<b>1,366.7</b>	<b>1,178.8</b>	<b>1,569.5</b>	<b>1,891.5</b>	<b>2,112.9</b>
Interest paid	(17.9)	(49.0)	(57.7)	(91.8)	(94.5)	(97.7)
Income tax paid	(140.3)	(298.4)	(250.3)	(262.8)	(334.4)	(379.5)
<b>Net cash provided from operating activities</b>	<b>606.9</b>	<b>1,019.3</b>	<b>870.7</b>	<b>1,214.8</b>	<b>1,462.7</b>	<b>1,635.6</b>
Additions of property, plant and equipment	(603.7)	(852.6)	(1,468.0)	(1,000.0)	(1,000.0)	(1,000.0)
Additions of investment properties		(3.8)	(0.0)	(2.9)	(100.0)	(200.0)
Purchase of available-for-sale investments		(3.3)		0.0	0.0	0.0
Purchase of leasehold land and land use rights	(3.7)	(102.0)	(22.1)	0.0	0.0	0.0
Proceeds from sale of property, plant and equipment and investment properties	41.8	100.9	84.1	360.7	0.0	0.0
Proceeds from sale of investment in associates	2.0	6.3	1.3			
Proceeds from sale of an available-for sale investment	1.3			0.7	0.0	0.0
Dividend income from available-for-sale investments	1.6	2.0	0.0	0.8	0.8	0.8
Dividends received from associates	158.6	30.6	296.1	10.5	0.0	0.0
Increase in balances with associates	(0.0)	(39.3)	(71.4)	(10.0)	(10.0)	(10.0)
Decrease in balances with associates	8.9	8.1	31.9	63.3	30.0	30.0
Interest received	11.5	12.6	28.3	39.4	62.4	61.5
Acquisition of subsidiaries	64.7	(193.7)	(492.4)	(260.0)	(900.0)	(950.0)
Increase in investments in associates	(55.5)		(53.1)	(150.0)	(50.0)	(50.0)
(Increase)/decrease in restricted and pledged bank deposits	(15.0)	10.5	0.2	(2.5)	0.0	0.0
<b>Net cash used in investing activities</b>	<b>(387.6)</b>	<b>(1,023.8)</b>	<b>(1,665.0)</b>	<b>(950.0)</b>	<b>(1,966.8)</b>	<b>(2,117.7)</b>
<b>Net cash generated from financing activities</b>	<b>410.0</b>	<b>680.6</b>	<b>782.6</b>	<b>1,634.9</b>	<b>(60.0)</b>	<b>(65.0)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>629.3</b>	<b>676.1</b>	<b>(11.6)</b>	<b>1,899.7</b>	<b>(564.1)</b>	<b>(547.0)</b>
Effect of exchange rate changes	62.5	26.1	33.1	0.0	0.0	0.0
<b>Cash and cash equivalents at end of the period</b>	<b>2,189.9</b>	<b>2,892.1</b>	<b>2,913.6</b>	<b>4,813.3</b>	<b>4,249.2</b>	<b>3,702.1</b>

Source: Citi Research estimates

## Summary of Segment Breakdown

The term 'logistics' can mean a variety of things to a variety of people around the world. In the figure below we provide a very generic overview of the logistics industry and associated services. Further below, we describe in detail the specific service offered by KLN.

KLN splits its operations into two distinct segments; 1) **Integrated Logistics (IL)**; and 2) **International Freight Forwarding (IFF)**.

Figure 42. KLN Segment Breakdown

Integrated Logistics (IL)	International Freight Forwarding (IFF)
<b>Logistics Operations</b>	<b>Air Freight</b>
·Storage	·Air transportation of high-value, perishable and time-sensitive shipments
·Value-added services	<b>Ocean Freight</b>
·Trucking and distribution	·Full container load (FCL)
·Returns management	·Less than container load (LCL)
<b>Ancillary Services</b>	<b>Cross-border Road Freight</b>
·Port terminal	·KART: a cross-border trucking solution in China and ASEAN countries
·Rail terminal	
·Trading	
<b>Hong Kong Warehouse</b>	
·Leasing of warehousing space in Hong Kong	

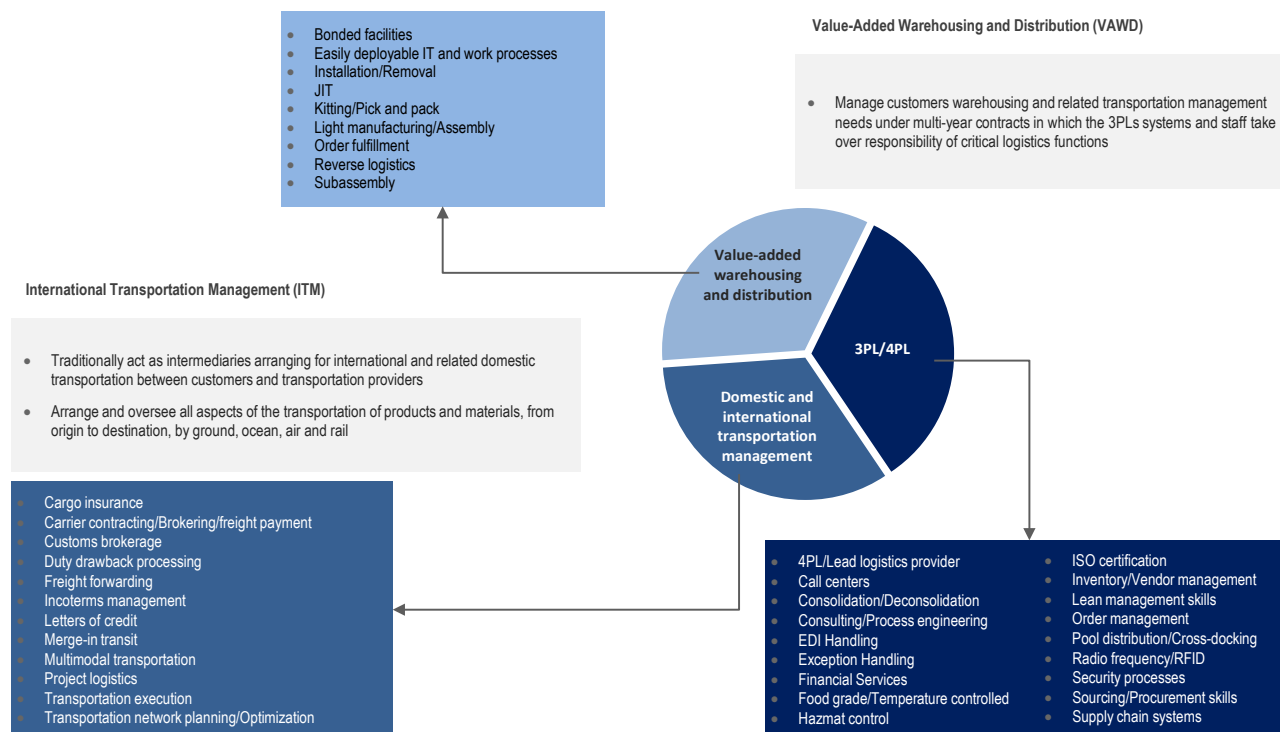
Source: Company reports; Citi Research

Figure 43. KLN Segment Revenue and Contribution Detail (2012, HK\$m)

	Segment Revenue	Revenue Split	Segment Contribution	Contribution Split	Margin
Integrated Logistics (IL)	7,898	41%	1,141	79%	14.4%
Int'l Freight Forwarding (IFF)	11,397	59%	300	21%	2.6%
<b>Total</b>	<b>19,295</b>	<b>100%</b>	<b>1,441</b>	<b>100%</b>	<b>7.5%</b>

Source: Company reports; Citi Research

Figure 44. Third Party Logistics (3PL) Overview



Source: Armstrong report; Company report; Citi Research



Cost effective supply chain solutions  
offered across Asia

In China, Taiwan, Thailand and Vietnam  
express next-day delivery services are  
offered for less-than-truck-load cargo

Kerry Siam Seaport Limited (KSSP): KLN  
acquired an initial equity interest of  
~54.98% in 2004 and currently own  
~79.52% interest.

## Integrated Logistics – Logistics Operations

**Storage and Value-added Services (VAS)** are offered to manufacturers, retailers and other customers; Value-added services include garment-on-hanger, tagging, sorting, kitting, ironing, labeling, gift packing, stamping and various other services.

**Trucking and Distribution Services** are performed within KLN's extensive trucking network in its major Asian markets. KLN also distributes customers' goods to their local or national distribution centers and retail outlets and transport cargo between airports or sea terminals and KLN logistics centers. Both self-owned and third-party vehicles are deployed (generally depending upon lane density and head-haul/back-haul mix).

**Returns Management-related Services** include the handling returned products from retail stores as well as the collection/transportation of out-of-season products from points of sale. Re-sale products are re-tagged, re-packed and re-distributed to sales outlets while other returned products are disposed as per the customers' instructions.

## Integrated Logistics – Ancillary Services

**Kerry Siam Seaport Limited (KSSP)** is a multi-purpose container terminal with ten ship berths situated near the Laem Chabang Commercial Port in Thailand. The Company manages a variety of logistics facilities within the seaport complex, including an onshore inland container depot area of approximately 860,000 sq.ft., warehouses and container freight station facilities.

**Australian Rail Terminal Assets** include a rail terminal in Adelaide (under lease) linked to the main railway line to Melbourne.

**KLN's Trading Operation** includes fast-moving consumer goods (FMCG) trading and distribution offered through KerryFlex Supply Chain Solutions, which involves distribution, marketing and sales of FMCG and pharmaceutical products, as distributor, to supermarkets, pharmacies and other retail channels and hospitals.

KLN has also aggressively entered the **Food Servicing and Catering** business through the company's Wah Cheong Company, Limited (leveraging its network in HK and China and potentially Taiwan and Thailand in the future). The operation involves the supply and servicing of food and beverage products to hotels, restaurants, fast food chains and other food outlets. The company also does food catering for special events and functions, as well as delivery of pre-prepared meals to schools and companies.

In addition to the company's core business/investments, KLN also maintains a minority stake in the Chiwan Container Terminal (CCT) in Shenzhen and the Asia Airfreight Terminal (AAT) at Hong Kong International Airport (HKIA). See the section below on Associates.

## Integrated Logistics – Hong Kong Warehouse

The company's Hong Kong Warehouses are primarily designed for two principal types of shared warehousing uses:

- General cargo warehouses, which provide long-term or short-term leases of certain warehouse units. Generally the space is leased for a predetermined amount of time (with a term of 2-3 years on average, charged monthly). In most cases, maintenance, handling and transportation are the responsibility of customers rather than KLN.

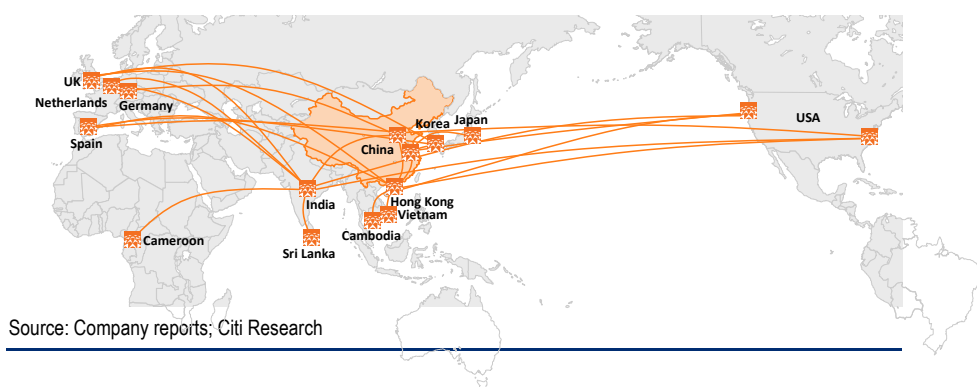
- Specialty warehouses, which mainly provide cold storage for temperature-controlled food as well as storage for bonded and dangerous goods.

With a 30-plus year history of providing the above facilities in HK (currently managing ten warehouses with a total GFA of ~5 million sq.ft.), we believe KLN has established itself as a market leader.

## International Freight Forwarding (IFF)

KLN's International Freight Forwarding business includes air and ocean freight forwarding/related services as well as cross-border road distribution between China and Southeast Asia.

Figure 45. KLN's Major IFF Trade Routes



Source: Company reports; Citi Research

**Routes operated:** Intra-Asia routes, such as between China and Hong Kong as well as routes between Greater China and the United Kingdom

## Airfreight

KLN's airfreight forwarding service offering includes air transportation of high value goods, perishable goods and time-sensitive shipments as well as air charter services for urgent shipments or planned project cargo. Generally, KLN will contract out or commit to specified capacity aboard aircraft (typically not more than 6-12 months in advance, based upon need and destination). KLN and most forwarders report the entire revenue associated with the move, of which they net off the third-part transportation-related expense, leaving KLN with the remaining 15-24% margin (known within the industry as the Gross Airfreight Revenue Yield).

## Ocean Freight

KLN's ocean freight forwarding service involves the transportation of full container load (FCL) and less than container load (LCL) cargo by sea (procuring capacity aboard global container shipping lines). The company also offers project logistics services for outsized cargoes and heavy lifts.

A similar approach is taken when accounting for ocean freight forwarding moves, with those sector gross revenue yields averaging closer to 18% depending upon distance, consolidation requirements and volume handled.

## Cross-border Road Freight

KLN's cross-border road freight business (offered through Kerry Asia Road Transport (KART) operation) is still relatively immature in our view as the Company works to expand its network and improved shipment density. That said, we are encouraged by the prospects, particularly as more manufacturing moves south from Mainland China and infrastructure and ease of cross border trade improves. We suspect the customs clearance aspect of the operation remains quite undeveloped.

Figure 46. KART – Cross-border Road Network



KART was launched in 2007 and provides cross-border long-haul trucking connecting countries across the ASEAN region. KART was expanded to connect ASEAN region and China in 2011. KLN has a fleet of more than 150 self-owned trucks dedicated for KART services with two routes between ASEAN and China, three routes between ASEAN countries. At present the network covers Singapore, Thailand, Vietnam, Cambodia and Laos, as well as Kunming, Shenzhen and Shanghai in China.

Source: Company report; Citi Research

## Associates – Infrastructure Investments

Below, we provide a summary of the after-tax contribution from KLN's stake in CCT and AAT as well as our forecasts.

Figure 47. KLN – Share of Results from Associates (HK\$m) (2010-2015E)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
CCT	150.0	110.4	20.4	79.1	99.5	55.4	67.3	122.6	131.2	137.8
AAT	405	35.8	51.2	(9.6)	41.7	18.4	(15.0)	3.4	4.0	5.0
Kerry TJ Logistics	17.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.6	2.2	(2.5)	(2.3)	(4.8)	(2.2)	(2.3)	(4.4)	(3.0)	(3.0)
Share of Results from Associates	208.8	148.5	69.1	67.3	136.4	71.6	50.0	121.6	132.2	139.8
Growth YoY %		-28.9%			-8.1%	3.6%	-25.7%	-10.9%	8.7%	5.7%

Source: Company reports; Citi Research estimates

Figure 48. Asia Airfreight Terminal (AAT)



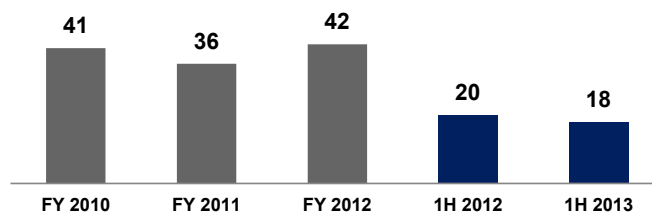
Note: KLN maintains a 15% interest in Asia Airfreight Terminal, Co Ltd. (AAT). Other Shareholders include, SATS Ltd, Eastern Option Ltd., Keppel Telecom & Trans and FedEx.

Source: Company report; Citi Research

### Asia Airfreight Terminal (AAT)

KLN acquired a 15% interest in AAT from the KPL Group in 2004 (the franchise will expire in 2028). The entity handles airfreight on behalf of more than 30 airlines at Hong Kong International Airport (with throughput: ~720,000 tons in 2012 and ~367,000 tons in 1H 2013). Cathay Pacific and HACTL each also operate the larger facilities at HKIA, leading to fairly competitive environment, however, we believe KLN's interest is more strategic and ensures better quality control/forwarding opportunities.

Figure 49. AAT – KLN Share of Results (HK\$ millions)



Source: Company reports; Citi Research

Figure 50. Chiwan Container Terminal (CCT)



Note: KLN maintains a 25% interest in Chiwan Container Terminal (CCT), which it acquired from the KPL Group in 2004 (CCT is Sino-foreign joint venture set up in December 1990); Other Shareholders include, Shenzhen Chiwan Wharf Holdings Limited, Hidoney Developments Limited, and lastly Chiwan Wharf Holdings (Hong Kong) Limited.

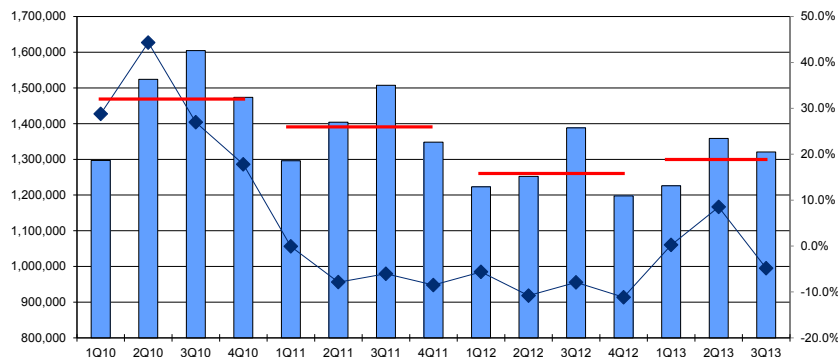
Source: Company report; Citi Research

### Chiwan Container Terminal (CCT)

KLN maintains a 25% interest in Chiwan Container Terminal Co. Ltd. (CCT), located along the Eastern bank of the Pearl River Delta (PRD), providing unique access to one of the chief global manufacturing basins (Guangdong Province). The current annual handling capacity at CCT is ~6.2 million TEUs, with five berths and ~3,100 meters of quay length.

While 2Q13 throughput rebounded 8% YoY (and improved from the flat YoY trend in 1Q13), 3Q13 volume declined 5% YoY (with September down 8% on difficult comps). That said, October volume improved 9% YoY on easier year-ago comparisons.

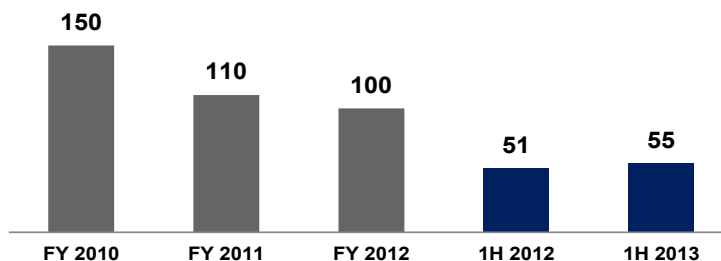
Figure 51. CCT – Quarterly Throughput Capacity (LHS) and YoY Growth (RHS)



Note: Annual quarterly average represented by the bold red line.

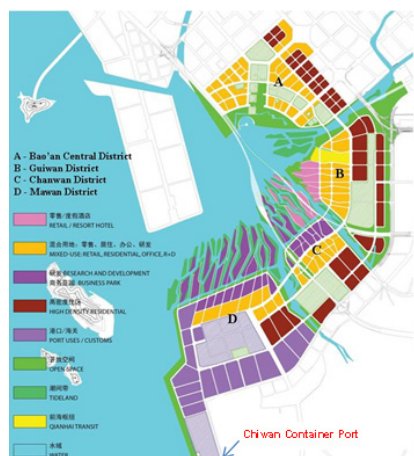
Source: Chinaports; Citi Research

Figure 52. CCT – KLN Share of Results (HK\$ millions)



Source: Company reports; Citi Research

Figure 53. Qianhai Land Development Plan – Four Major Districts



Source: See our report on Shenzhen Int'l (0152.HK) - Announced Qianhai Land Policy is Positive for SZI (date July 14). Qianhai Land Development Plan – Four Major Districts; Citi Research

### Qianhai Redevelopment Spillover benefit

We believe rising land values in and around the Qianhai Special Economic Area in Shenzhen (just north of the Chiwan port) associated with that proposed redevelopment, could have a positive effect on Chiwan's valuation longer term (as a port or redevelopment perspective). Although with just a 25% interest, the upside to KLN is likely relatively muted.

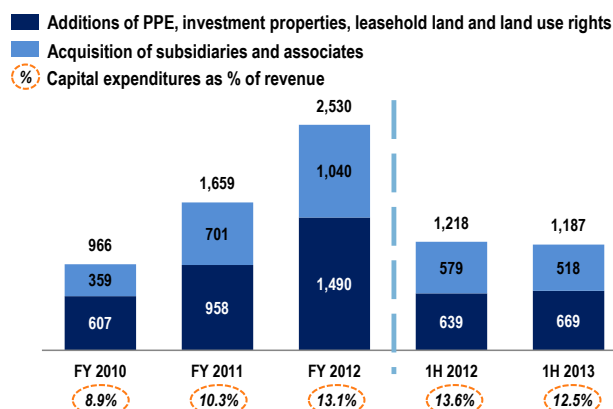
## Investment Plan and Growth Strategy

Going forward, we expect KLN to apportion its growth capital equally to:

- Development of logistics facilities in strategic locations in Greater China (80% in China and 20% in HK) to provide storage and value-added services (VAS) to KLN's customers, which allows it to strengthen its presence in the region and to expand into cities with high growth potential;
- Development of logistics facilities and acquisition of businesses in ASEAN countries for KLN's IL business, which enables further penetration into the integrated logistics markets in Thailand and Vietnam and increase market share in Indonesia, Malaysia, the Philippines and Singapore; and
- Global acquisitions for its IFF business, to expand its network, enhance service capabilities and reach new geographical markets.

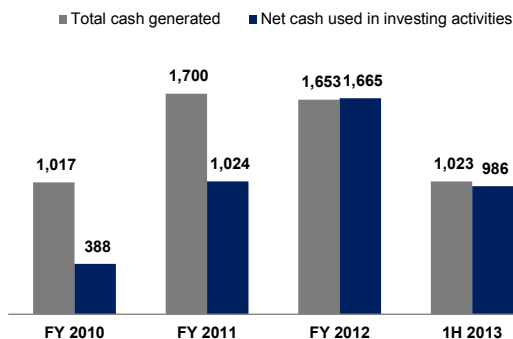
As shown below, KLN's capital expenditure historically has been spent on the acquisition of freight forwarding companies in globally strategic geographic markets or niche businesses that will strengthen the company's presence.

Figure 54. Capital Expenditures by Components (in HK\$ millions)



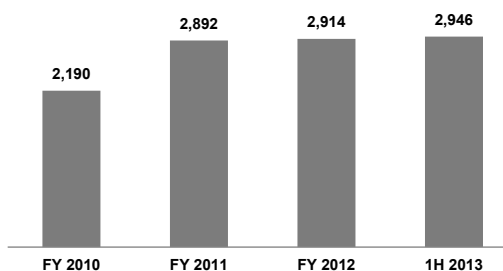
At June 30th, 2013, KLN had contractual obligations of HK\$363m for additions of property, plant and equipment and acquisition of subsidiaries. In addition, KLN had authorized, but not contracted for HK\$99m (in the form of commitments). Future aggregate minimum lease payments under non-cancellable operating leases amounted to HK\$1,044m (of which 34% are due within year one, 46% between years two to five and 20% after year five). Source: Company reports; Citi Research

Figure 55. KLN Cash vs. Investment activities (in HK\$ millions)



Source: Company reports; Citi Research

Figure 56. KLN Cash/Equivalents at Period End (in HK\$ millions)



Source: Company reports; Citi Research

### Dividend Policy Leaves Plenty of Cash for Growth

KLN currently targets to distribute to shareholders approximately 20% of core net profit in 2013 (with total distributable reserves as of the end of June 2013 at HK\$1.2bn). While the 20% level may change over time due to financial and economic conditions, we believe the company can generally maintain this type of payout while pursuing growth initiatives. We are currently forecasting a FY13 dividend of HK\$0.10 (20% core earnings payout), yielding ~0.8% (increasing in accordance with earnings, but below its potential as KLN preserves cash for growth).

### Successful Acquisition Integration and Track Record

Building upon the company's successful acquisition integration history in China (Kerry EAS Logistics and Kunshan Wisdom Logistics Co. Ltd.), Taiwan (Kerry TJ Logistics), the UK (Kerry Logistics (UK) Limited, formerly Trident International), Korea, Germany and Thailand, amongst others, KLN is actively pursuing acquisitions to supplement its growth objectives. Reflecting the company's complementary global growth strategy, KLN recently completed acquisitions in Brazil and Mexico and is likely to target International Freight forwarding opportunities in attractive and relatively underpenetrated markets like the US.

#### Taiwan

KLN has agreed to increase its stake in Kerry TJ Logistics Co Ltd (2608.TW; NT\$43.00; Not Rated) to approximately 36.46%, which was increased from the 18.52% stake initially acquired in 2008. At the current market cap, KLN's stake is valued at HK\$1.724bn (US\$222m). The entity's name was changed to Kerry TJ Logistics in 2011.

The entity has been listed on the Taiwan Stock Exchange since 1990 (and been in business since 1954). From a revenue perspective (which KLN has consolidated since 2011 by virtue of control), Kerry TJ's operations in Taiwan amounted to ~HK\$2bn in 2012 (+6% YoY), representing nearly 10% of the KLN's total subsidiary revenue (and roughly a quarter of the company's Integrated Logistics Segment Revenue). Kerry TJ now employs over 3,700 employees with nearly 2,200 vehicles and ~120K sqm of warehouse space, according to its website.

#### United Kingdom

In 2002, KLN acquired an initial equity interest of 91% in Kerry Logistics (UK) Limited, a freight forwarding company in the United Kingdom (which was previously named "Trident International Limited"). In 2013, KLN acquired the remaining 9% equity interest from the remaining shareholder.

#### Latin America

More recently, KLN has sought to improve its non-Asia footprint, acquiring operations which complement those in its core market. For example with the expansion of manufacturing facilities in Latin America by globally recognized tech companies (for export to Asia as well as North America, Latin America and Europe), KLN recently acquired a Logistics service provider based in Brazil.

Further, in July 2013, the company acquired a 70% equity interest in the Cargo Master's Group (a Mexico-based logistics and freight forwarding company with a nationwide network of six offices) for a total cash consideration of HK\$39.0m (US\$5.1m) and a contingent consideration of up to HK\$26.0m (US\$3.4m).

Figure 57. Kerry TJ Logistics Logo



Source: Company site; Citi Research

Earlier this year, KLN acquired a 51% equity interest in a freight forwarding company based in Brazil and in July acquired a 70% interest in a Mexico-based logistics and freight forwarding company.



## Acquisition Track Record and Recent Take-Out Multiples

Figure 58. KLN – Business Milestones and Acquisition History

1981	The development of KLN's first warehouse, Kerry Warehouse (Kwai Chung), was completed in Hong Kong
1981-1991	KLN completed the development of five warehouses and acquired one warehouse in Hong Kong
1999	KLN completed its flagship logistics facility, Kerry Cargo Centre, with a total GFA of approximately 1,443,356 sq.ft., in Hong Kong
2000	Company was renamed "Kerry Logistics Network Limited" (KLN) began to provide trucking services to KLN's warehousing customers KLN acquired a 100% equity interest in Kerry Freight (Hong Kong) Limited, an IFF company based in Hong Kong
2001	KLN acquired a 51% stake in an IFF based in Korea. KLN opens first freight office in the US
2002	KLN acquired an initial equity interest of 91% in Kerry Logistics (UK) Limited, a freight forwarding company in the United Kingdom. KLN completed the development of KLN's logistics center located at Laem Chabang in Thailand
2003	KLN acquired a 100% equity interest in KerryFlex Supply Chain Solutions Limited, a food and beverage trading company in Hong Kong
2004	KLN acquired an initial equity interest of approximately 54.98% in Kerry Siam Seaport Limited, a port terminal operator at Laem Chabang in Thailand KLN acquired a 51% equity interest in a freight forwarding company based in Taiwan KLN completed the development of KLN's first logistics center located in Yantian in China KLN acquired a 25% equity interest in CCT from KPL, KLN acquired a 15% equity interest in AAT from KPL KLN established presence in Singapore, Malaysia and Indonesia
2005	KLN acquired a 70% equity interest in KEAS, a leading logistics company in China
2006	KLN launched KerrierVISION KLN opened a logistics facility with a total GFA of approximately 267,000 sq.ft. in southern Vietnam, near Ho Chi Minh City KLN acquired an initial equity interest of 51% in a freight forwarding company based in India KLN expanded KLN's presence to Germany, Austria, Switzerland, Belgium and the Netherlands
2007	KLN launched the KART service in Thailand which later expanded to connect selected countries across ASEAN as well as between SE Asia and China
2008	KLN acquired an initial equity interest of approximately 18.52% in Kerry TJ Logistics, a company listed on the Taiwan Stock Exchange KLN commenced international freight forwarding operations in Japan
2009	KLN commenced international freight forwarding operations in the Philippines
2010	KLN completed construction of KLN's Product Customization and Consolidation Center in Hong Kong KLN obtained management control of Kerry TJ Logistics, which became KLN's consolidated subsidiary. KLN has agreed to increase its stake to approximately 36.46% equity interest in Kerry TJ Logistics in 2013
2011	KLN acquired a 70% interest in Wisdom, an NVOCC operating an ocean freight consolidation platform in China
2012	KLN acquired a 51% equity interest in Beijing Tengchang and a 51% equity interest in Shanghai TCI, each of which is an air freight consolidator in China KLN commenced international freight forwarding operations in Myanmar and Sri Lanka
2013	KLN's regional logistics hub in Singapore commenced operations KLN commenced international freight forwarding operations in LatAm through the acquisition of a 51% equity interest in a freight forwarding company in Brazil. KLN acquired a 70% equity interest in an IFF company based in Mexico

Source: Company report; Citi Research

Figure 59. Recent (Non-KLN) Global Transportation/Logistics Acquisitions and Related Multiples (Shown in US\$m for Comparability)

Target Company	Acquirer	Acquisition Date	Purchase Price (US\$m)	Target Yearly Revenue	Target EBIT or EBITDA	EBIT* or EBITDA** Multiplier
American Backhaulers	C.H. Robinson Worldwide	12/1/1999	100 cash/ 36 stock	280	13	10.5*
Tibbett & Britten	Excel	Dec-04	598	2,600	87.9	6.8**
Ozburn-Hessey Logistics	Welsch, Carson, Anderson & Stone	6/27/2005	396	302	43	9.2**
BAX Global	Deutsche Bahn	1/31/2006	1,210	2,734	113	10.7*
Barthco International	Ozburn-Hessey Logistics	7/7/2006	90	120	10	9*
Jacobson Companies	OakHillCapital	6/1/2007	500	375	45	11**
EGL	Apollo Management/CEVA	Jul-07	2,200	3,200	152	14.5**
Geodis	SNCF	7/1/2008	1,735	7,043	181	9.6*
Express Logistics Group	TollHoldings	10/23/2009	45	113	5.6	8*
Summit Logistics International	Toll Holdings	2/2/2010	70.3	261	7.6	9.3**
ATC Technology Corporation	GENCO Distribution System	Jul-10	512.6	476	77.7	6.6**
Total Logistic Control	Ryder	12/31/2010	200	250	36	7**
TDG	Norbert Dentressangle	Mar-11	320	1,100	55	5.8**
Exel Transportation Svcs/Mode Transportation	Hub Group	4/4/2011	83	717	4	20.8*
Caterpillar Logistics Services	Platinum Equity	5/11/2012	700	660	60	11*
Turbo Logistics	XPOLogistics	10/24/2012	50	124	6.2	8*
Phoenix International	C.H. Robinson Worldwide	11/1/2012	635	807	50.8	12.5**

Note - EBIT\* or EBITDA\*\* Multiplier.

Source: Primary, Company Information; Secondary, Armstrong & Associates, Inc. Estimates; Citi Research.

## Segment Analysis – Integrated Logistics

In the figure below, we provide a snapshot of KLN's IL Segment and Gross Revenue contribution by country (which we have estimated on a historical basis for presentation).

Figure 60. KLN – Integrated Logistics Segment Revenue Breakdown (2010-2015E)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Logistics Revenue (ex HK Warehouse) (1)</b>										
<b>China</b>	<b>1,442.9</b>	<b>2,135.2</b>	<b>1,145.1</b>	<b>1,453.2</b>	<b>2,598.3</b>	<b>1,385.6</b>	<b>1,722.8</b>	<b>3,108.4</b>	<b>3,526.4</b>	<b>3,882.7</b>
Growth YoY %		48.0%			21.7%	21.0%	18.6%	19.6%	13.4%	10.1%
<b>Hong Kong</b>	<b>1,126.6</b>	<b>1,355.3</b>	<b>728.1</b>	<b>793.8</b>	<b>1,521.9</b>	<b>807.6</b>	<b>877.8</b>	<b>1,685.4</b>	<b>1,752.8</b>	<b>1,838.3</b>
Growth YoY %		20.3%			12.3%	10.9%	10.6%	10.7%	4.0%	4.9%
<b>Taiwan (Listed Entity - see Financials)</b>	<b>847.5</b>	<b>1,871.9</b>	<b>916.2</b>	<b>1,062.5</b>	<b>1,978.7</b>	<b>972.6</b>	<b>1,115.6</b>	<b>2,088.2</b>	<b>2,203.1</b>	<b>2,313.2</b>
Growth YoY %		120.9%			5.7%	6.2%	5.0%	5.5%	5.5%	5.0%
<b>ASEAN</b>	<b>810.3</b>	<b>990.9</b>	<b>581.1</b>	<b>680.9</b>	<b>1,262.0</b>	<b>772.0</b>	<b>844.3</b>	<b>1,616.3</b>	<b>1,907.3</b>	<b>2,193.4</b>
Growth YoY %		22.3%			27.4%	32.8%	24.0%	28.1%	18.0%	15.0%
Others	105.8	39.5	47.8	15.1	62.9	21.1	30.0	51.1	55.0	65.0
<b>Total Logistics Operations</b>	<b>4,333.0</b>	<b>6,392.9</b>	<b>3,418.3</b>	<b>4,005.4</b>	<b>7,423.7</b>	<b>3,958.9</b>	<b>4,590.6</b>	<b>8,549.5</b>	<b>9,444.5</b>	<b>10,292.5</b>
<b>Growth YoY %</b>		<b>47.5%</b>			<b>16.1%</b>	<b>15.8%</b>	<b>14.6%</b>	<b>15.2%</b>	<b>10.5%</b>	<b>9.0%</b>
<b>Estimated % of Logistics Revenue (Excl HK Warehouse) (1)</b>										
China	33.3%	33.4%	33.5%	36.3%	35.0%	35.0%	37.5%	36.4%	37.3%	37.7%
Hong Kong	26.0%	21.2%	21.3%	19.8%	20.5%	20.4%	19.1%	19.7%	18.6%	17.9%
Taiwan	19.6%	29.3%	26.8%	26.5%	26.7%	24.6%	24.3%	24.4%	23.3%	22.5%
ASEAN	18.7%	15.5%	17.0%	17.0%	17.0%	19.5%	18.4%	18.9%	20.2%	21.3%
Others	2.4%	0.6%	1.4%	0.4%	0.8%	0.5%	0.7%	0.6%	0.6%	0.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Estimated Hong Kong Warehouse Assumptions</b>										
GFA sqf (attributable, all assuming 100%)	5,260,984	5,260,984	5,260,984	5,260,984	5,260,984	5,260,984	5,260,984	5,260,984	5,079,082	5,079,082
Blended Occupancy	76.4%	78.2%	77.9%	78.6%	78.2%	80.3%	80.4%	80.3%	82.4%	82.9%
Leased Capacity	4,018,335	4,114,037	4,098,815	4,132,627	4,115,721	4,222,855	4,229,910	4,226,382	4,185,164	4,210,559
Growth YoY %		2.4%			0.0%	3.0%	2.4%	2.7%	-1.0%	0.6%
Average HK Warehouse Rental Rates/Month (Estimated)	HKD 8.00	HKD 8.15	HKD 8.25	HKD 8.28	HKD 8.27	HKD 8.75	HKD 8.75	HKD 8.75	HKD 9.07	HKD 9.40
Growth YoY %		1.9%			1.4%	6.1%	5.7%	5.9%	3.7%	3.7%
<b>Calculated HK Warehouse Revenue</b>	<b>385.8</b>	<b>402.4</b>	<b>202.9</b>	<b>205.3</b>	<b>408.2</b>	<b>221.7</b>	<b>222.1</b>	<b>443.8</b>	<b>455.5</b>	<b>475.1</b>
Other Warehousing Rev and Inter-segment	91.8	94.6	30.8	35.2	66.0	12.4	20.0	32.4	35.0	35.0
<b>Total Hong Kong Warehouse Revenue</b>	<b>477.6</b>	<b>497.0</b>	<b>233.7</b>	<b>240.6</b>	<b>474.2</b>	<b>234.1</b>	<b>242.1</b>	<b>476.1</b>	<b>490.5</b>	<b>510.1</b>
<b>Growth YoY %</b>		<b>4.1%</b>			<b>-4.6%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.4%</b>	<b>3.0%</b>	<b>4.0%</b>
<b>Integrated Logistics</b>	<b>4,810.6</b>	<b>6,889.8</b>	<b>3,652.0</b>	<b>4,246.0</b>	<b>7,898.0</b>	<b>4,193.0</b>	<b>4,832.6</b>	<b>9,025.6</b>	<b>9,935.0</b>	<b>10,802.6</b>
<b>Growth YoY %</b>		<b>43.2%</b>			<b>14.6%</b>	<b>14.8%</b>	<b>13.8%</b>	<b>14.3%</b>	<b>10.1%</b>	<b>8.7%</b>

Note: (1) represents our best estimate of the segment revenue split by country as it is not provided.

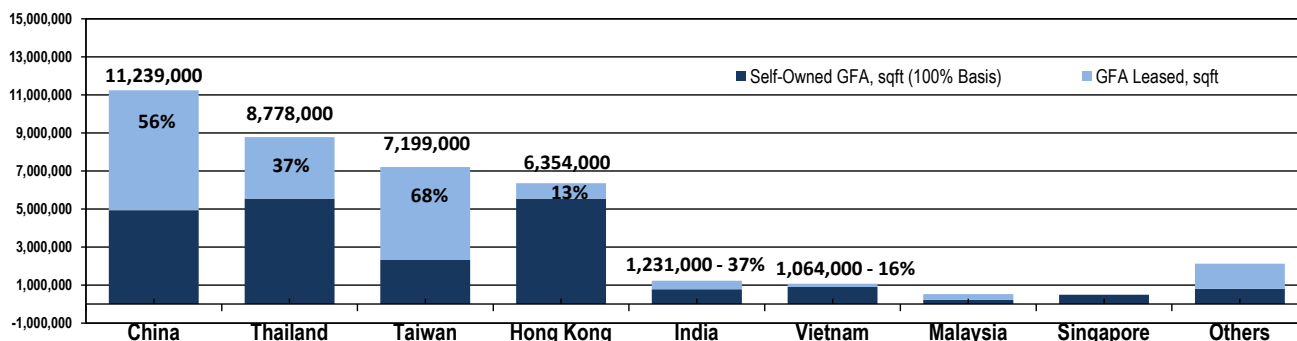
Source: Company reports; Citi Research estimates

## Integrated Logistics (IL) – Logistics Operations

**Storage and Value-added Services (VAS)** include Inventory storage and diverse value-added services to manufacturers, retailers and other customers; Value-added services include garment-on-hanger, tagging, sorting, kitting, ironing, labeling, gift packing, stamping and various other services.

In the figure below, we provide a look at KLN's portfolio of completed logistics facilities in Asia (as of 30 Sept, 2013) as well as the percentage of total GFA leased.

Figure 61. KLN's Portfolio of Completed Logistics Facilities in Asia (as of 30 Sept, 2013)



Note: others include Macau, Malaysia, Philippines, Bangladesh and South Korea.

Source: Company report; Citi Research

**In China, Taiwan, Thailand and Vietnam express next-day delivery services are offered for less-than-truck-load cargo**

**Trucking and Distribution Services** include extensive trucking network in KLN's major Asian markets to offer domestic trucking and distribution service. KLN also distributes customers' goods to its local or national distribution centers and retail outlets and to transport cargo between airports or sea terminals and KLN logistics centers. Both self-owned and third-party vehicles are deployed (depending upon lane density and head-haul/back-haul mix).

**Returns Management-related Services** include the handling returned products from retail stores as well as the collection/transportation of out-of-season products from points of sale. Re-sale products are re-tagged, re-packed and re-distributed to sales outlets while other returned products are disposed as per customers' instructions.

## Integrated Logistics (IL) – Ancillary Services

**Kerry Siam Seaport Limited (KSSP): KLN acquired an initial equity interest of ~54.98% in 2004 and currently own ~79.52% interest.**

**Kerry Siam Seaport Limited (KSSP)** is a multi-purpose container terminal with ten ship berths situated near the Laem Chabang Commercial Port in Thailand. The Company manages a variety of logistics facilities within the seaport complex, including an onshore inland container depot area of approximately 860,000 sq.ft., warehouses and container freight station facilities.

**Australian Rail Terminal Assets** include a rail terminal in Adelaide (under lease) linked to the main railway line to Melbourne.

**KLN's Trading Operation** includes fast-moving consumer goods (FMCG) trading and distribution offered through its KerryFlex Supply Chain Solutions Unit, which involves distribution, marketing and sales of FMCG and pharmaceutical products, as distributor, to supermarkets, pharmacies and other retail channels and hospitals.

Kerry has also aggressively entered the **Food Servicing and Catering** business through the company's Wah Cheong Unit (leveraging its network in HK and China and potentially Taiwan and Thailand in the future). The operation involves the supply and servicing of food and beverage products to hotels, restaurants, fast food chains and other food outlets. The company also does food catering for special events and functions, as well as delivery of pre-prepared meals to schools and companies.

### Completed Logistics Facilities and Under Development

The following table shows certain information relating to the company's portfolio of self-owned and leased logistics:

Figure 62. KLN – Self-owned Completed Logistics Facilities and Under Development

Country/ Territory	Usage Type	Approx. GFA Owned			% ~GFA Leased B	~GFA Managed (A+B)
		Total - A (sq.ft)	Attributable (sq.ft)			
China	Logistics center, ISO tank depot	4,941,000	4,369,000	55.00-100.00	6,298,000	11,239,000
Hong Kong	Warehouse, logistics center	5,537,000	5,537,000	100.00	817,000	6,354,000
Macau	Logistics center	-	-	-	15,000	15,000
Taiwan	Logistics center	2,312,000	843,000	36.46	4,887,000	7,199,000
Thailand	Logistics center, port terminal	5,538,000	4,397,000	75.90-79.52	3,240,000	8,778,000
Vietnam	Logistics center, ISO tank depot	893,000	893,000	100.00	171,000	1,064,000
Singapore	Logistics center, ISO tank depot	481,000	437,000	60.00-100.00	16,000	497,000
Malaysia	Logistics center	221,000	119,000	46.60-55.00	299,000	520,000
Philippines	Logistics center	-	-	-	12,000	12,000
India	Logistics center, ISO tank depot	773,000	268,000	30.00-60.00	458,000	1,231,000
Bangladesh	Logistics center	-	-	-	13,000	13,000
South Korea	Logistics center	-	-	-	11,000	11,000
Others(1)	Logistics center, rail terminal	806,000	806,000	100.00	1,268,000	2,074,000
<b>Total</b>		<b>21,502,000</b>	<b>17,669,000</b>		<b>17,505,000</b>	<b>39,007,000</b>

Country/ Territory	Usage type	Approx. GFA owned		
		Total -A (sq.ft)	Attributable (sq.ft)	%
China (2)	Logistics center	1,326,000	1,326,000	100
Thailand(3)	Logistics center	878,000	792,000	75.90-100.00
Vietnam(4)	Logistics center	119,000	119,000	100
<b>Total</b>		<b>2,323,000</b>	<b>2,237,000</b>	

Note: (1) Others mainly include logistics facilities in Australia, and Sweden. (2) Construction is expected to be completed between 2014-2015. (3) Construction is expected to be completed in 2014. (4) Construction is expected to be completed in 4Q13.

Source: Company report; Citi Research

Figure 63. PRC Logistics Property New Supply and Demand, 2009-2014

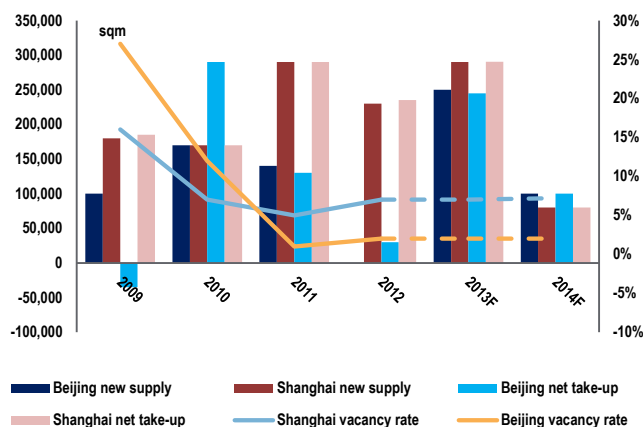
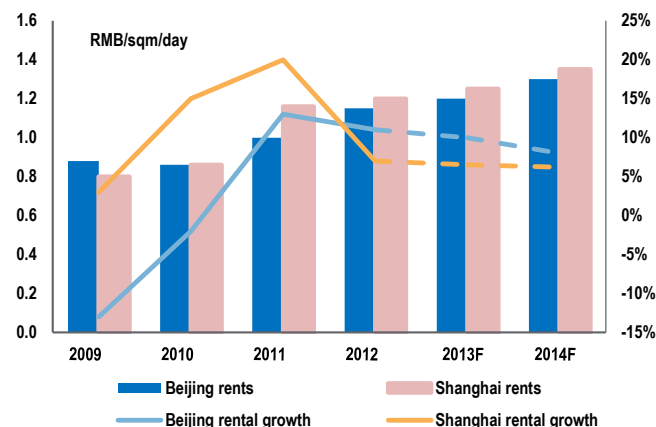


Figure 64. PRC Logistics Property Rents, 2009-2014E



Source: Colliers International Research, March 2013; Company report; Citi Research

Source: Colliers International Research, March 2013; Company report; Citi Research

Figure 65. KLN Self-owned Facilities, by Country

China	Property	Usage type	Approx. GFA owned			Registered Owner
			Total -A (sq.ft)	Attributable (sq.ft)	%	
1	EAS Building Beijing	Office building	149,610	104,727	70	Beijing Jia Jia Investment Consultancy Co., Ltd.
2	Shenzhen Kerry Futian Logistics Centre Shenzhen	Warehouse	268,656	268,656	100	Kerry FFTZ Warehouse
3	Kerry Fuzhou Logistics Centre Fuzhou	Warehouse	108,946	108,946	100	Kerry Logistics (Fuzhou) Co.
4	Kerry Hefei Logistics Centre Hefei	Warehouse	204,383	204,383	100	Kerry Logistics Anhui Co., Ltd.
5	Kerry Chongqing Logistics Centre Chongqing	Warehouse	224,976	224,976	100	Chongqing Lingxian Industry Development Limited.
6	Kerry Kunshan Logistics Centre Kunshan	Warehouse	203,990	203,990	100	Kerry Logistics (Kunshan) Ltd.
7	Kerry Chengdu Logistics Centre Chengdu	Warehouse	264,182	264,182	100	Kerry Logistics (Chengdu)
Hong Kong Property	Property	Usage type	Approx. GFA owned			Registered Owner
			Total -A (sq.ft)	Attributable (sq.ft)	%	
8	Kerry Cargo Centre Kwai Chung, New Territories	Warehouse	1,443,356	1,443,356	100	Kerry Cargo Centre Limited
9	Kerry TC Warehouse Kwai Chung, New Territories	Warehouse	659,783	659,783	100	Kerry TC Warehouse 1 (Block A) Limited, Kerry TC Warehouse 1 (Block B) Limited and Wah Ming Properties Limited
10	Kerry TC Warehouse Kwai Chung, New Territories	Warehouse	490,942	490,942	100	Kerry TC Warehouse 2 Limited
11	Kerry Warehouse (Tsuen Wan) Kwai Chung, New Territories	Warehouse	591,973	591,973	100	Kerry Warehouse (Tsuen Wan) Limited
12	Kerry Warehouse (Chai Wan) Chai Wan, Hong Kong	Warehouse	535,037	535,037	100	Kerry Warehouse (Chai Wan) Limited
13	Kerry Warehouse (Shatin) Shatin, New Territories	Warehouse	431,530	431,530	100	Kerry Warehouse (Shatin) Limited
14	Kerry Warehouse (Sheung Shui) Sheung Shui, New Territories	Warehouse	356,253	356,253	100	Kerry Warehouse (Sheung Shui) Limited
15	Kerry Warehouse (Kwai Chung) Kwai Chung, New Territories	Warehouse	286,628	286,628	100	Kerry Warehouse (Kwai Chung) Limited
16	Kerry Warehouse (Fanling 1) Fanling, New Territories	Warehouse	283,580	283,580	100	Kerry Warehouse (Fanling 1) Limited
17	Tai Po Product Customisation and Consolidation Centre Tai Po, New Territories	Logistics centre	275,593	275,593	100	Kerry PC3 Limited
Thailand	Property	Usage type	Approx. GFA owned			Registered Owner
			Total -A (sq.ft)	Attributable (sq.ft)	%	
18	Kerry Siam Seaport Chonburi Province, Thailand	Port terminal	5,325,554	4,234,880	79.52	Kerry Siam Seaport Limited
Singapore	Property	Usage type	Approx. GFA owned			Registered Owner
			Total -A (sq.ft)	Attributable (sq.ft)	%	
19	Kerry Tampines Logistics Centre Singapore	Logistics center	371,466	371,466	100	Kerry Logistics Hub (Singapore) Pte. Ltd.
Vietnam	Property	Usage type	Approx. GFA owned			Registered Owner
			Total -A (sq.ft)	Attributable (sq.ft)	%	
20	Song Than Logistics Centre Binh Duong Province, Vietnam	Logistics center	670,576	670,576	100	Kerry Integrated Logistics Vietnam Co., Ltd.
21	Vietnam Danang Logistics Centre Da Nang City, Vietnam	Logistics center	114,529	114,529	100	Kerry Integrated Logistics Vietnam Co., Ltd.
22	Kerry Hung Yen Logistics Centre Hung Yen Province, Vietnam	Logistics center	107,586	107,586	100	Kerry Integrated Logistics (Hung Yen) Joint Stock Co

See the company's prospectus for additional detail on each property.

Source: Company reports; Citi Research

## Integrated Logistics (IL) – Hong Kong Warehouse

KLN has leased out warehouse spaces in Hong Kong since 1981 and currently manages 10 warehouses in Hong Kong (~5 million sqft GFA). The Company classifies its facilities as either General Cargo or Specialty Warehouses (mainly cold storage for temperature-controlled food and storage for bonded/dangerous goods).

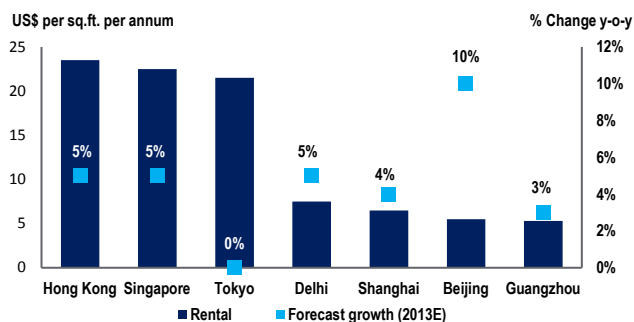
Figure 66. HK Warehouse Capacity – Leased Out

Name	Location	Usage type	Approx. total GFA (sq.ft)	Approx. GFA owned Attributable Interest (sq.ft)	%
KerryCargoCentre	Kwai Chung	Warehouse, logistics centre	1,443,356	1,443,356	100
Kerry TCWarehouse 1	Kwai Chung	Logistics centre	660,783	660,783	100
Kerry TCWarehouse 2	Kwai Chung	Logistics centre	490,942	490,942	100
KerryWarehouse (TsuenWan)	Kwai Chung	Warehouse, logistics centre	591,973	591,973	100
KerryWarehouse (ChaiWan)	ChaiWan	Warehouse, logistics centre	535,037	535,037	100
KerryWarehouse (Shatin)	Shatin	Warehouse, logistics centre	431,530	431,530	100
KerryWarehouse (Sheung Shui)	Sheung Shui	Warehouse, logistics centre	356,253	356,253	100
KerryWarehouse (Kwai Chung)	Kwai Chung	Warehouse, logistics centre	286,628	286,628	100
KerryWarehouse (Fanling 1)	Fanling	Warehouse, logistics centre	283,580	283,580	100
<b>Subtotal</b>			<b>5,079,082</b>	<b>5,079,082</b>	
Kerry D.G.Warehouse (1)	KowloonBay	Warehouse, logistics centre	181,902	181,902	100
<b>Total</b>			<b>5,260,984</b>	<b>5,260,984</b>	

Note - (1) The company has conditionally agreed to transfer its interest in the holding company of Kerry D.G. Warehouse (Kowloon Bay) to KPL.

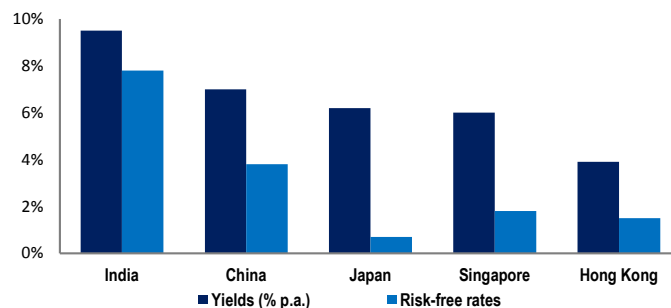
Source: Company report; Citi Research

Figure 67. Asia logistics / Industrial Rentals (by Key Markets)



Source: Colliers; Company report; Citi Research

Figure 68. Asia logistics / Industrial Yields (by Key Centers)



Note: Risk-free rates refer to long-term government bond yields.

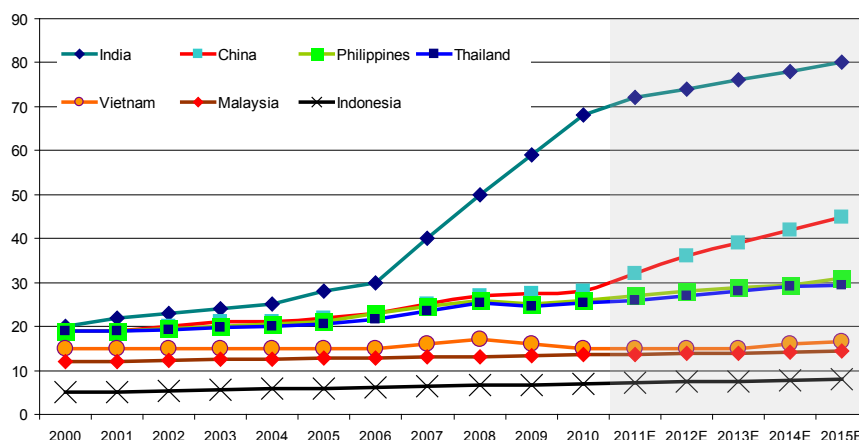
Source : CEIC; Trading Economics; Company report; Citi Research

## Shifts in the Manufacturing and Logistics Landscape Play to KLN's Strengths

With rising wage rates in south China in the past few years and weak demand from the US and Europe, manufacturers have had to shift some of their operations to lower-cost areas such as Western China, Southeast Asia and South Asia. In fact, KLN's recently opened a new facility in western China, offering a full range of logistics services for multiple industry sectors including automotive, pharmaceutical/healthcare, electronics and technology.

While China's manufacturing costs per hour are expected to grow at a ~10% CAGR in US\$ terms through 2015, outpacing wage rates across other ASEAN and South Asian markets, productivity enhancements, infrastructure and migration towards higher value goods offset some of these headwinds. In our view, there is limited evidence of increased US onshore manufacturing (outside of a few select industry verticals, such as automotive/automotive parts manufacturing in Mexico which is then shipped by rail or trucked cross border) as Asia's share of US imports has risen in the post GFC period. Moreover, we believe that by owning assets in core strategic locations (and leasing space in marginal locations), KLN can tailor its facilities for specific customer needs, leading to longer-term contracts and a stickier relationship generally which may lead to additional complementary services.

Figure 69. Productivity-adjusted Cost of Manufacturing Labor



US Cents of Labor cost needed to Produce 2005 US\$1.00 of GDP. Calculated as the ratio between manufacturing labor cost per hour and overall productivity of labor, assuming 2000 working hours per year.

Source: EIU; Forbes; Modern Terminals; Citi Research

Yue Yuen is the world's largest manufacturer of branded athletic and casual footwear as an OEM/ODM for major brands such as Nike, Adidas, Reebok, Asics, New Balance, Puma, Timberland and Rockport.

Figure 70. Error! No document variable supplied. – Effective Monthly Wage Per Worker (US\$)

Pearl River Delta (South China)	600
Vietnam	300 - 350
Indonesia	250 - 300
Cambodia/Bangladesh	100 - 150

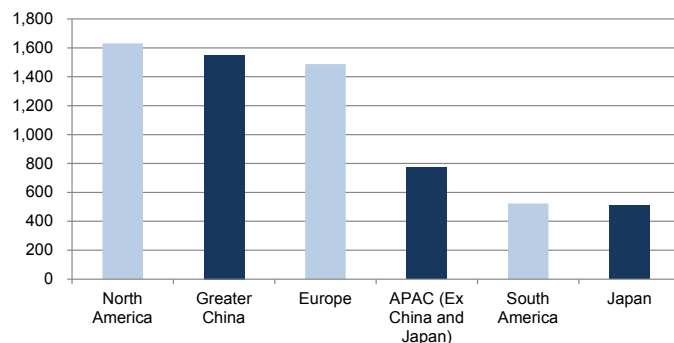
Source: Yue Yuen; Citi Research



## Logistics Spend by Major Region

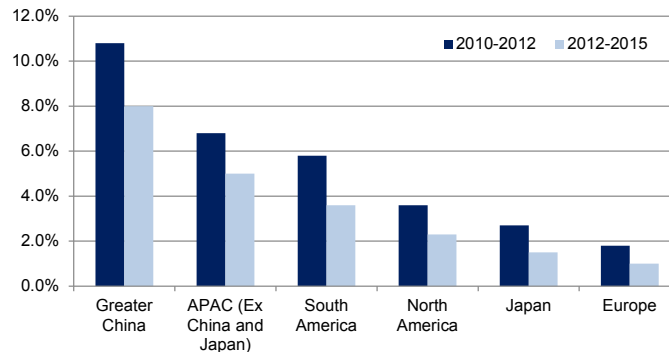
According to Armstrong & Associates, Asia Pacific was the largest logistics market in 2012, (accounting for 34% of total global logistics spend and 36% of global 3PL spend). The logistics spend in Asia (excluding Japan) was estimated at US\$2.3tr in 2012, the largest of all regions, with the majority spent in Greater China (at an estimated US\$1.6tr, compared to an estimated US\$1.3tr for the US).

Figure 71. Global 2012 Logistics Spend by Major Region (US\$ in Billions)



Source: Company report; Armstrong Report; Citi Research

Figure 72. Global Logistics Spend Growth (CAGR by Major Region)



Source: Company report; Armstrong Report; Citi Research

## Third-Party Logistics Spend and Growth Rates Analysis

The following chart shows the total revenue of third-party logistics service providers by region in 2012.

Figure 73. Global Logistics Spend, by Region (2012)

Region	Total Logistics Spend	3PL	3PL %
North America	1,631	171	10%
Greater China	1,552	126	8%
Europe	1,488	156	10%
APAC (Ex China and Japan)	772	65	8%
South America	523	44	8%
Japan	509	53	10%
	<b>6,475</b>	<b>615</b>	<b>9%</b>

Source: Company report; Armstrong Report; Citi Research

Figure 74. 3PL Revenue, by Region (US\$bn)

	2010	2011	2012	2013E	2014E	2015E	5-Year CAGR
Asia Pacific	211	230	245	258	273	289	6.5%
YoY Growth %		9.0%	6.5%	5.3%	5.8%	5.9%	
North America	154	162	171	177	184	193	4.6%
Europe	151	154	156	157	158	161	1.3%
South America	40	43	44	46	47	49	4.1%
Total	556	589	615	638	662	692	4.5%
YoY Growth %		5.9%	4.6%	3.6%	3.8%	4.5%	

Source: Company report; Armstrong Report; Citi Research

### Value-Added Warehousing and Distribution

Within the 3PL segment, the Value-Added Warehousing and Distribution (VAWD) market in Asia grew to US\$62bn in 2012 (and is expected to surpass US\$73bn in 2015) - the fastest growing third-party logistics segment (with a five-year CAGR of an estimated 7% through 2015, exceeding North America at 5.2%, South America at 5.0%, and Europe at a below-average rate of growth of 1.8%).

Figure 75. Value-Added Warehousing and Distribution Revenue, by Region (US\$bn)

	2010	2011	2012	2013E	2014E	2015E	5-Year CAGR
Asia Pacific	52	58	62	65	69	73	7.0%
YoY Growth %		11.5%	6.9%	4.8%	6.2%	5.8%	
North America	38	41	43	45	47	49	5.2%
Europe	37	39	39	40	40	41	2.1%
South America	10	11	11	12	12	13	5.4%
Total	137	149	155	162	168	176	5.1%
YoY Growth %		8.8%	4.0%	4.5%	3.7%	4.8%	

Source: Company report; Armstrong Report; Citi Research

Meanwhile, the International Transportation Management segment in Asia Pac is expected to grow roughly 5% through 2015, according to the Armstrong Report, outpacing the other regions. International Transportation Management (ITM) is the 3PL segment focused on freight forwarding activities from point of origin to the point of delivery. It often includes significant pieces of domestic ground transportation in conjunction with international air or ocean freight moves.

Figure 76. Growth of International Transportation Management Revenue, by Region (US\$bn)

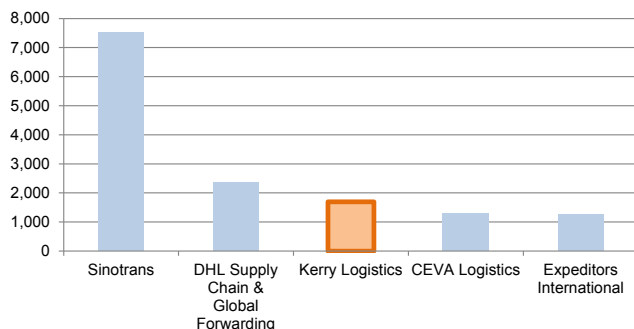
	2010	2011	2012	2013E	2014E	2015E	5-Year CAGR
Asia Pacific	76	79	80	85	90	96	4.8%
YoY Growth %		3.9%	1.3%	6.3%	5.9%	6.7%	
North America	55	56	56	58	61	64	3.1%
Europe	54	53	51	52	52	53	-0.4%
South America	14	15	15	16	16	16	2.7%
Total	199	203	202	211	219	229	2.8%
YoY Growth %		2.0%	-0.5%	4.5%	3.8%	4.6%	

Source: Company report; Armstrong Report; Citi Research

### Greater China is the Focal Market

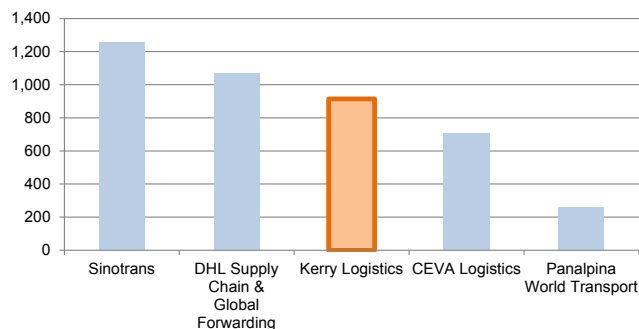
As of 2012, Kerry Logistics is a top three player in the Greater China 3PL space on both a Gross and Net Revenue basis (excluding the cost of purchased transportation for its International Freight Forwarding business).

Figure 77. 2012 3PL Gross Revenue in Greater China (US\$m)



Source: Company report; Armstrong Report; Citi Research

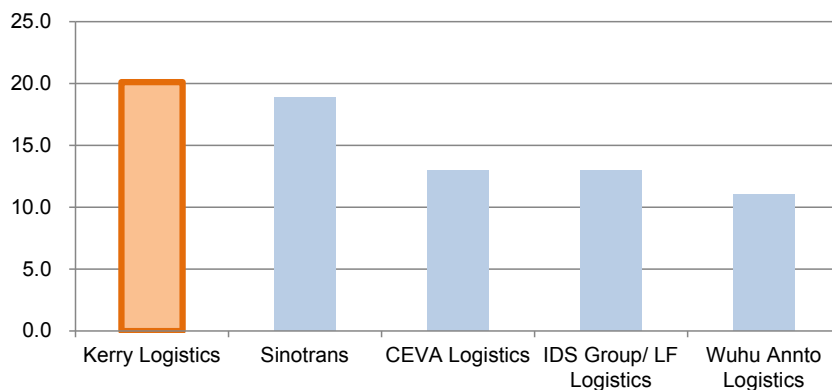
Figure 78. 2012 3PL Net Revenue in Greater China (US\$m)



Source: Company report; Armstrong Report; Citi Research

With over 20m sq ft of warehouse capacity in Greater China, KLN is the market leader, followed by the likes of Sinotrans, CEVA Logistics, IDS/LF Logistics and Wuhu Annto Logistics.

Figure 79. 2012 Warehousing in Greater China (in Sq Ft in millions)



Source: Company report; Armstrong Report; Citi Research

## Domestics Distribution in China

In addition to monitoring mainland China logistics trends, we also look at the growth in heavy-duty truck capacity as an indicator for potential growth within the domestic distribution and manufacturing/industrial production-related activity.

In the figure below we provide a look at annual truck sales and sales growth by type since 2003 as well as monthly activity over the past few years (note, growth as of late for heavy trucks has likely been supported by pre buying ahead of the impending regulatory change).

In short, we believe the growth in YTD heavy-duty truck sales (following YoY declines in 2011 and 2012) bodes well for and/or is a reflection of better domestic consumption/export trends/expectations.

Figure 80. Mainland China Truck Sales by Type

Unit Sales	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	9M2013
<b>Truck segment</b>	<b>1,197,805</b>	<b>1,514,506</b>	<b>1,518,219</b>	<b>1,746,216</b>	<b>2,137,745</b>	<b>2,285,372</b>	<b>2,951,961</b>	<b>3,849,858</b>	<b>3,547,676</b>	<b>3,302,556</b>	<b>2,632,996</b>
- heavy-duty truck (GVW>14T)	255,585	371,788	235,213	305,432	484,366	541,510	635,568	1,014,966	881,539	633,877	567,147
Standard truck			66,251	55,006	90,000	107,635	132,677	245,581	269,707	201,344	169,350
Semi-tractor trailer			55,222	93,165	177,739	194,385	211,233	349,951	256,843	190,660	183,475
Chassis (specialty truck)			113,740	157,261	216,627	239,490	291,658	419,434	354,989	241,873	214,322
- midsize truck (GVW 6T<=14T)	135,489	174,026	193,857	202,904	233,533	212,311	253,174	272,717	290,615	288,660	221,402
- light truck (GVW 1.8T<=6T)	666,169	801,774	856,137	949,438	1,096,654	1,171,292	1,548,730	1,953,117	1,880,575	1,846,668	1,441,544
- mini truck (GVW<=1.8T)	140,562	166,918	233,012	288,442	323,192	360,259	514,489	609,058	494,947	533,351	402,903
<b>Growth YoY</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>9M2013</b>
<b>Truck segment</b>	<b>11%</b>	<b>26%</b>	<b>0%</b>	<b>15%</b>	<b>22%</b>	<b>7%</b>	<b>29%</b>	<b>30%</b>	<b>-8%</b>	<b>-7%</b>	<b>7%</b>
- heavy-duty truck (GVW>14T)	5%	45%	-37%	30%	59%	12%	17%	60%	-13%	-28%	15%
Standard truck			N/A	-17%	64%	20%	23%	85%	10%	-25%	5%
Semi-tractor trailer			N/A	69%	91%	9%	9%	66%	-27%	-26%	29%
Chassis (specialty truck)			N/A	38%	38%	11%	22%	44%	-15%	-32%	14%
- midsize truck (GVW 6T<=14T)	-17%	28%	11%	5%	15%	-9%	19%	8%	7%	-1%	11%
- light truck (GVW 1.8T<=6T)	28%	20%	7%	11%	16%	7%	32%	26%	-4%	-2%	5%
- mini truck (GVW<=1.8T)	-4%	19%	40%	24%	12%	11%	43%	18%	-19%	8%	2%

Note: GVW = gross vehicle weight. Source: CCAM; Citi Research

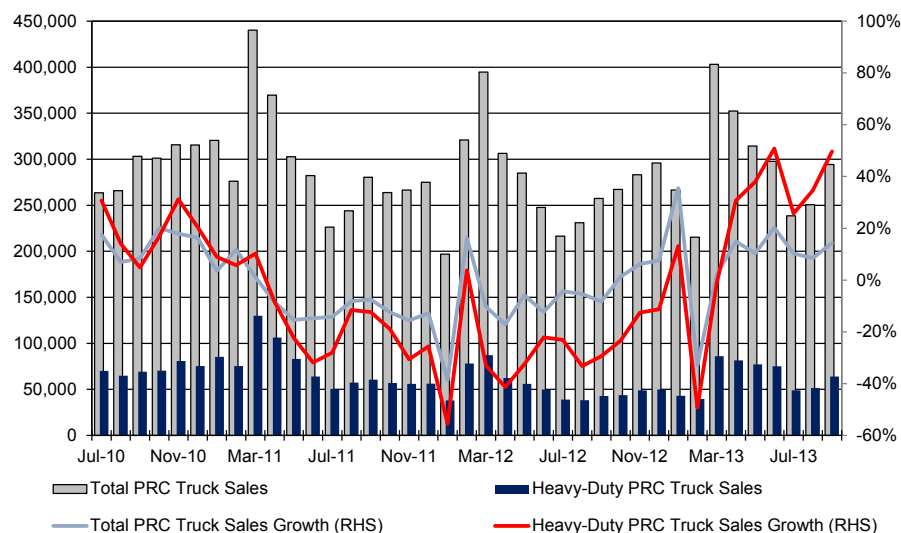
During 3Q13, heavy-duty truck sales improved 37% YoY vs 11% YoY growth for total PRC truck sales (although the heavy-duty sales declined 29% YoY in 2Q12 vs the 6% decline a year ago for total truck sales).

Figure 81. PRC China Truck Sales Growth

	1H12	1H13	3Q12	3Q13
Truck	1,751,465	1,849,531	704,836	<b>783,465</b>
YoY Growth	-12%	6%	-6%	<b>11%</b>
Heavy-Duty	371,458	402,670	119,958	<b>164,477</b>
YoY Growth	-32%	8%	-29%	<b>37%</b>

Source: CCAM; Citi Research

Figure 82. Monthly Mainland China Truck Sales Growth (July 2010-September 2013)



Source: CCAM; Citi Research

### China United International Rail Containers Co., Ltd (CUIRC)

CUIRC is a Sino-foreign JV with the Ministry of Rail, which develops, operates and manages 18 strategically located pivotal rail container terminals in Mainland China. In 2010, HK-based Infrastructure and Services conglomerate, increased its interest in China United International Rail Containers Co., Limited (CUIRC) to 30%.

Figure 83. NWS China Container Rail Investment

<b>NWS (659.HK) Interest</b>	30%		
<b>Investment Scope</b>	18 pivotal rail container terminals		
<b>Locations</b>	Kunming, Chongqing, Chengdu, Zhengzhou, Dalian, Qingdao, Wuhan, Xian, Shanghai, Tianjin, Urumqi, Harbin, Ningbo, Shenzhen, Lanzhou, Beijing, Shenyang, Guangzhou		
<b>Operation Dates</b>	Kunming: January 2008 Chongqing: December 2009 Chengdu: March 2010 Zhengzhou: April 2010 Dalian: July 2010 Qingdao: August 2010 Wuhan: August 2010 Xian: December 2010		
<b>Expiry Date</b>	2057		
<b>Throughput Achieved (in TEUs)</b>	2013 1.5m (+2%)	2012 1.5m (+20%)	2011 1.3m

Source: NWS Holdings Company report; Citi Research

Figure 84. China United International Rail Containers Co., Ltd (CUIRC)



Source: NWS Holdings Company report; Citi Research

For the quarter ending June, CUIRC handled 425,000 TEUs, up 5% YoY, which accelerated from the 2% YoY growth of for the trailing twelve months. That said, revenue increased 8% YoY (reflecting the tariff hike in February 2013), leading the company to report attributable operating profit for the first time during NWS' fiscal 2013 (ending June).

Unfortunately, container growth by rail has been impaired by the lack of available rail capacity, as other non-truck transferable types of freight/military and passenger (non-high speed rail) tend to get priority at this stage. However, once high-speed rail networks are completed, older rail capacity may be used exclusively for freight (and likely containers to a greater degree).

While the company principally focuses on Domestic China rail service the company does operate international block train services running from Chongqing and Chengdu to Europe (and a trial run on a new route between Zhengzhou and Germany commenced in July 2013).

## Large ASEAN Population and Connectivity Provide Domestic Consumption and Export Growth Opportunities

As shown in below, Southeast Asia has a population of ~623m, with 249m in Indonesia, followed by 104m in the Philippines and 92m in Vietnam.

Figure 85. ASEAN Population

Country	2012E Population (m)	% of Total
Indonesia	248.6	40%
Philippines	103.8	17%
Vietnam	91.5	15%
Thailand	67.1	11%
Burma	54.6	9%
Malaysia	29.2	5%
Cambodia	15.0	2%
Laos	6.6	1%
Singapore	5.4	1%
East Timor	1.2	0%
Brunei	0.4	0%
Total	623.0	100%

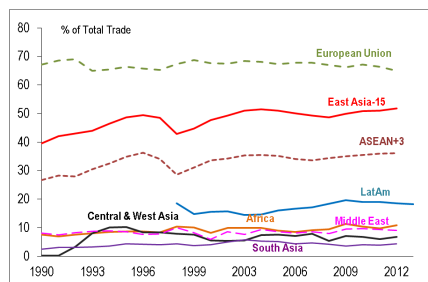
Source: CIA World Factbook

Figure 86. ASEAN 2012 GDP and GDP Per Capita

Country	GDP (in Bn PPP)	GDP Per Capita US\$ (PPP)
Indonesia	1,208.5	4,869
Thailand	643.3	9,587
Malaysia	472.9	16,195
Philippines	411.9	3,968
Singapore	327.6	60,667
Vietnam	320.9	3,507
Burma	82.7	1,515
Cambodia	35.5	2,367
Brunei	21.1	51,463
Laos	19.1	2,894
East Timor	3.4	2,883
Total & Weighted Average	3,342.5	5,459

Note: PPP is Purchasing Power Parity. Source: IMF 2012 estimate

Figure 87. East Asia's Intra-regional trade flows are high (& rising)



Source: ADB Regional Integration Center, Citi Research

KLN's business in ASEAN began over a decade ago with the commencement of both integrated logistics and international freight forwarding operations in Thailand. In 2004, the company acquired an initial equity interest of approximately 55% in Siam Seaport Terminal & Warehouses Co. (which has since been raised to ~80%).

The company has continued to expand into other ASEAN countries by establishing international freight offices in Singapore, Malaysia, Indonesia, Cambodia, the Philippines, Vietnam and Myanmar. In 2007, KLN launched KART, a cross-border road transportation network that provides long-haul trucking in Thailand to connect selected countries across ASEAN (and expanded operations to connect to China in 2011). In January 2013, KLN set up a new regional logistics hub in Singapore (with a total GFA of approximately 371,000 sqft).

### Ease of conducting Cross-Border Trade

Below we have provided a ranking of those areas in which it is easy or relatively more difficult to conduct business and cross-border trade, with 1 being the easiest. In general we believe that shippers and manufacturers are more likely to utilize a freight forwarder and/or customs broker in areas in which it is more difficult to conduct business. These problematic areas also encompass the less developed, less mature areas but also happen to be those areas with the greatest trade growth or greatest trade growth potential, including the BRIC countries (Brazil, Russia, India and China). We have also provided some comparative trade data.

Figure 88. Ease of Conducting Business and Cross Border Trade (1 being the easiest)

	Ease of Trading Across Borders Rank	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
China	68	8	21	580	5	24	615
Hong Kong SAR, China	2	4	5	575	4	5	565
Thailand	20	5	14	585	5	13	750
Singapore	1	4	5	456	4	4	439
Taiwan, China	23	6	10	655	6	10	720
Vietnam	74	6	21	610	8	21	600
United States	22	4	6	1,090	5	5	1,315
Brazil	123	7	13	2,215	8	17	2,275
Mexico	61	5	12	1,450	4	12	1,780
United Kingdom	14	4	7	950	4	6	1,045
East Asia & Pacific	..	6	21	923	7	22	958
Eastern Europe & C. Asia	..	7	26	2,134	8	29	2,349
Latin America & Caribbean	..	6	17	1,268	7	19	1,612
Middle East & North Africa	..	6	19	1,083	8	22	1,275
OECD high income	..	4	10	1,028	5	10	1,080
South Asia	..	8	32	1,603	9	33	1,736
Sub-Saharan Africa	..	8	31	1,990	9	37	2,567

The most recent round of data collection for the project was completed in June 2012.

Source: World Bank Doing Business Database; Citi Research. Source: Citi Research



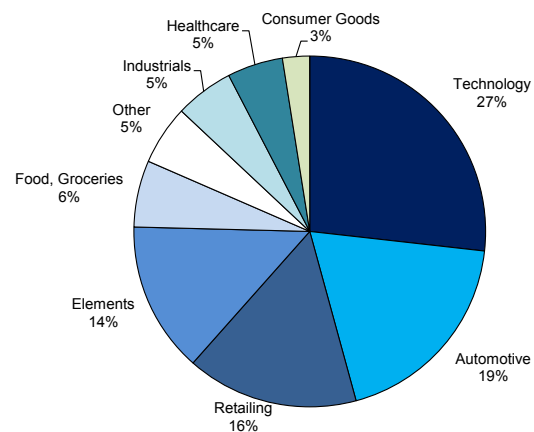
KLN maintains a fairly diversified customer base, with its five largest customers representing less than 8% of total revenue in 1H13 (and 9.2% in 2012). Moreover, approximately 52% of KLN's key logistics operations customers in Hong Kong have been with the company for over five years.

As highlighted above, KLN currently serves more than 40 of the top 100 Brands, as ranked by Interbrand, a well-recognized global brand consultancy.

**Figure 90. 78 of the Top 100 Brands in which KLN could target for IL or IFF services In Our View**



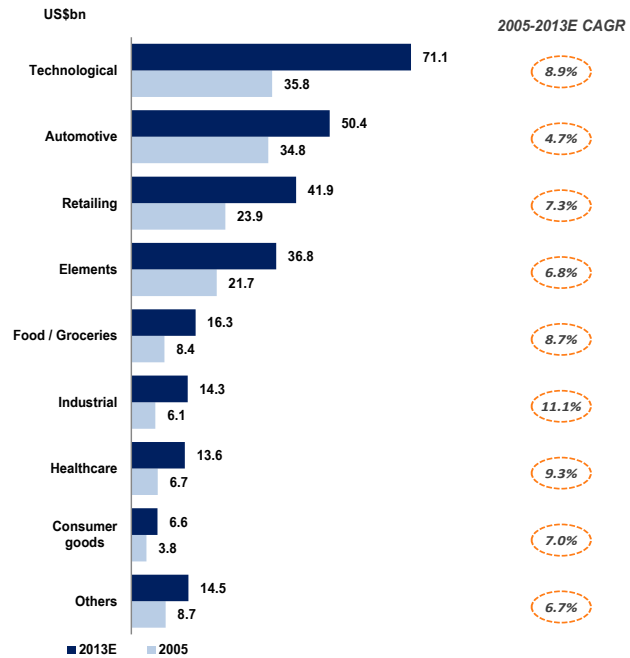
**Figure 91. 3PL Gross Revenue by Industry, 2013E – Fortune 500 Global (US\$bn)**



citivelocity.com

Since 2005, the fastest growing customer verticals have been Industrial (+11.1% CAGR), Healthcare (+9.3%), Tech (+8.9%) and Food/Groceries (+8.7%).

Figure 92. 3PL Market Growth by Industry - Fortune 500 Global



Source: Armstrong Report; Company report; Citi Research

## Segment Analysis – Int'l Freight Forwarding

The company's International Freight Forwarding (IFF) business includes Air and Ocean forwarding/related services as well as cross border road distribution between China and Southeast Asia.

Figure 93. KLN International Freight Forwarding Segment Financials (HK\$m) (2010-2015E)

Estimated Rev Split by Air and Ocean	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Ocean Freight Forwarding Revenue</b>	<b>3,607</b>	<b>5,290</b>	<b>3,163</b>	<b>3,602</b>	<b>6,765</b>	<b>3,080</b>	<b>3,635</b>	<b>6,715</b>	<b>6,931</b>	<b>7,301</b>
Growth YoY %		46.7%			27.9%	-2.6%	0.9%	-0.7%	3.2%	5.3%
Estimated % of IFF Goss Revenue	59.4%	57.9%	59.7%	59.1%	59.4%	57.8%	58.7%	58.3%	57.3%	56.4%
Estimated % of Total Gross Revenue	33.1%	33.0%	35.3%	34.8%	35.1%	32.4%	33.0%	32.7%	31.4%	30.7%
<b>Airfreight Forwarding Revenue</b>	<b>2,463</b>	<b>3,854</b>	<b>2,139</b>	<b>2,493</b>	<b>4,632</b>	<b>2,248</b>	<b>2,556</b>	<b>4,804</b>	<b>5,175</b>	<b>5,650</b>
Growth YoY %		56.5%			20.2%	5.1%	2.5%	3.7%	7.7%	9.2%
Estimated % of IFF Goss Revenue	40.6%	42.1%	40.3%	40.9%	40.6%	42.2%	41.3%	41.7%	42.7%	43.6%
Estimated % of Total Gross Revenue	22.6%	24.0%	23.9%	24.1%	24.0%	23.6%	23.2%	23.4%	23.5%	23.8%
Estimated Revenue Split by Country/Region	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>China</b>	<b>3,277.4</b>	<b>5,002.0</b>	<b>2,773.1</b>	<b>3,364.1</b>	<b>6,137.2</b>	<b>2,861.6</b>	<b>3,554.5</b>	<b>6,416.0</b>	<b>6,734.3</b>	<b>7,234.7</b>
Growth YoY %		52.6%			22.7%	3.2%	5.7%	4.5%	5.0%	7.4%
Estimated % of IFF Revenue	54.0%	54.7%	52.3%	55.2%	53.9%	53.7%	57.4%	55.7%	55.6%	55.9%
<b>Hong Kong</b>	<b>412.7</b>	<b>438.9</b>	<b>233.3</b>	<b>245.4</b>	<b>478.7</b>	<b>261.1</b>	<b>267.1</b>	<b>528.2</b>	<b>557.3</b>	<b>586.0</b>
Growth YoY %		6.4%			9.1%	11.9%	8.9%	10.4%	5.5%	5.1%
Estimated % of IFF Revenue	6.8%	4.8%	4.4%	4.0%	4.2%	4.9%	4.3%	4.6%	4.6%	4.5%
<b>ASEAN</b>	<b>509.8</b>	<b>1,307.7</b>	<b>593.9</b>	<b>545.8</b>	<b>1,139.7</b>	<b>628.8</b>	<b>527.9</b>	<b>1,156.7</b>	<b>1,156.8</b>	<b>1,189.9</b>
Growth YoY %		156.5%			-12.8%	5.9%	-3.3%	1.5%	0.0%	2.9%
Estimated % of IFF Revenue	8.4%	14.3%	11.2%	9.0%	10.0%	11.8%	8.5%	10.0%	9.6%	9.2%
<b>Europe</b>	<b>1,623.2</b>	<b>1,917.4</b>	<b>1,478.4</b>	<b>1,605.6</b>	<b>3,084.0</b>	<b>1,308.5</b>	<b>1,572.9</b>	<b>2,881.3</b>	<b>3,080.3</b>	<b>3,309.0</b>
Growth YoY %		18.1%			60.8%	-11.5%	-2.0%	-6.6%	6.9%	7.4%
Reported % of IFF Revenue	26.7%	21.0%	27.9%	26.3%	27.1%	24.6%	25.4%	25.0%	25.4%	25.6%
Others	246.2	478.5	223.7	333.6	557.3	268.9	268.0	536.9	576.6	631.6
Estimated % of IFF Revenue	4.1%	5.2%	4.2%	5.5%	4.9%	5.0%	4.3%	4.7%	4.8%	4.9%
<b>Gross Int'l Freight Forwarding Revenue</b>	<b>6,069.3</b>	<b>9,144.5</b>	<b>5,302.3</b>	<b>6,094.5</b>	<b>11,396.8</b>	<b>5,328.8</b>	<b>6,190.3</b>	<b>11,519.1</b>	<b>12,105.3</b>	<b>12,951.1</b>
Growth YoY %		50.7%			24.6%	0.5%	1.6%	1.1%	5.1%	7.0%
<b>IFF Freight and Trans Costs (Est 65%)</b>	<b>(4,883.1)</b>	<b>(7,212.4)</b>	<b>(4,204.9)</b>	<b>(4,927.4)</b>	<b>(9,132.4)</b>	<b>(4,278.5)</b>	<b>(5,052.3)</b>	<b>(9,330.8)</b>	<b>(9,847.9)</b>	<b>(10,527.1)</b>
Growth YoY %		47.7%			26.6%	1.7%	2.5%	2.2%	5.5%	6.9%
<b>Net Revenue (Excl IFF Trans Costs)</b>	<b>1,186.3</b>	<b>1,932.0</b>	<b>1,097.3</b>	<b>1,167.1</b>	<b>2,264.4</b>	<b>1,050.3</b>	<b>1,138.0</b>	<b>2,188.3</b>	<b>2,257.4</b>	<b>2,424.0</b>
Growth YoY %		62.9%			17.2%	-4.3%	-2.5%	-3.4%	3.2%	7.4%

Note: we define Net Revenue Yield as Gross Forwarding segment revenue, less associated purchased transportation cost. As KLN doesn't not split out its Purchased transportation cost between IL and IFF, we estimate the split and the split between Air and Ocean forwarding activities based upon global trends/comps.

Source: Company report; Citi Research estimates

Figure 94. KLN – Estimated International Air and Ocean Freight Forwarding Net Revenue and Net Revenue Yields (HK\$m)

	2010	2011	1H12	2H12	2012	1H13	2H13E	2013E	2014E	2015E
<b>Ocean Freight Forwarding Net Revenue</b>	<b>622.8</b>	<b>1,024.0</b>	<b>614.5</b>	<b>597.0</b>	<b>1,211.5</b>	<b>560.9</b>	<b>570.7</b>	<b>1,131.5</b>	<b>1,132.5</b>	<b>1,197.4</b>
Growth YoY %		64.4%			18.3%	-8.7%	-4.4%	-6.6%	0.1%	5.7%
<b>Airfreight Forwarding Net Revenue</b>	<b>563.5</b>	<b>908.1</b>	<b>482.8</b>	<b>570.1</b>	<b>1,053.0</b>	<b>489.5</b>	<b>567.3</b>	<b>1,056.8</b>	<b>1,125.0</b>	<b>1,226.6</b>
Growth YoY %		61.1%			16.0%	1.4%	-0.5%	0.4%	6.4%	9.0%
<b>International Freight Forwarding</b>	<b>1,186.3</b>	<b>1,932.0</b>	<b>1,097.3</b>	<b>1,167.1</b>	<b>2,264.4</b>	<b>1,050.3</b>	<b>1,138.0</b>	<b>2,188.3</b>	<b>2,257.4</b>	<b>2,424.0</b>
Growth YoY %		62.9%			17.2%	-4.3%	-2.5%	-3.4%	3.2%	7.4%
<b>Ocean Net Revenue Yield</b>	<b>17.3%</b>	<b>19.4%</b>	<b>19.4%</b>	<b>16.6%</b>	<b>17.9%</b>	<b>18.2%</b>	<b>15.7%</b>	<b>16.9%</b>	<b>16.3%</b>	<b>16.4%</b>
Change YoY %		209bp			-145bp	-122bp	-87bp	-106bp	-51bp	6bp
<b>Airfreight Net Revenue Yield</b>	<b>22.9%</b>	<b>23.6%</b>	<b>22.6%</b>	<b>22.9%</b>	<b>22.7%</b>	<b>21.8%</b>	<b>22.2%</b>	<b>22.0%</b>	<b>21.7%</b>	<b>21.7%</b>
Change YoY %		68bp			-83bp	-80bp	-67bp	-73bp	-26bp	-3bp
<b>Forwarding Net Revenue Yield</b>	<b>19.5%</b>	<b>21.1%</b>	<b>20.7%</b>	<b>19.2%</b>	<b>19.9%</b>	<b>19.7%</b>	<b>18.4%</b>	<b>19.0%</b>	<b>18.6%</b>	<b>18.7%</b>
Change YoY %		158bp			-126bp	-98bp	-77bp	-87bp	-35bp	7bp

Note: we define Net Revenue Yield as Gross Forwarding segment revenue, less associated estimated purchased transportation cost (which KLN doesn't split out its Purchased transportation cost between IL and IFF).

Source: Company report; Citi Research estimates

## Freight Forwarding Yields under Pressure Now Around the Globe

As highlighted below, by procuring capacity when freight rates and demand are weak, forwarders can enhance the margin or gross yield (gross profit), often offsetting a portion of the volume-related weakness, making the model relatively defensive through cycles (but with an ability to take advantage of global trade growth). However, with export/trade growth trends decoupling from their historical relationship with global growth since the GFC, the modest recovery in Global GDP has led to only modest volume improvement. Moreover, with higher fuel costs and elimination of slack capacity providing a floor for freight rates, gross forwarding yields weakened notably last year (by roughly 50bp YoY within the Air and Ocean forwarding segment). Below, we provide a look at the comparative Air and Ocean Forwarding yields by service provider.

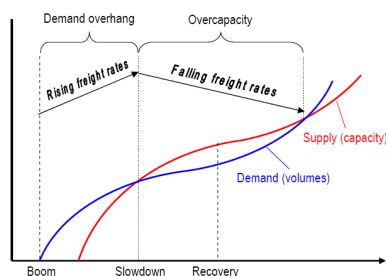
**Figure 95. Non-Asset and Asset Light Global Forwarding and Contract Logistics Peers' Gross Forwarding and Logistics Yields (Revenue, Less Purchased Transportation Expense)**

Kerry Logistics (Estimated)	C08	C09	C10	C11	C12
Total Int'l Freight Forwarding Yield			19.5%	21.1%	19.9%
Change YoY (bps)				158bp	(126bp)
UTIW <sup>(1,2)</sup>	FY09	FY10	FY11	FY12	FY13
Total Forwarding Yield <sup>(2)</sup>	22.7%	25.3%	22.3%	23.2%	22.9%
Change YoY (bps)	108bp	261bp	(300bp)	85bp	(25bp)
Expeditors Int'l	C08	C09	C10	C11	C12
Total Forwarding Yield	28.5%	33.8%	28.4%	30.8%	30.5%
Change YoY (bps)	70bp	533bp	(542bp)	247bp	(34bp)
DSV	C08	C09	C10	C11	C12
Total A&O Forwarding Yield	22.1%	25.1%	19.6%	18.9%	19.2%
Change YoY (bps)	157bp	299bp	(550bp)	(65bp)	28bp
Total Road Yield	20.2%	21.3%	19.5%	21.6%	21.5%
Change YoY (bps)	(93bp)	112bp	(183bp)	216bp	(11bp)
Total Forwarding Yield (incl Road)	20.9%	22.9%	19.5%	20.1%	20.3%
Change YoY (bps)	1bp	198bp	(342bp)	63bp	13bp
Kuehne+Nagel	C08	C09	C10	C11	C12
Total A&O Forwarding Yield (3)	15.1%	17.6%	15.1%	16.6%	16.1%
Change YoY (bps)	213bp	248bp	(248bp)	146bp	(50bp)
Total Rail & Road Yield	20.7%	32.6%	29.7%	28.9%	28.1%
Change YoY (bps)	443bp	1190bp	(286bp)	(83bp)	(77bp)
Total Forwarding Yield (incl Rail & Road)	16.1%	20.5%	17.7%	19.0%	18.4%
Change YoY (bps)	251bp	443bp	(283bp)	128bp	(55bp)
Panalpina	C08	C09	C10	C11	C12
Total A&O Forwarding Yield (3)	17.0%	20.1%	17.9%	20.2%	19.0%
Change YoY (bps)	(89bp)	306bp	(225bp)	230bp	(115bp)

Note As KLN is more concentrated on the IL segment; purchased transportation costs are relatively lower as a total proportion of Gross Revenue, inflating margins versus some other more forwarding centric global peers. However, we are only displaying Forwarding yields (based upon our estimated split of purchased transportation expense for KLN), so the comparison should be less skewed by segment/business mix. (1) UTIW reports on a January 31st fiscal year, which is assumed to approximate December 31st of the prior calendar year. (2) UTIW's total gross yields also includes "Other Forwarding". (3) KNIN Gross Yield is calculated using Gross Revenue including Customs Duty and Taxes, while Panalpina's Gross Yield is shown using Gross Revenue excluding Customs Duty and Taxes.

Source: Company reports; Citi Research

Figure 96. Supply Demand and Impact on Freight Rates



Source: Panalpina Company Presentation; Citi Research

**Routes operated:** Intra-Asia routes, such as between China and Hong Kong as well as routes between Greater China and the United Kingdom

As the largest Airfreight operator in the largest Airfreight market (Hong Kong), moves by Cathay Pacific are particularly telling.

## Int'l Freight Forwarding (IFF) – Airfreight

KLN's Airfreight service offering includes air transportation of high value goods, perishable goods and time-sensitive shipments well as air charter services for urgent shipments or planned project cargo. Generally, KLN will contract out or commit to specified capacity aboard aircraft (for 6-12 months, based upon need and destination). KLN and most forwarders report the entire revenue associated with the move, of which they net off the third-part transportation-related expense, leaving the KLN with the remaining 15-24% margin (known within the industry as the Gross Airfreight Revenue Yield).

Figure 97. Airfreight Forwarding Volume Comparisons

Airfreight Volume Growth (Tonnage)	C10	C11	C12
Kerry Logistics (Estimated)		6%	-5%
Uti Worldwide	26%	-3%	-10%
Expeditors Int'l	35%	0%	-6%
DSV	29%	5%	-1%
Kuehne+Nagel	25%	13%	2%
Panalpina	22%	-5%	-6%
<b>Market (1)</b>	<b>19%</b>	<b>-1%</b>	<b>-2%</b>

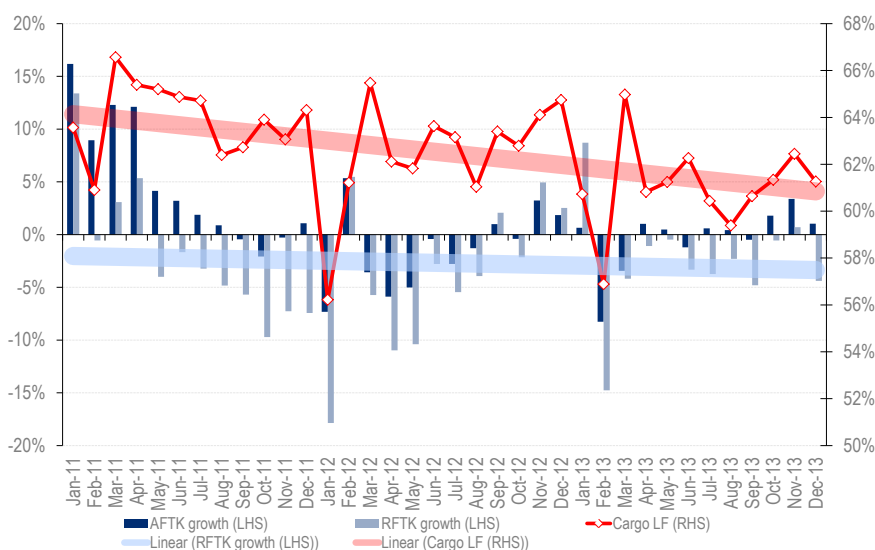
Note: (1) According to Panalpina/K+N annual presentations.

Source: Company reports; Citi Research estimates

## Air Cargo/Freighter Demand and Capacity

As shown below, in 4Q13 Air Cargo Traffic (in RFTK) declined 1.4% YoY on average for Cathay Pacific, Air China and Singapore Airlines (while capacity increased 2.1% YoY), extending the weak trend observed over the past two and a half years. In 2014, we expect demand for Airfreight services to pick up due to the easy comps and directional improvement in US confidence as well as stabilization in Europe, but only modestly.

Figure 98. Cathay Pacific, Air China, Singapore Airlines Air Cargo (Jan 2011-Dec 2013)



For detail regarding CX' new Air Cargo Facility in HK, [see our recent note](#).

Source: Company report; Citi Research.

## Airfreight Forwarding Revenue & Gross Yield Trends

Figure 99. Gross Airfreight Forwarding Yields (Revenue, Less Purchased Transportation)

Kerry Logistics	C08	C09	C10	C11	C12
Airfreight Fwd Gross Yield			22.9%	23.6%	22.7%
Change YoY (bps)				68bp	(83bp)
UTIW (1)	FY09	FY10	FY11	FY12	FY13
Airfreight Fwd Gross Yield	21.4%	23.9%	20.8%	21.6%	21.9%
Change YoY (bps)	83bp	252bp	(306bp)	73bp	31bp
Expeditors Int'l	C08	C09	C10	C11	C12
Airfreight Fwd Gross Yield	22.8%	26.7%	22.7%	24.2%	23.7%
Change YoY (bps)	84bp	395bp	(404bp)	152bp	(47bp)
Kuehne+Nagel (2)	C08	C09	C10	C11	C12
Airfreight Fwd Gross Yield	18.8%	22.2%	18.5%	19.8%	20.6%
Change YoY (bps)	270bp	341bp	(370bp)	125bp	82bp
Panalpina (2)	C08	C09	C10	C11	C12
Airfreight Fwd Gross Yield	17.2%	20.7%	19.0%	21.0%	20.2%
Change YoY (bps)	(204bp)	354bp	(167bp)	193bp	(78bp)

(1) UTIW reports on a January 31st fiscal year, which is assumed to approximate December 31st of the prior calendar year. (2) KNIN Gross Yield is calculated using Gross Revenue including Customs Duty and Taxes, While Panalpina's Gross Yield is shown using Gross Revenue excluding Customs Duty and Taxes.

Source: Company reports; Citi Research estimates

In order to give a better sense of how the airfreight forwarding business has performed through economic/demand cycles, we've provided a look at EXPD's Ocean forwarding business through the past ten-plus years.

Figure 100. Expeditors International of Washington (EXPD) Airfreight Gross/Net International Freight Forwarding Revenue Trends (US\$m)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Gross Airfreight Revenue</b>	<b>1,053.5</b>	<b>972.0</b>	<b>1,206.1</b>	<b>1,213.2</b>	<b>1,553.9</b>	<b>1,827.0</b>	<b>2,229.5</b>	<b>2,407.6</b>	<b>2,541.4</b>	<b>1,831.3</b>	<b>2,821.8</b>	<b>2,893.5</b>	<b>2,600.9</b>
Growth YoY %	11.1%	-7.7%	24.1%	0.6%	28.1%	17.6%	22.0%	8.0%	5.6%	-27.9%	54.1%	2.5%	-10.1%
<b>Net Airfreight Revenue</b>	<b>225.4</b>	<b>254.5</b>	<b>285.0</b>	<b>279.0</b>	<b>348.9</b>	<b>391.8</b>	<b>470.6</b>	<b>528.1</b>	<b>578.8</b>	<b>489.5</b>	<b>640.2</b>	<b>700.4</b>	<b>617.2</b>
Growth YoY %	22.7%	12.9%	12.0%	-2.1%	25.1%	12.3%	20.1%	12.2%	9.6%	-15.4%	30.8%	9.4%	-11.9%
<b>AF Gross Yield (Net/Gross Revenue)</b>	<b>21.4%</b>	<b>26.2%</b>	<b>23.6%</b>	<b>23.0%</b>	<b>22.5%</b>	<b>21.4%</b>	<b>21.1%</b>	<b>21.9%</b>	<b>22.8%</b>	<b>26.7%</b>	<b>22.7%</b>	<b>24.2%</b>	<b>23.7%</b>

Source: Expeditors International of Washington Company report; Citi Research

## Trimming Global Freight Capacity

In response to the weakened demand environment, the retirement of older, less efficient capacity has accelerated (as highlighted below). In part reflecting the 1Q14 operating loss from the Singapore Airlines cargo segment during the period, SIA has reduced its freighter fleet to just nine aircraft. Management recorded a S\$293m impairment on its four parked freighters, which have now been put up for sale (during a meeting management mentioned that the aircraft could be sold for scrap or scrap-like valuations in the current environment). The charge in the period also reflected the reassessed valuation of the remaining 747-400F aircraft in the current climate.

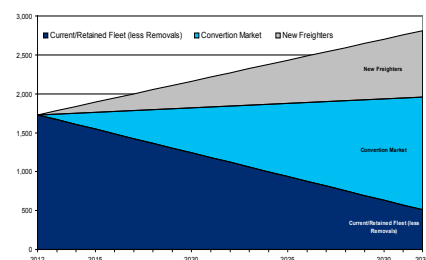
According to Bloomberg, Vintage 1992 747-400s, which were valued at over US\$40m a piece in 2008, are now appraised at just under US\$17m, which may be further burdened by expensive maintenance checks to remain operational.

We expect a notable amount of passenger and combo passenger/air cargo capacity to exit the market as a result of passenger airline market consolidation, however, we do not anticipate that capacity will be converted into additional freighters. A majority of the aircraft that may be considered for rationalization would likely either have little residual economic value (in order to merit the significant conversion costs) or are limited in either range or airfreight tonnage capacity or are so fuel inefficient in the current fuel price environment that the continued operation of these units would result in significant losses. Further, the backlog in the conversion market would push back the competition time.

### Cathay Air Cargo Facility Ramping; Environment Remains Challenging

On February 21st, CX commenced operations at its new HK\$5.9bn (US\$750m) Cargo Handling Terminal, adding 2.6m tonnes in new air cargo handling capacity at Hong Kong International Airport (HKIA), representing a 50% increase to existing handling capacity. That said, as the world's largest air cargo center, we believe the ongoing investment made by Cathay to modernize its cargo handling facilities will secure its position within the market as the preeminent carrier longer term (aided further by its air cargo JV in the mainland with Air China).

Figure 101. Global Freighter Fleet Mix



Source: Boeing; Citi Research

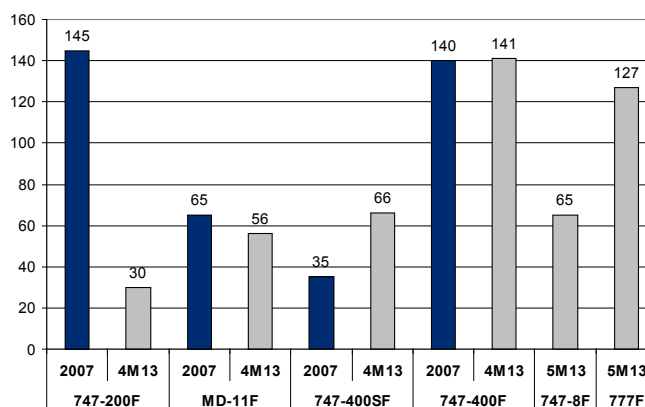
**Belly capacity on new passenger deliveries will not displace the need for heavy freighter market (freighters continue to carry ~60% of total air cargo, which has been fairly constant; a 10% shift of trans-pacific freighter main deck to passenger belly would require 50 additional aircraft, with insufficient demand for that level of passenger capacity). As a result, the outlook for production rates/capacity additions appears relatively aligned with the longer-term global growth of 4% envisioned by IATA.**

Figure 102. Estimated Trends in Global Freighter Fleet Mix (2012-2032)

Size	End 2012	Removed from Service	Conversion	New Deliveries 2013-2032	End 2032
Large	540	310	130	640	1,000
Medium Widebody	590	400	380	210	780
Standard Widebody	600	510	940	0	1,030
	1,730	1,220	1,450	850	2,810

Source: Boeing Current Market Outlook 2013 to 2032; Citi Research

Figure 103. Large Freighter Supply Trends



Excludes parked aircraft, aircraft in express operations, combis and tankers. 747-200Fs includes 100s and 300s as well. Boeing May 2013 total of 127 includes 38 deliveries to express carriers (23 with FDX, 8 with AeroLogic/DHL, 4 for DHL Express and 3 with TNT).

Source Atlas Air Worldwide; Ascend; Boeing; Company reports; Citi Research



Routes operated: To many ports worldwide; major lanes include those among ASEAN countries

## Int'l Freight Forwarding (IFF) – Ocean Freight

KLN's Ocean Freight Forwarding service includes the transportation of full container load (FCL) and less than container load (LCL) cargo by sea (procuring capacity aboard global container shipping lines). The company also offers project logistics services for outsized cargoes and heavy lifts.

Figure 104. Ocean Freight Forwarding Volume Comparisons

Ocean Freight Volume Growth (TEUs)	C10	C11	C12
Kerry Logistics (Estimated)		72%	-2%
Uti Worldwide	13%	2%	2%
Expeditors Int'l	20%	2%	-2%
DSV	19%	3%	0%
Kuehne+Nagel	16%	11%	6%
Panalpina	13%	6%	6%
Market (1)	11%	6%	3%

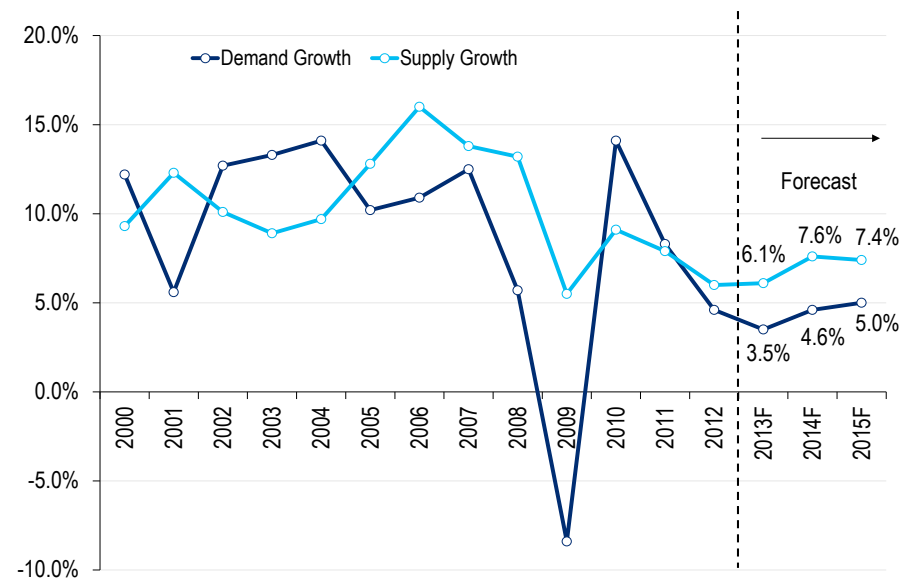
Note: (1) According to Panalpina/K+N annual presentations.

Source: Company reports; Citi Research estimates

## Global Container Capacity and Throughput Growth

Container capacity is currently anticipated to outpace demand by an estimated 300bp in 2014, but Alphaliner expects the Supply/Demand imbalance to narrow by year-end 2015.

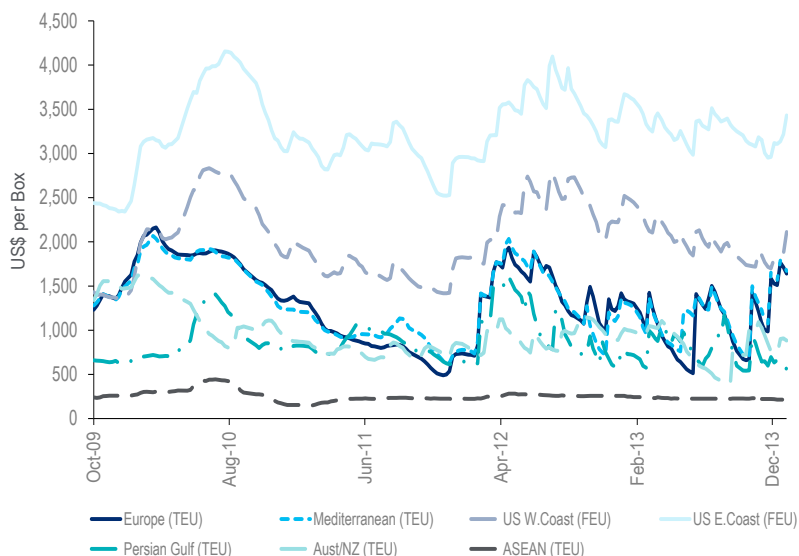
Figure 105. Global Container Capacity and Throughput Growth



Source: Alphaliner, December 2013; NOL; Citi Research

Although the liners successfully pushed up the freight rate at the beginning of last summer the rate plunged again after just two months. However, since mid-October, the Asia-Europe rate has improved from US\$670/TEU to over US\$1,640/TEU in mid-January, which is certainly encouraging. That said, with the obvious economic scale and operating efficiency of mega vessels, we continue to see orders for large vessels (impeding the progress towards a supply/demand equilibrium environment and thus pricing power).

Figure 106. Shanghai Containerized Freight Index (SCFI) Trends (by Destination)



Note: Freight rates includes ocean freight and surcharges.

Source: Shanghai Shipping Exchange, Citi Research

As a result, we still expect rates to remain under pressure for the foreseeable future. As discussed below, Freight Forwarders have typically been able to offset lower Revenue/Gross Profit attributable to volume weakness through lower purchased transportation costs. However, post the outset of the GFC, the Freight Forwarders' ability to expand Net Revenue margins (after purchased transportation costs) has been impacted, leading to weak earnings contributions (and negative earnings revisions over the past few years).

## Ocean Freight Forwarding Revenue & Gross Yield Trends

Figure 107. Gross Ocean Freight Forwarding Yields (Revenue, Less Purchased Transportation)

Kerry Logistics	C08	C09	C10	C11	C12
Ocean Freight Fwd Gross Yield			17.3%	19.4%	17.9%
Change YoY (bps)				209bp	(145bp)
<b>UTIW (1)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Ocean Freight Fwd Gross Yield	16.8%	19.5%	16.2%	17.1%	16.0%
Change YoY (bps)	93bp	273bp	(339bp)	91bp	(104bp)
<b>Expeditors Int'l</b>	<b>C08</b>	<b>C09</b>	<b>C10</b>	<b>C11</b>	<b>C12</b>
Ocean Freight Fwd Gross Yield	19.8%	25.0%	19.7%	23.2%	21.9%
Change YoY (bps)	78bp	516bp	(527bp)	346bp	(127bp)
<b>Kuehne+Nagel (2)</b>	<b>C08</b>	<b>C09</b>	<b>C10</b>	<b>C11</b>	<b>C12</b>
Ocean Freight Fwd Gross Yield	13.7%	15.9%	13.6%	15.1%	14.1%
Change YoY (bps)	192bp	215bp	(227bp)	145bp	(98bp)
<b>Panalpina (2)</b>	<b>C08</b>	<b>C09</b>	<b>C10</b>	<b>C11</b>	<b>C12</b>
Ocean Freight Fwd Gross Yield	16.9%	19.4%	16.3%	19.0%	17.6%
Change YoY (bps)	57bp	252bp	(306bp)	264bp	(140bp)

(1) UTIW reports on a January 31st fiscal year, which is assumed to approximate December 31st of the prior calendar year. (2) KNIN Gross Yield is calculated using Gross Revenue including Customs Duty and Taxes, While Panalpina's Gross Yield is shown using Gross Revenue excluding Customs Duty and Taxes.

Source: Company reports; Citi Research estimates

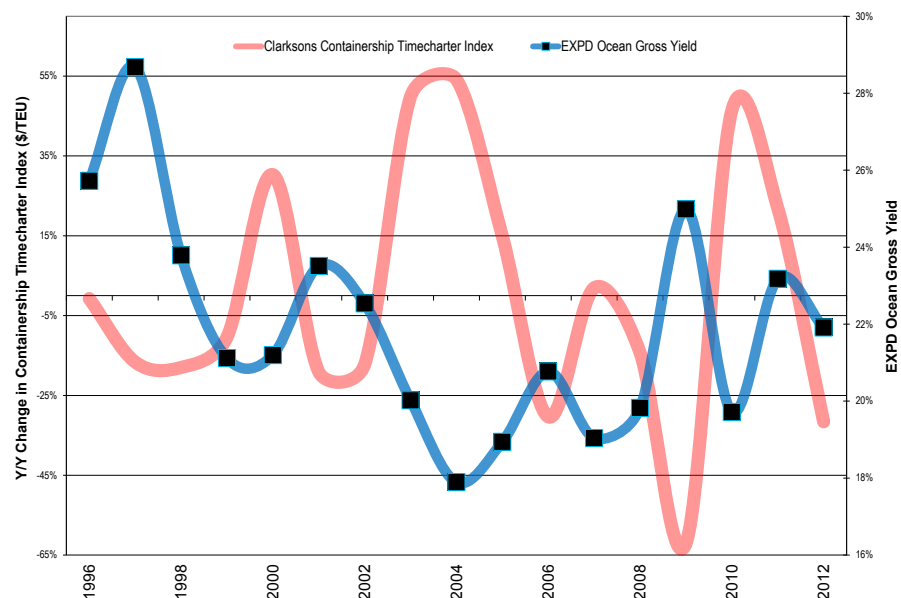
In order to give a better sense of how the ocean forwarding business has performed through economic/demand cycles, we've provided a look at EXPD's Ocean forwarding business through over the past ten-plus years. When compared against the Clarkson's Annual Timecharter Series, gross yields tend to improve in weaker pricing environments (which is typically a reflection of weaker demand), allowing forwarders to historically offset some of the volume weakness. In other words, in periods of weaker volume growth, Net Revenue outpaces Gross Revenue growth (see 2008 and 2009 below as an example), while the inverse is true when volume growth is firmer (raising freight rates and squeezing gross yields, see 2004 and 2007 as an example).

Figure 108. Expeditors International of Washington (EXPD) Ocean Freight Gross/Net International Forwarding Revenue Trends (US\$m)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Gross Ocean Freight Revenue</b>	<b>542.4</b>	<b>590.7</b>	<b>728.2</b>	<b>954.5</b>	<b>1,179.0</b>	<b>1,374.2</b>	<b>1,553.0</b>	<b>1,820.6</b>	<b>1,991.0</b>	<b>1,297.7</b>	<b>1,955.4</b>	<b>1,878.6</b>	<b>1,974.9</b>
Growth YoY %	31.4%	8.9%	23.3%	31.1%	23.5%	16.6%	13.0%	17.2%	9.4%	-34.8%	50.7%	-3.9%	5.1%
<b>Net Ocean Freight Revenue</b>	<b>115.0</b>	<b>138.9</b>	<b>164.1</b>	<b>191.1</b>	<b>211.0</b>	<b>260.3</b>	<b>322.6</b>	<b>346.6</b>	<b>394.6</b>	<b>324.2</b>	<b>385.5</b>	<b>435.4</b>	<b>432.7</b>
Growth YoY %	31.9%	20.8%	18.2%	16.5%	10.4%	23.4%	23.9%	7.5%	13.9%	-17.8%	18.9%	12.9%	-0.6%
<b>OF Gross Yield (Net/Gross Revenue)</b>	<b>21.2%</b>	<b>23.5%</b>	<b>22.5%</b>	<b>20.0%</b>	<b>17.9%</b>	<b>18.9%</b>	<b>20.8%</b>	<b>19.0%</b>	<b>19.8%</b>	<b>25.0%</b>	<b>19.7%</b>	<b>23.2%</b>	<b>21.9%</b>

Source: Expeditors International of Washington Company report; Citi Research

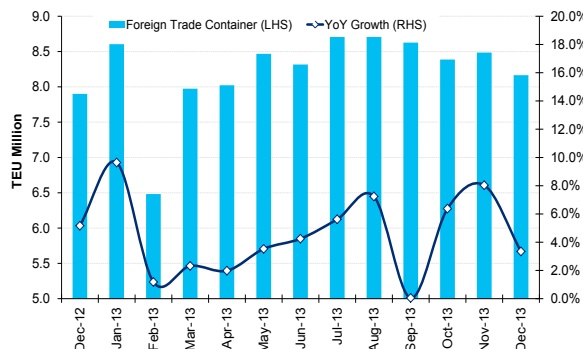
Figure 109. Expeditors International of Washington (EXPD) Gross Yield vs Clarkson's Annual Timecharter Series



Source: Clarksons; Citi Research

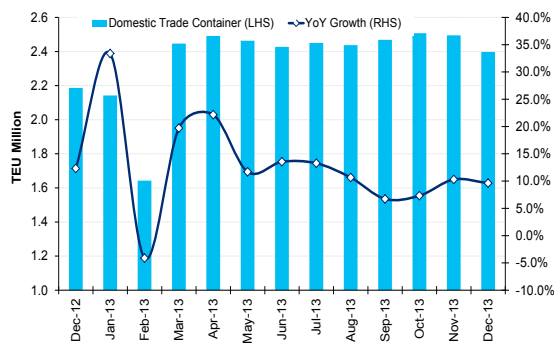
## China Container Throughput Trends

Figure 110. Foreign Trade Throughput and Growth



Source: Chineseport.cn, Citi Research

Figure 111. Domestic Trade Throughput and Growth



Source: Chineseport.cn, Citi Research

Figure 112. Overall and Foreign Trade Container Throughput in China's Top Eight Ports

Overall (TEU mn)	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Dalian	0.72	7.72	0.65	0.63	0.67	0.73	0.79	0.78	0.81	0.85	0.92	0.85	0.92	0.90	9.49
Tianjin	0.84	10.55	0.84	0.81	0.94	0.99	1.01	1.02	0.94	0.99	0.91	0.93	0.93	0.90	11.20
Qingdao	1.15	13.96	1.33	1.07	1.37	1.34	1.29	1.30	1.27	1.26	1.26	1.22	1.18	1.10	14.98
Shanghai	2.75	32.27	2.89	2.00	2.86	2.80	2.92	2.74	2.96	2.92	2.88	2.79	2.92	2.68	33.37
Ningbo	1.13	15.45	1.53	1.12	1.31	1.28	1.41	1.44	1.51	1.47	1.43	1.33	1.33	1.29	16.45
Xiamen	0.65	6.45	0.55	0.42	0.59	0.57	0.59	0.58	0.63	0.63	0.64	0.66	0.64	0.66	7.16
Guangzhou	1.02	11.53	0.96	0.66	0.99	1.08	1.03	1.00	1.06	1.06	1.10	1.15	1.16	1.11	12.35
Shenzhen	1.83	22.16	2.00	1.43	1.70	1.79	1.89	1.89	2.02	2.05	1.95	1.97	1.90	1.92	22.51
<b>Total</b>	<b>10.09</b>	<b>120.09</b>	<b>10.75</b>	<b>8.13</b>	<b>10.42</b>	<b>10.58</b>	<b>10.93</b>	<b>10.74</b>	<b>11.20</b>	<b>11.23</b>	<b>11.09</b>	<b>10.89</b>	<b>10.98</b>	<b>10.56</b>	<b>127.52</b>
By Region	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Bohai Rim	2.71	32.23	2.82	2.51	2.98	3.06	3.09	3.09	3.02	3.10	3.09	3.00	3.02	2.90	35.67
YRD	3.88	47.72	4.43	3.12	4.17	4.09	4.32	4.18	4.47	4.39	4.31	4.12	4.25	3.97	49.82
PRD	2.85	33.69	2.95	2.08	2.69	2.87	2.93	2.89	3.08	3.11	3.06	3.12	3.06	3.03	34.86
Overall (YoY %)	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Dalian	26.9%	26.3%	26.2%	16.8%	26.8%	26.1%	24.1%	16.8%	17.2%	20.1%	27.1%	21.1%	27.8%	24.9%	22.9%
Tianjin	-2.2%	4.7%	10.2%	2.6%	7.6%	11.2%	14.4%	14.2%	1.4%	5.9%	-6.3%	2.5%	6.5%	6.3%	6.3%
Qingdao	13.9%	12.4%	13.0%	3.9%	15.7%	13.9%	9.5%	4.3%	9.4%	8.1%	8.4%	4.6%	0.1%	-3.8%	7.3%
Shanghai	8.2%	6.0%	12.2%	-6.3%	3.6%	4.0%	3.6%	-0.2%	5.0%	12.9%	-0.1%	3.3%	4.1%	-2.4%	3.4%
Ningbo	9.6%	12.9%	16.3%	3.5%	4.7%	-1.8%	-0.9%	8.9%	9.2%	15.2%	-1.7%	2.6%	10.6%	14.0%	6.5%
Xiamen	20.0%	13.6%	21.4%	10.4%	18.0%	12.8%	14.8%	11.9%	12.5%	8.4%	8.5%	9.2%	6.7%	2.3%	11.0%
Guangzhou	-2.5%	6.1%	24.0%	-20.0%	-5.3%	4.5%	-2.9%	8.7%	15.1%	8.0%	5.6%	21.0%	21.2%	8.1%	7.1%
Shenzhen	-1.9%	1.6%	6.1%	5.6%	-0.2%	0.6%	1.0%	4.6%	1.8%	-5.5%	-7.3%	3.7%	6.8%	5.2%	1.6%
<b>Total</b>	<b>6.6%</b>	<b>8.1%</b>	<b>13.7%</b>	<b>0.1%</b>	<b>5.9%</b>	<b>6.2%</b>	<b>5.3%</b>	<b>6.2%</b>	<b>7.2%</b>	<b>8.0%</b>	<b>1.5%</b>	<b>6.6%</b>	<b>8.5%</b>	<b>4.7%</b>	<b>6.2%</b>
By Region	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Bohai Rim	11.2%	12.6%	14.9%	6.4%	15.2%	15.6%	14.5%	10.4%	8.7%	10.4%	8.2%	8.1%	9.3%	7.0%	10.7%
YRD	8.6%	8.2%	13.6%	-3.0%	3.9%	2.1%	2.7%	2.7%	6.4%	13.7%	-0.7%	3.1%	6.1%	2.4%	4.4%
PRD	-2.1%	3.1%	11.3%	-4.1%	-2.1%	2.0%	-0.4%	6.0%	6.0%	-1.3%	-3.0%	9.5%	11.8%	6.2%	3.5%
Foreign Trade (TEU mn)	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Dalian	0.39	4.64	0.35	0.38	0.36	0.39	0.44	0.44	0.44	0.47	0.49	0.45	0.48	0.46	5.15
Tianjin	0.47	5.65	0.48	0.44	0.52	0.53	0.53	0.54	0.50	0.54	0.50	0.50	0.52	0.57	6.15
Qingdao	0.82	10.46	0.96	0.73	0.96	0.93	0.93	0.88	0.91	0.92	0.89	0.90	0.92	0.79	10.72
Shanghai	2.54	29.16	2.60	1.83	2.50	2.50	2.63	2.46	2.68	2.64	2.60	2.51	2.64	2.43	30.02
Ningbo	1.04	14.34	1.44	1.07	1.21	1.18	1.30	1.35	1.41	1.37	1.32	1.21	1.22	1.17	15.26
Xiamen	0.51	5.23	0.46	0.34	0.48	0.44	0.46	0.45	0.49	0.49	0.49	0.50	0.48	0.50	5.58
Guangzhou	0.39	4.27	0.41	0.33	0.35	0.37	0.38	0.38	0.41	0.41	0.44	0.44	0.43	0.41	4.76
Shenzhen	1.73	21.07	1.89	1.36	1.60	1.68	1.79	1.81	1.93	1.96	1.89	1.88	1.80	1.83	21.42
<b>Total</b>	<b>7.90</b>	<b>94.82</b>	<b>8.60</b>	<b>6.48</b>	<b>7.97</b>	<b>8.02</b>	<b>8.47</b>	<b>8.32</b>	<b>8.75</b>	<b>8.80</b>	<b>8.63</b>	<b>8.39</b>	<b>8.48</b>	<b>8.16</b>	<b>99.08</b>
By Region	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Bohai Rim	1.69	20.75	1.79	1.54	1.84	1.84	1.90	1.86	1.84	1.93	1.88	1.84	1.92	1.83	22.03
YRD	3.58	43.51	4.04	2.90	3.71	3.68	3.93	3.81	4.09	4.01	3.92	3.72	3.86	3.60	45.28
PRD	2.13	25.34	2.30	1.69	1.95	2.05	2.17	2.19	2.34	2.37	2.33	2.32	2.23	2.24	26.19
Foreign Trade (YoY %)	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Dalian	5.6%	2.3%	6.5%	5.9%	2.8%	6.2%	10.7%	8.5%	9.5%	12.6%	15.2%	12.3%	22.3%	17.7%	11.1%
Tianjin	-6.4%	0.6%	15.6%	3.7%	4.8%	10.2%	11.0%	14.1%	4.5%	11.2%	-2.7%	9.6%	6.8%	20.3%	9.0%
Qingdao	0.0%	0.3%	1.6%	-11.0%	0.3%	-2.1%	4.7%	2.2%	6.4%	11.2%	4.1%	8.7%	7.8%	-3.4%	2.5%
Shanghai	10.4%	5.6%	9.4%	-4.7%	1.2%	3.3%	4.0%	-1.0%	4.9%	13.1%	0.2%	3.4%	5.3%	-4.4%	2.9%
Ningbo	9.7%	13.0%	16.1%	6.1%	5.2%	-1.5%	-0.6%	9.1%	9.1%	13.7%	-2.6%	2.2%	9.3%	12.5%	6.4%
Xiamen	14.3%	10.3%	15.1%	6.0%	13.3%	3.9%	4.4%	3.2%	4.8%	8.5%	7.9%	10.4%	6.8%	-1.0%	6.8%
Guangzhou	12.5%	28.8%	32.1%	22.9%	-0.3%	6.8%	2.4%	6.7%	16.4%	1.3%	7.9%	30.5%	17.4%	3.2%	11.5%
Shenzhen	-2.2%	0.9%	3.9%	6.0%	0.1%	0.0%	1.7%	5.4%	1.6%	-5.7%	-6.0%	4.5%	6.7%	5.8%	1.7%
<b>Total</b>	<b>5.2%</b>	<b>5.6%</b>	<b>9.6%</b>	<b>1.2%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>3.5%</b>	<b>4.2%</b>	<b>5.6%</b>	<b>7.2%</b>	<b>0.0%</b>	<b>6.4%</b>	<b>8.0%</b>	<b>3.3%</b>	<b>4.5%</b>
By Region	Dec-12	FY 12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	FY 13
Bohai Rim	-0.7%	0.8%	6.0%	-3.3%	2.0%	2.9%	7.8%	6.9%	6.6%	11.5%	4.8%	9.8%	10.8%	8.2%	6.2%
YRD	10.2%	8.0%	11.7%	-1.0%	2.4%	1.8%	2.4%	2.4%	6.3%	13.3%	-0.7%	3.0%	6.5%	0.5%	4.1%
PRD	0.3%	4.8%	8.0%	8.9%	0.0%	1.2%	1.8%	5.6%	3.9%	-4.6%	-3.7%	8.6%	8.6%	5.3%	3.3%

\* The port snapshot data sums up throughput of major terminals in each of the eight coastal regions. Aggregate throughput may be different from those reported by Ministry of Transport, which include other smaller terminals in the region that are not captured in our snapshot data. Source: Chineseport.cn, Citi Research

## Waterborne/Container Trade Lane Analysis

Figure 113. Global Trade Flows Based Upon Containerized Volumes (2012, TEUs Shipped)

2012 TEUs	West Bound	East Bound	North Bound	South Bound	Total	% of Total
Asia-North America	7,529,000	14,421,000			21,950,000	38%
Asia-North Europe	8,959,000	4,406,000			13,365,000	23%
Asia-Mediterranean	4,371,000	1,875,000			6,246,000	11%
North Europe-North America	2,632,000	2,005,000			4,637,000	8%
Asia-Middle East	2,802,151	1,250,446			4,052,597	7%
Australia-Far East			1,072,016	1,851,263	2,923,279	5%
Asia-East Coast South America			550,000	1,399,000	1,949,000	3%
North Europe/Mediterranean-East Coast South America			824,000	841,000	1,665,000	3%
South America						
North America-East Coast South America			667,000	574,000	1,241,000	2%
	<b>26,293,151</b>	<b>23,957,446</b>	<b>3,113,016</b>	<b>4,665,263</b>	<b>58,028,876</b>	<b>100%</b>

### % of East-West Trade

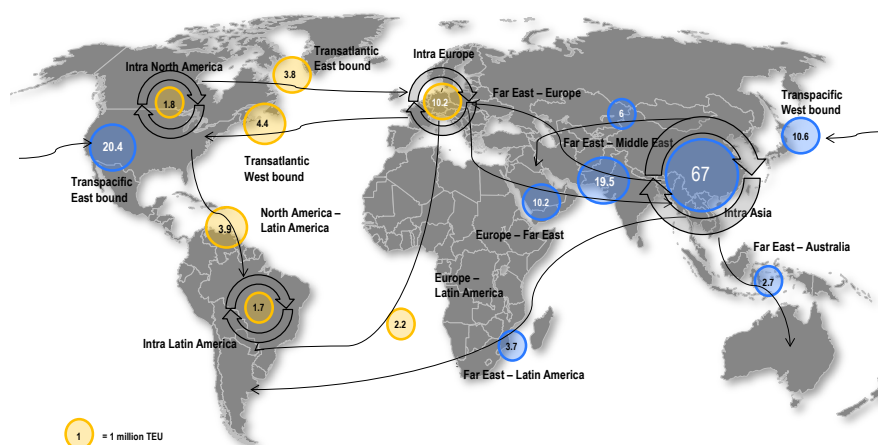
Asia-North America	15%	29%	44%
Asia-North Europe	18%	9%	27%
Asia-Mediterranean	9%	4%	12%
North Europe-North America	5%	4%	9%
Asia-Middle East	6%	2%	8%
	<b>52%</b>	<b>48%</b>	<b>100%</b>

### % of North-South Trade

Australia-Far East	14%	24%	38%
Asia-East Coast South America	7%	18%	25%
North Europe/Mediterranean-East Coast South America	11%	11%	21%
South America			
North America-East Coast South America	9%	7%	16%
	<b>40%</b>	<b>60%</b>	<b>100%</b>

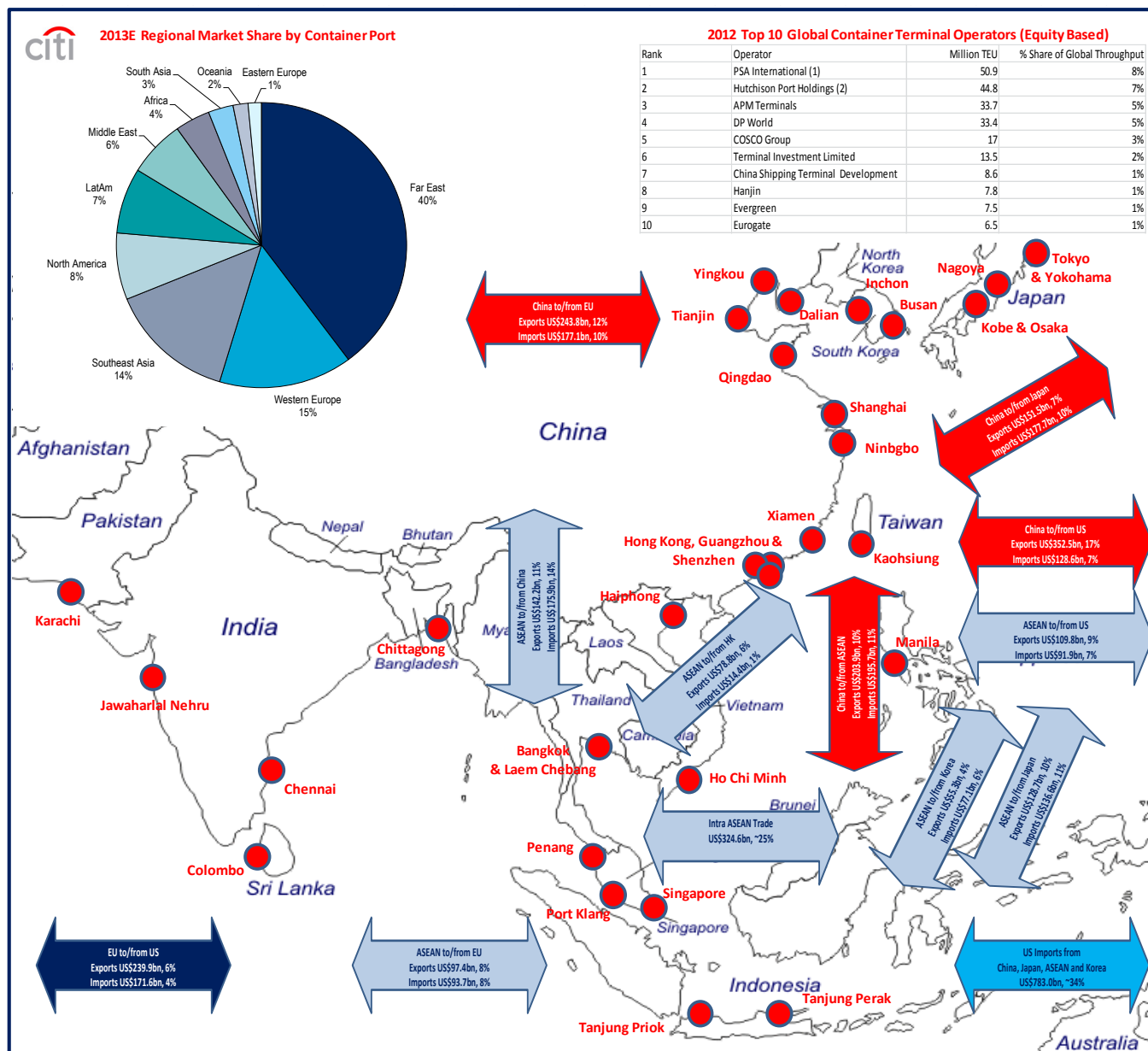
Source: World Shipping Council; Citi Research

Figure 114. World Global container cargo demand (200mn TEU in 2015E)



Source: Keuhne & Nagel, Citi Research

Figure 115. Main Container Ports in Asia and Trade Flows



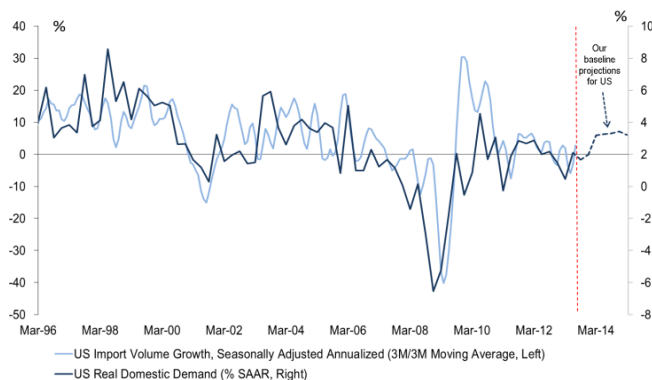
Note – within the arrows we provide a look at Imports and exports between major markets as a % of total in absolute USD terms.

Source: Clarkson Research Services Limited – Shipping Maps 2013; Citi Research

### US Peak Season Demand Lackluster

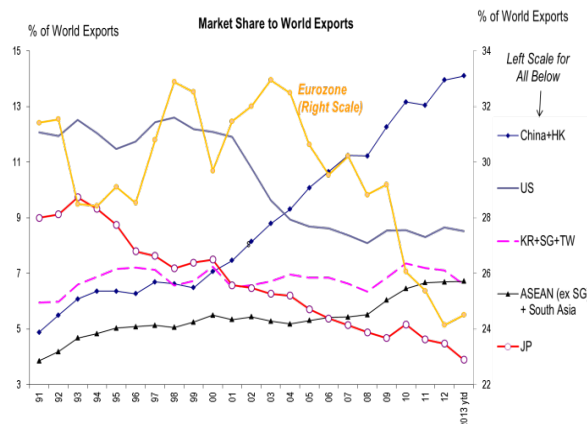
According to Citi Asia Pacific Economist, Johanna Chua, even if eventual taper comes with a US-led recovery (though getting delayed), there are worries it may be less import-sensitive than in the past, and coupled with import-“lite” recovery in other AEs (Euro Area & JP) so far, would undermine Asia’s export-driven recovery. However, we believe this argument is partly a cyclical one given the relatively weak (& “narrow”) nature of AE growth. Our mid-term outlook, particularly on the US (to a lesser extent EA), hinges on domestic demand picking up to the 3-3.5% range in 2014F, which should provide more lift to US imports than what we’ve seen so far (see the figure below).

Figure 116. US – Import Volume, %3M/3M SAAR, moving average, vs. Domestic Demand SAAR Growth (1Q 1996 to 1Q 2015F)



Source: Citi Research estimates

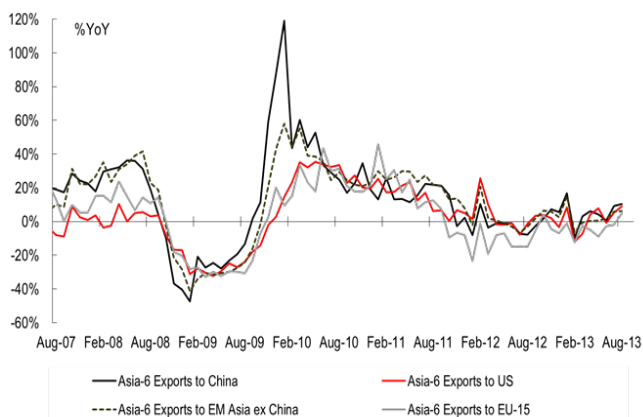
Figure 117. The linkage between US real domestic demand growth and volume of import growth has weakened in recent years



Note: - Export Market Share for EM Asia is still rising as a whole, though the industrialized parts of Asia are seeing diminishing shares

Source: CPB Netherlands World Trade Monitor, IMF Direction of Trade, Citi Research

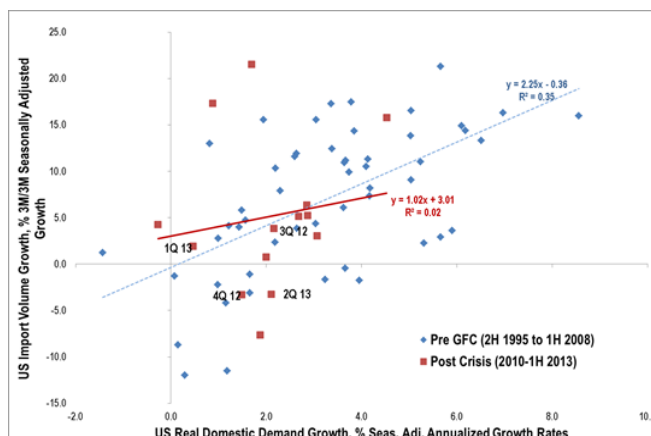
Figure 118. Select EM Asia's export growth (%YoY) have rebounded across geographies



Source: Haver, Citi Research.

Note: \*Asia 6 consist of those who report trade by country in a timely manner (KR, IN, MY, SG & TW) but we exclude CN given export over-invoicing distortions.

Figure 119. The linkage between US real domestic demand growth and volume of import growth has weakened in recent years



Note - Since the outset of the GFC, we have observed an outright breakdown in the historical relationship between global GDP growth and container growth (see the attached, pre GFC trade vs GDP relationship was 2-3x, with a similar relationship back to the late 40s, but has narrowed to sub-2x the past two years).

Source: CPB Netherlands World Trade Monitor, Citi Research



## Economic Growth and Trade Trends

Since the outset of the GFC, we have observed an outright breakdown in the historical relationship between global GDP growth and container growth (see the attached, pre GFC trade vs GDP relationship was 2-3x, with a similar relationship back to the late 40s, but has narrowed to sub-2x the past two years).

Figure 120. Global GDP vs World Trade Logistics as a % of GDP

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Global GDP	2.90%	3.60%	4.90%	4.50%	5.20%	5.40%	2.80%	-0.60%	5.30%	3.90%	3.20%
Global Container Trade (m TEUs)	698	812	923	1017	1109	1236	1294	1157	1306	1421	1480
Growth YoY		16%	14%	10%	9%	11%	5%	-11%	13%	9%	4%
Trade Multiple (Container Growth vs World GDP Growth)		4.54x	2.79x	2.26x	1.74x	2.12x	1.68x	N/A	2.43x	2.26x	1.30x
Pre-GFC (2003-2008) multiple	2.5x										
2012-2012E	1.6x										

Source: Source: Clarkson Research Services; Citi Research

Notwithstanding continued migration towards offshore manufacturing, weaker global demand visibility during/since the GFC has led many transportation managers to maintain leaner inventory levels. In order to better manage working capital (e.g. the use of a 'just in time' inventory system), trends within the third-party logistics space has been less volatile than the pure transportation service providers.

## GDP Outlook by Region

GDP growth in Mainland China is expected to remain somewhat muted, albeit well above other major markets. Growth in the US and Europe will likely remain below historical levels, however, increased confidence in the US and relative stability in Europe could provide a much needed improvement in consumer demand over the next 12-18 months, in our view.

Please see our [China Macro Flash, entitled 2013 GDP: Flat Growth With Weaker Bias](#), by Citi China Strategist Minggao Shen and Citi China Economist Shuang Ding

Figure 121. GDP Outlook by Region

	2010-2012	2012-2015E
Greater China	10.6%	7.9%
APAC (Ex China and Japan)	6.6%	4.9%
South America	5.9%	3.6%
North America	2.5%	2.2%
Japan	2.7%	1.5%
Europe	1.9%	1.0%

Source: Company report; Armstrong Report; IMF; Citi Research

## China 2013 GDP +7.7% (Flat YoY)

China's GDP improved 7.7% in 4Q13 from a year ago, slightly better than market consensus (7.6%YoY) and our expectation (7.5%YoY), but both industrial production and investment growth softened towards the year-end. Exit from the financial excess and recently surging cost of capital would weigh on GDP growth this year. If the Chinese authorities set the growth target at 7.5%, the risk is more to the downside than to the upside.

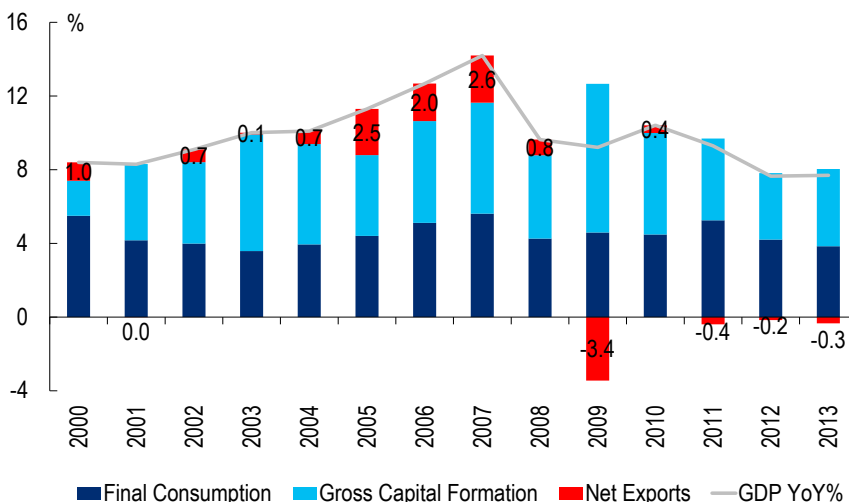
Figure 122. China Economic Data Releases

Data	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev	2013
Real GDP (YoY)	20-Jan	4Q	7.7	7.5	7.6	7.8	7.7
IP (% YoY)		Dec	9.7	9.4	9.8	10.0	9.7
FAI - urban (% YoY ytd)			19.6	19.8	19.9	19.9	19.6
Retail Sales (% YoY)			13.6	13.0	13.6	13.7	13.1
Real Estate Investment (% YoY ytd)			19.8	-	-	19.5	19.8

Source: Bloomberg and Citi Research estimates

For FY13 GDP, Investment growth contributed 4.2ppts to GDP growth, remaining the key driver of the economy. Final consumption only added 3.8ppts, the weakest growth in the past 3 years while net exports dragged growth down by 0.3ppt. M2 growth exceeded nominal GDP growth by 4.1ppts, roughly in line with 4.0ppts in 2012 but the widest gap since 2003 (excluding the first year after the GFC in 2009).

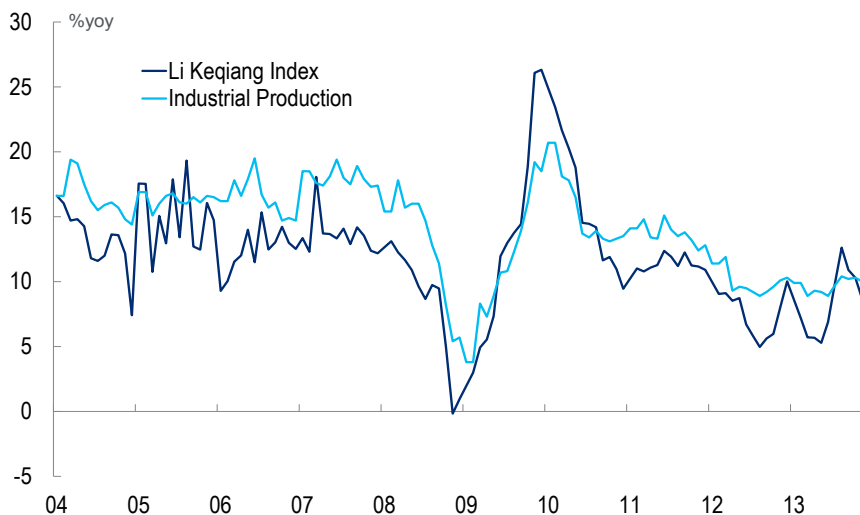
Figure 123. GDP Growth Breakdown



Source: NBS, CEIC and Citi Research

**Industrial production growth softened** – Industrial production measured by value added of industry grew 10%YoY in 4Q, the second consecutive quarter in double-digits and ahead of 9.5%YoY in 1Q and 9.1% in 2Q. Monthly growth, however, slowed from 10.3%YoY in Oct to 9.7%. This is in line with Citi's version of the Li Keqiang Index measured by 25% railway cargo, 40% power consumption and 35% bank loans. Industrial profits rose 13.2%YoY in Jan-Nov, but only 4.4%YoY for core businesses. Out of 41 industrial sectors, 27 were profitable and 12 loss-making.

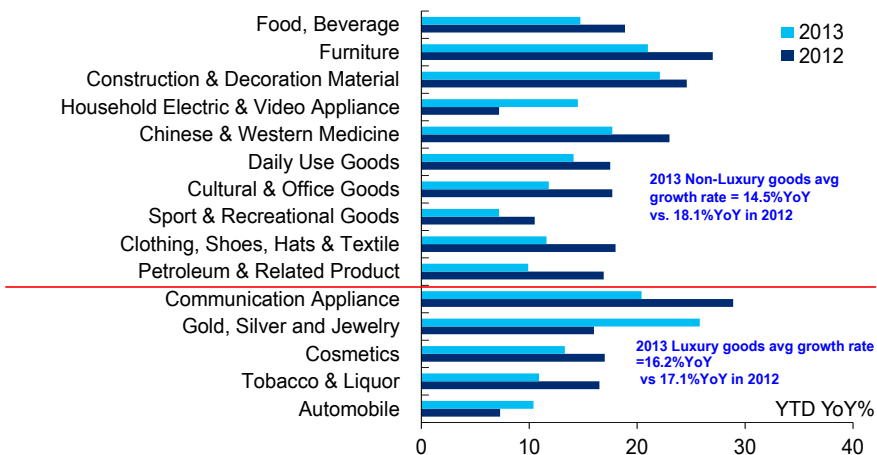
Figure 124. Li Keqiang Index vs. Industrial Production Growth



Source: NBS, CEIC and Citi Research

**Retail sales stabilized** – The base effect of the anti-corruption drive eased a bit in Dec. The real growth of retail sales accelerated to 12.2%YoY, up from 11.8%YoY in Nov. However, non-luxury goods spending decelerated from 18.1% in 2012 to 14.5% in 2013, more than that of luxury spending, down from 17.1% to 16.2%.

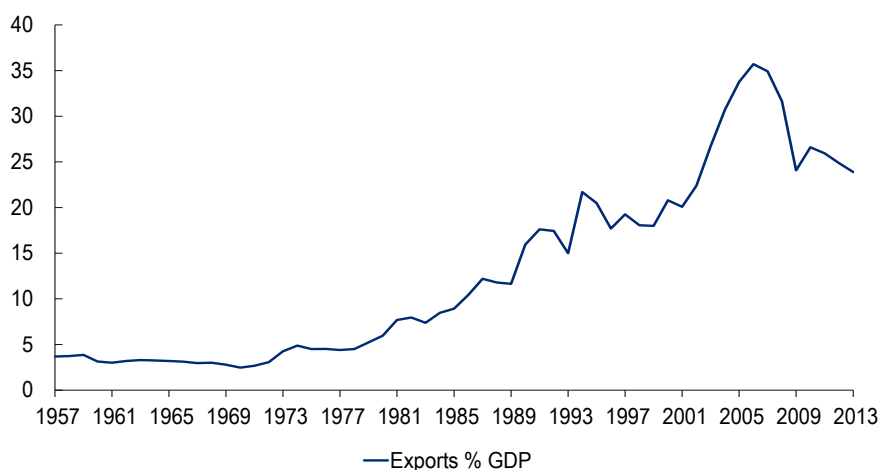
Figure 125. Retail Sales: Luxury vs. Non-Luxury



Source: NBS, CEIC and Citi Research

Our economists think import-lite nature of the recent US recovery is more due to the still historically weak and narrow nature of US domestic demand recovery, rather than the fears that Asia is meaningfully losing export competitiveness. If taper eventually comes alongside recovery in advanced economies, Asia would benefit.

Figure 126. Exports As % of GDP



Source: NBS, CEIC and Citi Research

## Shanghai FTZ & China's Five-Year Plan

In a bid to test economic reforms, China and Taiwan are engaging in zones trials (Shanghai FTZ/Qianhai SEZ/Taiwan FEZ, etc.) to pursue financial innovations and modern service industries upgrades.

In late September, The State Council in China released its general policy scheme for the Shanghai Pilot Free-Trade Zone (SFTZ). In addition, the policy scheme sets up a timetable of 2-3 years to step up liberalization and deregulation gradually, which hints that this pilot scheme could be extended to the rest of China before the end of the current term of the government in March 2018. Six service industries deregulations are highlighted, including Financial, Shipping, Business, Professional, Cultural and Social services.

**While the border between the zone and overseas market is open, the border between the zone and the domestic market will be effectively controlled**

Enterprises established in the pilot zone in general should not be restricted by the zone border and can conduct investment and other business outside of the zone, subject to special requirements. The pilot zone could be expanded gradually to other regions in the future.

In addition to the benefit of incremental trade, which is believed to increase significantly with the elimination of trade barriers, the key deregulation is that non-PRC-flagged vessels of Chinese or Chinese holding shippers are allowed to carry foreign trade laden boxes between Shanghai and other domestic coastal ports. Currently, Chinese shipping companies choose to register some of their ships in foreign countries, for economic and regulatory advantages, and for the freedom in hiring cheap labor in the global market (termed "Flag of Convenience"). The new policy will allow Chinese shipping companies to enjoy the benefit of Flag of Convenience thus increasing flexibility to use Shanghai as a transshipment port, which will likely result in higher utilization and lower transshipment costs. Clarkson data showed that 329 vessels (57%) under COSCO Group and 82 vessels (19%) under China Shipping Group are non-PRC-flagged.

Moreover, shipping industry deregulation and other initiatives in SFTZ will promote Shanghai as a global hub port and attract more cargoes, especially those involving re-consolidation of containers, which was the bottleneck in the past. Currently Shanghai's transshipment box accounts for only 10% of total throughput, lagging behind regional competitors such as Busan (50%), HK (60%) and Singapore (85%).

### Increased Urbanization Underscores Domestic Consumption

Figure 127. Globalization/Urbanization and Digitization Evolution

	Past (1990)	Present	Future
<b>Globalization</b>	Exports Share of GDP - 17% FDI - US\$198bn (1% of GDP) Largest World Economies - USA, Japan, Germany	Exports Share of GDP - 26% FDI - US\$1.4tn (2.1% of GDP) Largest World Economies - USA, China, Japan	Exports Share of GDP - 33% (2030) FDI to grow 4x that of GDP (2015) Largest World Economies - China, USA, India (2030)
<b>Urbanization</b>	43% of World Population in Cities 10 Megacities (with over 10m people) 9% of World Population over 60 yrs old	52% of World Population in Cities 21 Megacities (with over 10m people) 11% of World Population over 60 yrs old China has 55m middle class households	60% of World Population in Cities 30+ Megacities (2025) 17% of World Population over 60 yrs old (2030) China has 260m middle class households
<b>Digitization</b>	Internet Users - Nominal (circa 1992) Mobile Broadband Subscriptions - None	Internet Users - 2.4bn (34% Penetration Rate) Mobile Broadband Subscriptions - 1.4bn Average Broadband Speed - 1Mbps	Internet Users - 3.5bn (2017), (50% Penetration Rate) Mobile Broadband Subscriptions - 5.0bn (2017) Average Broadband Speed - 100Mbps

Source: EIU, Roland Berger, United Nations Statistics, Forrester Research, Citi Research

Figure 128. Urbanization Trend Forecast

	Population		Urbanized Population		# of Cities with over 1m population (2010)	Share of Population in 1m+ cities (2010)
	2011	CAGR (2011-2015)	2010	2020E		
<b>China</b>	<b>1,347,350,000</b>	<b>0.50%</b>	<b>47.00%</b>	<b>55.00%</b>	<b>94</b>	<b>43.70%</b>
Indonesia	241,030,000	1.40%	44.30%	48.10%	7	20.20%
Philippines	95,856,000	2.00%	48.90%	52.60%	2	28.70%
Vietnam	89,316,000	1.20%	30.40%	37.00%	2	33.60%
Philippines	64,076,000	0.60%	34.00%	38.90%	2	42.90%
Myanmar	62,417,000	2.00%	33.70%	40.70%	3	31.20%
Malaysia	28,553,000	1.90%	72.20%	78.50%	3	17.90%
Cambodia	15,103,000	1.00%	21.10%	23.80%	1	47.80%
Laos	6,288,000	2.90%	33.20%	44.20%	--	--
Singapore	5,274,000	1.70%	100.00%	100.00%	1	100.00%
East Timor	1,093,000	2.30%	100.00%	100.00%	--	--
Brunei	425,000	2.20%	100.00%	100.00%	--	--
<b>ASEAN Countries</b>	<b>609,431,000</b>	<b>1.50%</b>	<b>42.00%</b>	<b>No Forecast</b>	<b>21</b>	<b>27.50%</b>
India	1,206,917,000	1.30%	30.00%	33.90%	43	41.20%
Japan	127,896,000	-0.40%	90.50%	95.30%	8	54.90%
South Korea	49,779,000	-0.10%	82.90%	85.40%	8	56.80%
Australia	22,403,000	1.60%	88.90%	93.80%	5	71.60%
New Zealand	4,416,000	1.00%	86.20%	86.80%	1	37.00%
<b>World Total</b>	<b>6,858,291,000</b>	<b>1.20%</b>	<b>50.40%</b>	<b>54.40%</b>	<b>449</b>	<b>39.90%</b>

Note: 2010–2015 population growth rates represent IMF forecasts. Some 2011 population amounts are estimated. (a) Cities or agglomerations with populations of greater than 1 million persons. (b) Average urbanization share not available because the IMF does not publish 2020 population forecasts. Source: IMF World Economic Outlook Database (October 2012) UN World Urbanization Prospects (2011 revision); Citi Research

Figure 129. Projected Middle Class Population (2000, 2010 and 2020)

Number of People in Millions	2000	2010	2020
Asia	346	696	1794
China	23	179	607
Japan	123	127	122
Rest of Asia	201	390	1066

Note: Middle class is defined as those households with daily expenditure between US\$10 and US\$100 per person in constant 2005 purchasing power parity terms. Source: Company report; Armstrong Report; Citi Research

## Appendix – Management Profile

### Management Profiles

**YEO George Yong-boon** (age 59), is an Executive Director of KLN and has been the Chairman of our Company since August 2012. Mr. Yeo is also Deputy Chairman and a Director of the Kerry Group Limited (KGL). Mr. Yeo served for 23 years in the Singapore Government (from 1988 to 2011), as Minister of State for Finance, then as Minister for Information and the Arts, Health, Trade and Industry, and Foreign Affairs. Prior to 1988, Mr. Yeo served in various capacities in the Singapore Armed Forces, Republic of Singapore Air Force and Defense Ministry, including Chief-of-Staff of the Air Staff and Director of Joint Operations and Planning in the Defense Ministry, attaining the rank of Brigadier-General. Mr. Yeo is a member of the Foundation Board of the World Economic Forum, the Berggruen Institute on Governance, the Asia-Pacific Advisory Board of Harvard Business School, the International Advisory Board of IESE Business School and Economic Development Commission, Hong Kong. Recently Mr. Yeo was appointed a member of the Pontifical Commission for Reference on the Economic-Administrative Structure of the Holy See. Mr. Yeo was awarded the Philippines' Order of Sikatuna, India's Padma Bhushan and Australia's Honorary Officer of the Order of Australia. Mr. Yeo graduated from Cambridge University with a double first in engineering in 1976 and also obtained a master of business administration degree (Baker Scholar) from Harvard Business School in 1985. In addition, Mr. Yeo was a visiting scholar to Peking University from September to December 2011 and remains a visiting scholar at the Lee Kuan Yew School of Public Policy.

**MA Wing Kai William** (age 52), is an Executive Director of KLN since June 1999, Deputy Chairman and Managing Director of KLN Company since April 2004. He was re-designated as Group Managing Director. Mr. Ma joined the KHL Group in September 1990 and served as an Executive Director of KPL since March 2004 (but has subsequently resigned from such position). Mr. Ma has also been a director of Kerry TJ Logistics since November 2008. Mr. Ma serves in the Logistics Development Council, the Aviation Development Advisory Committee and the Advisory Committee on Admission of Quality Migrants and Professionals of the Hong Kong Government. Mr. Ma is also a member of the Advisory Board of the Asian Institute of Supply Chain and Logistics of the Chinese University of Hong Kong and the Logistics Services Advisory Committee of the Hong Kong Trade Development Council. Mr. Ma obtained a bachelor of science (management sciences) degree from the University of Lancaster, the United Kingdom in 1985, and completed an executive supply chain programme at Harvard Business School in 2000.

**ERNI Edwardo** (age 52), is an Executive Director of KLN. Mr. Erni has been a Director of KLN Company since 2011 and is also President of the company's China region operations. Mr. Erni manages a portfolio of logistics and warehousing companies in China. He joined the Company in January 1994 and has approximately 20 years of experience in the growing logistics industry of China. Mr. Erni currently serves as vice-chairman of several industry associations including the China Federation of Logistics Purchasing, the Integrated Transport Federation of China Communications and Transportation Association, and China Association of Warehouses and Storage. Mr. Erni completed several advanced management and professional study programmes focusing on strategy and leadership, including a training course held by the Harvard Business School in association with the School of Management at Fudan University in 2013, and management courses held by Tianjin University in 2011, Beijing University in 2009 and Tsinghua University in 2008. Mr. Erni obtained a master of business degree in logistics management from the Royal Melbourne Institute of Technology, Australia in 2005.

**KUOK Khoon Hua** (age 34), is an Executive Director of KLN. Mr Kuok has also served as a director of KHL since January 2010, as a director of Kerry Wines Limited since March 2011, as deputy managing director of KHL since January 2012, and director of KGL since August 2012. Mr. Kuok joined KHL in 2004 and is involved in the management of KHL, including KHL's investment, legal, human resources and wine divisions. From 2003 to 2004, Mr. Kuok was a business development executive with Kuok Oils & Grains Pte Ltd and was also a director of Kuok (Singapore) Limited from 2003 to 2007. Mr. Kuok obtained a bachelor's degree in economics from Harvard University in 2003.

#### KLN Senior Management

Figure 130. KLN - Senior Management

Name	Age	Position/Title	Joined the Group	Role and Responsibility
ANG Keng Lam	66	Senior Advisor	December 1991	Providing advice on strategic development and maintaining relationships with major joint venture partners
BENJAATHONSIRIKUL Kledchai	58	Executive Director of Thailand	July 2000	Developing and managing Group's operations in Thailand
CHENG ChiWai	49	Chief Financial Officer	August 2009	Responsible for Group's financial, corporate governance and compliance matters, as well as merger and acquisition activities of the Group
HUNGWai Shing	48	Group Financial Controller	September 1999	Managing Group's accounting matters and coordinating all regional accounting functions of the Group
KO Fuk Yuen Kenneth	42	Executive Director of International Freight Forwarding	April 2010	Developing and managing the global international freight forwarding network and operations
LEEWai Shun Wilson	46	Director of Information Technology	April 2004	Managing Group's global information technology development and maintenance
SHEN Chung-kui (also known as Richard SHEN)	70	Chairman of Kerry TJ Logistics Company Limited	November 2008	Developing and managing Group's operations in Taiwan
TAN Kai Whatt Robert	56	Managing Director of South and South East Asia	January 2004	Developing and managing Group's operations in South and South East Asia
WILCOCK Gary	52	Managing Director of Europe	April 2002	Developing and managing Group's operations in Europe including the United Kingdom

Source: Company report



Figure 131. KLN – Directors

Name	Age	Position/Title	Joined the Group	Role and Responsibility
<b>Executive Directors</b>				
YEO George Yong-boon	59	Chairman/ Executive Director	August 2012	Setting the strategic vision, direction and goals of the Group
MA Wing Kai William	52	Group Managing Director/ Executive Director	June 1999	Day-to-day business and operations of the Group ensure the Group is operating in the pre-set strategic direction
ERNI Edwardo	52	Executive Director	January 1994	Developing and managing of the Group's operations in China
KUOK Khoon Hua	34	Executive Director		Strategic development
<b>Non Executive Director</b>				
QIAN Shaohua	56	Non-executive Director		Supervising the management of the Company
<b>Independent Non-executive Directors</b>				
WONGYu Pok Marina	65	Independent Nonexecutive Director		Supervising the management of the Company
WAN Kam To	60	Independent Nonexecutive Director		Supervising the management of the Company
YEO Philip Liat Kok (also known as Noel Philip YEO)	67	Independent Nonexecutive Director		Supervising the management of the Company

Source: Company report

### Armstrong Report

Throughout this report we refer to a report by Armstrong & Associates, Inc. (Armstrong). According to the company's website, Armstrong has been in business since 1980, and has become a recognized leader in supply chain market research and consulting.

Armstrong's "Who's Who" guides are distributed worldwide and are a significant resource for companies selecting third-party logistics providers (3PLs). Straight-forward detailed research reports provide unsurpassed information on the rapidly growing domestic and global logistics marketplace. In addition to research, A&A's consulting expertise has fostered the profitable growth of many supply chain participants from small transportation providers to Fortune 500 companies

## Kerry Logistics Network

### Company description

KLN was listed on 19 Dec 13 (previously part of Kerry Properties). It splits its operations into Integrated Logistics (IL) and International Freight Forwarding (IFF). IL, 41% of FY12 gross revenue and an estimated 63% of net revenue (excludes purchased transportation expense), includes warehousing and VAS, trucking and distribution services and returns management-related services as well as other ancillary services. IFF, 59% of FY12 total gross revenue and an estimated 37% of net revenue (excludes purchased transportation expense), includes air and ocean freight forwarding/related services as well as cross-border road network between China and Southeast Asia. KLN is backed by the Kuok family, which also has interests in other large listed companies such as Shangri-La (0069.HK) and Wilmar (WLIL.SI). The family is also involved in a host of ancillary shipbroking, chartering and freight activities to support its commodity businesses.

### Investment strategy

We rate KLN shares as Buy. Reflecting its diversified service portfolio and notable operational know-how, KLN looks well positioned to further entrench itself with its long-standing global customers in strategic markets such as Greater China (~68% of FY12 gross rev). In addition to its suite of premium/value-added logistics solutions (serving over 40 of the top 100 brands, ranked by Interbrand), KLN provides integrated distribution and int'l transportation services, tapping into domestic consumption, e-commerce demand and shifting manufacturing patterns. We have seen heightened investor interest in the space following the recent deals announced by Tencent and Alibaba. While KLN is less exposed to the ecommerce theme and B2C delivery segment in China, it maintains logistics relationships with many online retailers, which we believe could be expanded further/across some other focal Asian markets (Taiwan, Singapore and Thailand).

### Valuation

We value KLN at HK\$16 (28x 2014E P/E), based on a 20-25% premium to its global forwarding/logistics peers. Although a bit rich on our organic growth numbers, upside risk from accretive acquisitions (potentially doubling the ~10% est organic LT earnings CAGR), network synergies and/or strategic sale leasebacks to unlock value and pad returns warrants a 20-25% premium to its peers, in our view. We use P/E to value the stock because of the global comparability and historical detail around earnings cyclicity and growth expectations (it also reflects varying tax treatment across jurisdictions as well as capital structure/financing-related decisions taken by each respective company to best grow their operation). While we believe the strong cash flow is an attractive characteristic for the sector, KLN's contribution from associates as well as minority interests would not be appropriately captured in an EV/EBITDA valuation. Further, we believe P/B would be skewed by the vastly different return profiles of its global non-asset and asset-light peers (and would be influenced by the unique accounting for property revaluation).

### Risks

Downside risks that could impede the shares from reaching our target price include: 1) Inability to execute on the 'organic + acquisition' growth strategy; 2) Nearly 70% of KLN's gross rev is derived from the Greater China market, making the company susceptible to a slowdown in China; 3) Changing fuel prices also has a large

bearing on gross revenue trends within the IFF segment, particularly if the company is unable to pass on costs; 4) KLN's inability to properly gauge staff/costs associated with new intermediate- to longer-term contracts can result in increased market share, but at sub-par returns; 5) Acquisition of companies that have previously made similar long-term customer commitments at unprofitable terms and/or with onerous earn-out payments could have an adverse impact on KLN.

# Appendix A-1

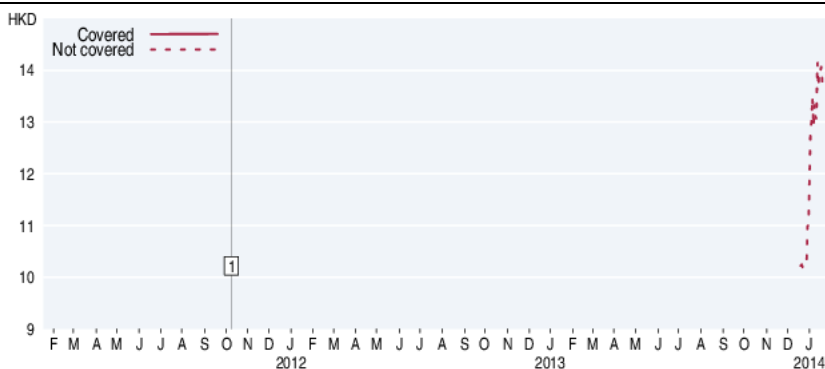
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### Kerry Logistics Network (0636.HK)

Ratings and Target Price History  
Fundamental Research



\* Indicates change

### Kerry Logistics Network (0636.HK)

Ratings and Target Price History  
Best Ideas Research  
Relative Call (3 Month)



\* Indicates change

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