

17 August 2018 | 1QFY19 Results Review

## Tasco Berhad

*Finance costs remain a drag*

### INVESTMENT HIGHLIGHTS

- 1QFY19 results below estimates
- International segment PBT dented loss in ocean freight forwarding
- Domestic segment revenue supported by cold chain logistics
- Revise earnings downwards due to higher finance costs
- Maintain BUY with reduced TP of RM2.21 per share

**1QFY19 normalised PATAMI below estimates.** Tasco recorded 1QFY18 normalised PATAMI of RM5.2m (-25.2%yoy), the lowest since 4QFY17. This was below ours and consensus' estimates by a variance of more than -10%. The deviation is attributed to higher finance costs for the cold supply chain (CSC) business which is fully financed by bank borrowings.

**International segment revenue decreased by -56.4%yoy in 1QFY19.** PBT of Tasco's air freight forwarding segment surged by +68.9%yoy as the drop in shipments for electrical and electronic (E&E), colour pigment and printing customers were offset by shipments for customers involved in telecommunications and aerospace. However, the PBT of the international segment was dragged by the ocean freight forwarding business which recorded a loss before tax of -RM0.7m as existing clients opted for direct sea shipment booking.

**Domestic segment buttressed by CSC business.** PBT of the domestic business segment rose by +43.6%yoy in 2QFY18. The main driver for the segment was the CSC business which now comprises of (i) Gold Cold Integrated Logistics Sdn Bhd (GCIL) (formerly known as MILS Cold Chain Logistics Sdn Bhd) after being completely acquired by Tasco on 1 June 2018, and (ii) Gold Cold Transport Sdn Bhd (GCT). As a result, the CSC business recorded a post-acquisition revenue and PBT of RM21.1m and RM3.1m respectively, translating into a reasonable PBT margin of 14.6%. The trucking segment recorded black ink for the second quarter amidst cost-cutting measures. Meanwhile, other sub-segments such as the contract logistics business experienced a -26%yoy decline in PBT as the company incurred pre-operating expenses for the new retail business via the joint venture with Yee Lee Berhad, combined with lower revenue from the regional distribution centre in KLIA.

**Maintain BUY**


**Reduced Target Price (TP): RM2.21**

*(Previously: RM2.50)*

RETURN STATS	
Price (16 August 2018)	RM1.72
Target Price	RM2.21
Expected Share Price Return	+28.5%
Expected Dividend Yield	+2.9%
<b>Expected Total Return</b>	<b>+31.4%</b>

STOCK INFO	
KLCI	1,785.94
Bursa / Bloomberg	5140 TASCO MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	200.00
Market cap. (RM'm)	344.00
Price over NA	0.95
52-wk price Range	RM1.55 - RM2.53
Beta (against KLCI)	1.20
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM0.04m
Major Shareholders (%)	
Real Fortune Portfolio	9.83
NYK Group	9.59
CIMB Group Holdings	3.15

**Earnings estimates.** Although we note that Malaysia is a potential beneficiary if U.S and Chinese companies were to relocate their operations in the wake of the global trade friction, any reduction in global trade would pose a risk to the industry. Henceforth, we are lowering our revenue growth estimates for the international business segment to exercise conservatism. Moreover, Tasco will continue to bear markedly higher financing costs related to the acquisition of the CSC business. Taking all of these into consideration, we are revising down our earnings estimates for FY19 and FY20 to RM34.6m and RM40.2m respectively.

**Maintain BUY with a reduced target price (TP) of RM2.21 per share** (previously RM2.50 per share) with forward price-earnings (PE) ratio of 11.0x pegged to FY20 EPS of 20.1sen. Our revised valuation target, i.e. forward PE ratio of 11.0x (previously 12.0x), equates to the average forward PE of its peers of 11.0x as we maintain our conservatism in our valuation amidst increasing competition and global concerns. We believe that Tasco's niche in the CSC business combined with its retail logistics business to be supported by an expected +5.3%yoy growth in the retail industry in CY2018, according to Retail Group Malaysia. Fundamentals of TASC0 remain intact, trading at a forward PE ratio of 8.6x and a manageable net debt to equity ratio below 1.0x despite increased financing costs. 

**Table 1: Comparable companies**

Comparable company	Market Cap as of 16 Aug '18 (RM'm)	Last Price as of 16 Aug '18 (RM)	Consensus forward FY20 EPS (RM)	Forward PE ratio
Century Logistics	271.9	0.69	0.05	13.8
Freight Management	204.8	1.10	0.12**	9.2
Tiong Nam Logistics	460.7	1.01	0.14	10*
Average				11.0
<b>Tasco</b>	<b>344.0</b>	<b>1.72</b>	<b>0.26</b>	<b>11.0</b>

Source: Bloomberg, Companies, MIDFR

\*Based on our forward FY18 PER target for Tiong Nam's logistics and warehousing segment

\*\* Based on latest EPS obtained from Bloomberg

## INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18	FY19F	FY20F
Revenue (RM'm)	515.7	585.0	710.2	784.8	818.6
EBIT (RM'm)	45.9	43.3	52.2	61.2	67.9
Pre-tax Profit (RM'm)	44.1	41.8	42.0	46.4	53.9
Normalised PATAMI (RM'm)	30.7	31.2	32.5	34.6	40.2
EPS (sen)	11.7	13.7	16.2	17.3	20.1
EPS growth (%)	-61.1	17.1	18.2	6.8	16.3
PER(x)	14.7	12.6	6.2	9.9	8.6
Net Dividend (sen)	4.5	4.5	4.5	5.0	5.0
Net Dividend Yield (%)	2.6	2.6	2.6	2.6	2.9

Source: MIDFR, Company

## DAILY PRICE CHART



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Source: Bloomberg

## TASCO: 1QFY19 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Comments
	1QFY19	4QFY18	1QFY18	%QoQ	%YoY	
<b>FYE Mar</b>						
Revenue	181.6	169.5	157.0	7.2	15.7	
COGS	-154.6	-124.5	-119.4	24.2	16.8	
GP	27.0	45.0	37.6	-39.9	10.1	
Other income	1.5	8.4	0.8	-81.9	102.7	
S&GA expense	-18.3	-40.2	-28.2	-54.5	20.8	
EBIT	10.3	13.2	10.2	-22.1	1.0	
Share from associates	-0.1	-0.1	0.0	-38.5	-1014.3	
Finance expense	-3.4	-3.4	-0.7	-0.2	419.2	Higher costs for CSC business acquisition
PBT	6.8	9.6	9.5	-29.8	-28.8	
Tax expense	-1.6	-4.5	-2.4	-64.7	-33.1	
PAT	5.2	5.1	7.1	1.3	-27.3	Absence of ITA
NCI	-0.1	-0.1	-0.1	59.0	44.8	
PATAMI	5.1	5.0	7.0	0.6	-28.0	
Exceptional items	-0.1	-1.8	0.2	-95.1	-158.0	
Normalised PATAMI	5.2	6.8	6.9	-24.3	-25.2	

Source: Company, MIDFR

## BREAKDOWN OF BUSINESS SEGMENTS

International segment	1QFY19	4QFY18	1QFY18	%QoQ	%YoY	Comments
<b>Air Freight</b>						
Revenue	43.0	40.2	43.0	7.1	0.1	Contribution of shipments from E&E and aerospace
PBT	2.3	0.3	1.4	622.8	69.0	-
<b>Ocean Freight</b>						
Revenue	17.1	20.5	28.0	-16.5	-38.8	Customer opted for direct shipping
PBT	-0.7	1.1	2.4	-163.4	-127.6	
<b>Domestic segment</b>	<b>1QFY19</b>	<b>4QFY18</b>	<b>1QFY18</b>	<b>%QoQ</b>	<b>%YoY</b>	<b>Comments</b>
<b>Contract Logistics</b>						
Revenue	79.8	68.9	63.2	15.8	26.3	Higher opex from new retail business with Yee Lee Berhad
PBT	5.1	11.1	6.9	-54.2	-26.3	-
<b>Cold chain</b>						
Revenue	21.2	21.9	0.00	-3.5	n/a	Completed acquisition of GCIL on 11 June 2018
PBT	3.1	3.2	0.00	-4.2	n/a	-
<b>Trucking</b>						
Revenue	20.5	17.9	22.8	14.1	-10.0	-
PBT	0.7	0.4	-0.7	74.8	206.7	Cost cutting measures

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.