

16 November 2018 | 2QFY19 Results Review

Tasco Berhad

Diminishing profit margin

INVESTMENT HIGHLIGHTS

- **2QFY19 results below estimates**
- **International segment dragged by ocean freight forwarding business as customers opt for direct booking**
- **Domestic segment supported by cold chain and trucking.**
- **Revise FY19 and FY20 earnings downwards due to higher operating and finance costs**
- **Downgrade to NEUTRAL with revised TP of RM1.28 per share**

2QFY19 normalised PATAMI below estimates. Tasco recorded 2QFY19 normalised PATAMI of RM2.5m (-72.5%yoy), bringing its 1HFY19 normalised PATAMI to RM7.7m (-52.2%yoy). This was below ours and consensus' estimates by a variance of more than -10%. The deviation was mainly attributable to higher borrowing costs to finance for the cold supply chain (CSC) business and the land and warehouse in Pulau Indah.

International segment revenue decreased by -20.4%yoy in 2QFY19. The drop was mainly due to the ocean freight forwarding business which recorded a loss before tax of -RM0.2m amidst: (i) the drop volume especially from a solar panel customer; and (ii) the preference of existing clients for direct sea shipment booking. Nonetheless, the discontinuation of a loss making business with an E&E customer in the air freight forwarding business helped pare the decline in PBT of the segment.

Domestic segment buttressed by trucking and CSC business. The main driver for the segment was the CSC business which recorded a post-acquisition revenue and PBT of RM25.2m (+37.3%yoy) and RM2.7m (+96.8%yoy) respectively. This translates into a reasonable PBT margin of 11%, marking its fourth consecutive quarter of being above 10%. To recall, the CSC business handles roughly 80% of all the domestic market for ice cream in Malaysia. The trucking segment recorded black ink for the third uninterrupted quarter, posting a staggering +100.4%yoy jump amidst cost-cutting measures.

...but contract logistics services took a breather. The contract logistics business experienced a -61.1%yoy decline in PBT. Factors for the lacklustre performance of the segment include: (i) low occupancy rate in warehouses located in Southern Region; (ii) higher operating expenses for the new retail business via the joint venture with Yee Lee Berhad; (iii) lower revenue from the regional distribution centre in KLIA. As a result, PBT of domestic segment saw a -35%yoy drop in its PBT to RM3.6m for 2QFY19.


Downgrade to NEUTRAL
Reduced Target Price (TP): RM1.28
(Previously: RM2.21)

RETURN STATS	
Price (15 th November 2018)	RM1.24
Target Price	RM1.28
Expected Share Price Return	+3.2%
Expected Dividend Yield	+3.6%
Expected Total Return	+6.8%

STOCK INFO	
KLCI	1,694.21
Bursa / Bloomberg	5140 TASCO MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	200.00
Market cap. (RM'm)	248.00
Price over NA	0.68
52-wk price Range	RM1.22 - RM2.43
Beta (against KLCI)	1.20
3-mth Avg Daily Vol	0.04m
3-mth Avg Daily Value	RM0.06m
Major Shareholders (%)	
Real Fortune Portfolio	9.83
NYK Group	9.59
CIMB Group Holdings	3.11

Moving forward, we view that the regional distribution centre in KLIA to face headwinds as one of its clients, Renesas will experience a weak demand in 4QCY18 for its industrial equipment. As such, Renesas will cut its factory utilisation rate in order to reduce excess inventory especially for industrial equipment.

Earnings estimates. Although we note that Malaysia is a potential beneficiary if Chinese companies were to relocate their operations in the wake of the global trade friction, this would only be in the long run in our view. Henceforth, we are lowering our revenue growth estimates for the ocean freight forwarding division under 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 and warehouse in Pulau Indah and increased opex in its venture into convenience retail logistics. Taking all of these into consideration, we are revising down our earnings estimates for FY19 and FY20 to RM19.0m and RM27.0m respectively.

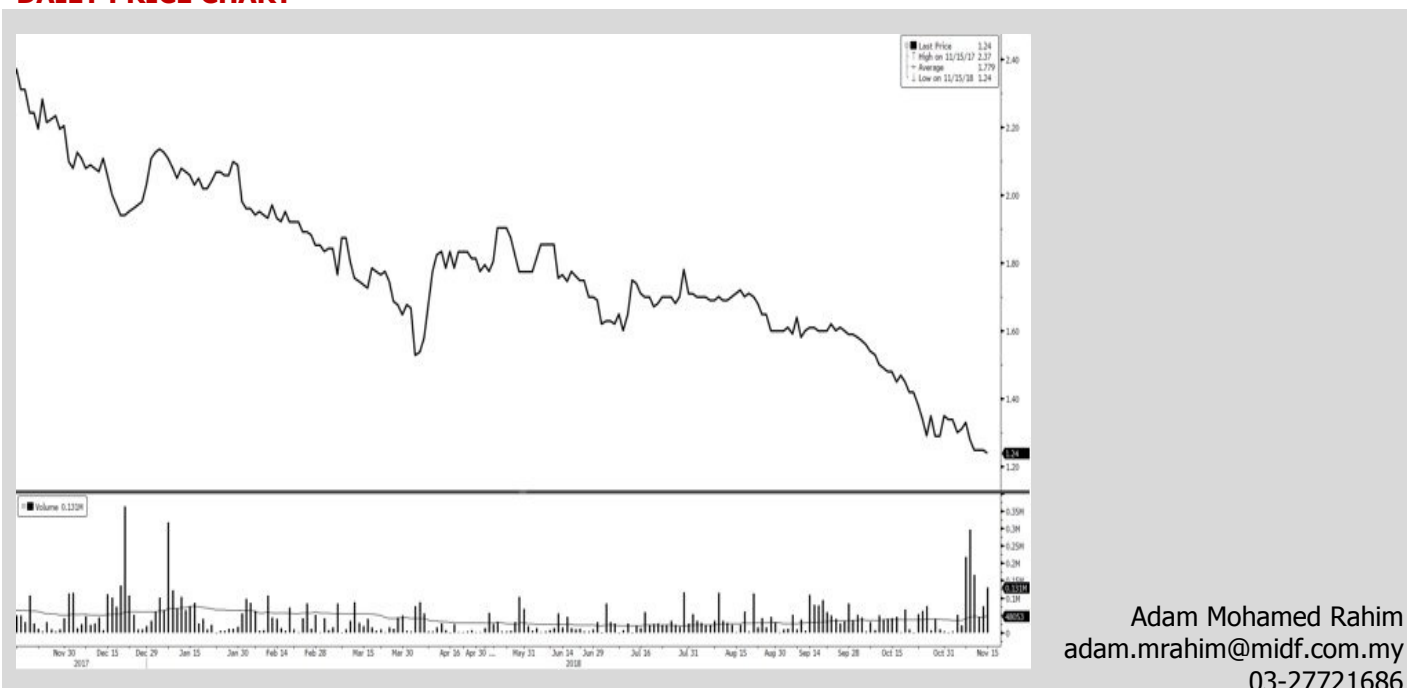
Downgrade to NEUTRAL with a revised target price (TP) of RM1.28 per share (*previously RM2.21 per share*) with forward price-earnings (PE) ratio of 9.5x (*previously 11.0x*) pegged to FY20 EPS of 13.5sen. Our revised valuation target represents our further conservatism in our valuation amidst increasing competition and uncertainty of global trade. While the retail logistics business focuses mostly on petrol kiosks and convenience stores, which we reckoned its demand to be resilient, contribution is expected to be minimal to the bottom line. Nevertheless, we note that Tasco has a manageable net debt to equity ratio below 1.0x despite increased financing costs. All factors considered, we are downgrading our recommendation to **NEUTRAL** from buy previously. 

INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18	FY19F	FY20F
Revenue (RM'm)	515.7	585.0	710.2	756.4	784.6
EBIT (RM'm)	45.9	43.3	52.2	46.5	57.3
Pre-tax Profit (RM'm)	44.1	41.8	42.0	25.6	36.2
Normalised PATAMI (RM'm)	30.7	31.2	32.5	19.0	27.0
EPS (sen)	11.7	13.7	16.2	9.5	13.5
EPS growth (%)	-61.1	17.1	18.2	-41.3	42.1
PER(x)	10.6	9.1	7.6	13.0	9.2
Net Dividend (sen)	4.5	4.5	4.5	4.5	4.5
Net Dividend Yield (%)	3.6	3.6	3.6	3.6	3.6

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

TASCO BHD: 2QFY19 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		
	2QFY19	%YoY	%QoQ	1HFY1	%YoY	
FYE Mar						
Revenue	191.1	-0.5	5.2	372.7	6.8	Contribution from cold chain business
COGS	-166.7	14.5	7.8	-321.4	15.6	
GP	24.4	-47.5	-9.8	51.4	-27.6	
Other income	1.4	107.0	-6.7	2.9	104.7	
S&GA expense	-16.1	-50.2	-11.6	-34.4	-27.6	
EBIT	9.6	-34.5	-6.2	19.9	-20.0	
Share from associates	-0.1	46.9	46.9	-0.2	177.2	
Finance expense	-5.9	115.8	71.7	-9.3	174.9	Financing of cold chain business
PBT	3.6	-69.4	-46.1	10.4	-51.3	
Tax expense	-0.9	-68.3	-46.4	-2.5	-51.8	
PAT	2.8	-69.7	-46.0	8.0	-51.2	
NCI	-0.1	36.4	-22.7	-0.2	41.0	
PATAMI	2.7	-70.3	-46.5	7.8	-51.9	
Exceptional items	-0.2	198.4	109.2	-0.3	-402.2	
Normalised PATAMI	2.5	-72.5	-50.9	7.7	-52.2	

BREAKDOWN OF BUSINESS SEGMENTS

International segment	2QFY19	%YoY	%QoQ	1HFY19	%YoY	Comments
Air Freight						
Revenue	41.9	-2.2	-2.5	85.0	-1.1	Disposal of loss making export business with E&E customer
PBT	1.8	75.9	-22.5	4.2	72.0	-
Ocean Freight						
Revenue	17.7	-44.7	3.3	34.9	-41.94	Preference of customers for direct shipment booking
PBT	-0.2	-106.9	-63.4	-0.9	-115.29	-
Domestic segment	2QFY19	%YoY	%QoQ	1HFY19	%YoY	Comments
Contract Logistics						
Revenue	84.9	11.6	6.3%	164.7	18.3	Contribution from solar panel customer and increased import shipments of a paper product manufacturer
PBT	3.6	-61.1	-29.6%	8.7	-46.1	Lower occupancy rate at warehouse
Cold chain						
Revenue	25.2	37.3	19.0%	46.3	152.6	GCT contributed RM28.0m post-acquisition revenue
PBT	2.7	96.8	-14.3%	5.8	326.5	-
Trucking						
Revenue	21.4	-6.0	4.4	41.9	-8.0	-
PBT	0.0	100.4	-99.5	0.7	146.1	Cost-cutting measures

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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.