

12 February 2018 | 3QFY18 Results Review

Tasco Berhad

Results below expectations due to delay in M&A

INVESTMENT HIGHLIGHTS

- **9MFY18 results below forecasts due to higher finance costs and delay of acquisition of MILS Cold Chain Logistics**
- **International segment PBT dented by competitive freight charges**
- **Domestic segment revenue boosted by regional distribution hub**
- **Revise earnings downwards from lower cold chain earnings**
- **Maintain BUY with revised TP of RM2.62 per share**

9MFY18 normalised PATAMI below estimates. Tasco recorded 3QFY18 normalised PATAMI of RM8.6m (+3.6%yoy), bringing its cumulative 9MFY18 normalised PATAMI to RM24.8m (+8.5%yoy). This fell short of our and consensus estimates, representing 67% of the full year forecasts respectively. The deviation is attributed to higher finance costs and delay of the acquisition of MILS Cold Chain Logistics Sdn Bhd (MILS), where the synergistic financial impact will only be felt in FY19. This is later than our earlier estimate, as we had forecasted the acquisitions to conclude by 1HCY17/2QFY18.

International segment revenue declined -4.6%yoy in 3QFY18.

Tasco's air freight forwarding revenue declined -9.3%yoy due to the shift in export shipments of aerospace via sea mode. Hence, the ocean freight forwarding benefited from this change together increased shipment volumes from an office equipment customer and an aluminium customer, posting a +4.9%yoy increase in revenue. However, the PBT of the international segment substantially declined by -51.2%yoy as a result of competitive freight rates and surcharges.

Domestic segment revenue rose by +42.2%yoy in 3QFY18 as cold chain logistics division via GCT posted an RM21.1m post-acquisition revenue. Aside from that, the ongoing operations of the regional distribution centre for Renesas combined with newly secured E&E customers in the central region boosted revenue for the contract logistics division. Both of these sub segments cushioned the loss before tax incurred in the trucking division which narrowed by -9.3%yoy due to the increase in fuel costs.

Maintain BUY

Revised Target Price (TP): RM2.62

(Previously: RM2.68)

RETURN STATS	
Price (9 Feb 2018)	RM1.99
Target Price	RM2.62
Expected Share Price Return	+31.7%
Expected Dividend Yield	+4.0%
Expected Total Return	+35.7%

STOCK INFO	
KLCI	1,819.82
Bursa / Bloomberg	5140 TASCO MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	200.00
Market cap. (RM'm)	398.00
Price over NA	1.36
52-wk price Range	RM1.58 - RM2.70
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM0.13m
Major Shareholders	
Real Fortune Portfolio	9.83%
NYK Group	9.59%
CIMB Group Holdings	2.82%

Update of MILS acquisition. In January 2018, Tasco and Swift Integrated Logistics Sdn Bhd (SILS) have mutually agreed to a further extension of time up to 30 April 2018 for the fulfilment of conditions for the acquisition of MILS Cold Chain Logistics Sdn Bhd (MILS) and the six parcels of leasehold land in Pulau Indah.

Revise earnings downwards. We are revising down our earnings estimates for FY18 by -7.7%, reflecting lower contributions from the cold chain segment amidst the delay of the full acquisition of MILS. In addition, we are also adjusting our FY19 earnings forecasts by -2.4% due to anticipated higher finance costs related to the acquisition.

Maintain BUY with an adjusted target price (TP) of RM2.62 per share with forward price-earnings ratio of 12x pegged to FY19 EPS of 21.8sen. We believe that Tasco's impetus for growth lies in its newly acquired cold chain logistics assets and its newly acquired global distribution contract for Renesas. Despite the delay in the acquisition of MILS, we reckon that the contribution would be reasonable in the long run.

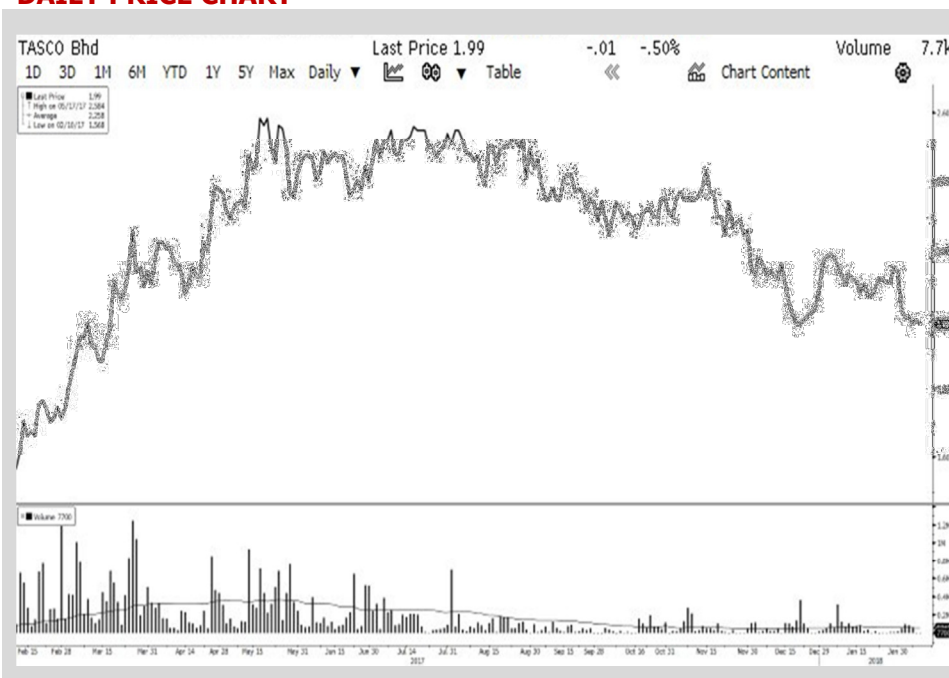


INVESTMENT STATISTICS

FYE Mar	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	494.3	515.7	585.0	702.9	782.3
EBIT (RM'm)	42.2	45.9	43.3	54.9	73.9
Pre-tax Profit (RM'm)	41.5	44.1	41.8	46.2	58.5
Core PATAMI (RM'm)	30.8	30.7	31.2	34.5	43.7
EPS (sen)	30.1	11.7	13.7	17.3	21.8
EPS growth (%)	0.9	-0.2	1.2	6.3	29.4
PER(x)	6.6	17.0	14.6	11.5	9.1
Net Dividend (sen)	9.0	4.5	4.5	6.5	8.0
Net Dividend Yield (%)	4.5	2.3	2.3	3.3	4.0

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

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TASCO 3QFY18 RESULTS SUMMARY

<i>All in RM'000 unless stated otherwise</i>	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	9MFY18	%YoY
FYE Mar					
Revenue	191,660	20.4	-0.2	540,708	23.7
COGS	(145,103)	21.0	-0.4	(410,164)	25.1
GP	46,557	18.5	0.3	130,544	19.6
Other income	838	-1.2	22.0	2,277	21.6
S&GA expense	(33,202)	20.5	2.4	(93,777)	19.2
EBIT	14,193	12.9	-3.4	39,044	20.8
Share from associates	(60)	-157.7	-6.3	(117)	-137.7
Finance expense	(3,173)	781.4	16.4	(6,560)	411.3
PBT	10,960	-11.0	-7.9	32,367	3.2
Tax expense	(2,711)	-16.8	-0.1	(7,810)	-3.1
PAT	8,249	-8.9	-10.3	24,557	5.4
NCI	(76)	76.7	38.2	(198)	27.7
PATAMI	8,173	-9.3	-10.6	24,359	5.2
Exceptional items	(401)	-154.3	322.1	(413)	-235.9
Core PATAMI	8,574	3.6	-7.2	24,772	8.5

Source: Company, MIDFR

BREAKDOWN OF BUSINESS SEGMENTS

International segment	3QFY18	%YoY	%QoQ	9MFY18	%YoY	Comments
Air Freight						
Revenue	44,946	-9.3%	4.8%	130,818.0	7.69%	Contribution of export shipments from E&E and aerospace
PBT	1,001	-43.2%	-2.9%	3,418.0	13.03%	-
Ocean Freight						
Revenue	26,021	4.9%	-18.7%	86,047.0	23.83%	Increased import shipments for office equipment and lighting
PBT	1,458	-55.5%	-59.4%	7,488.0	-1.95%	Competitive freight costs
Domestic segment	3QFY18	%YoY	%QoQ	9MFY18	%YoY	Comments
Contract Logistics						
Revenue	76,492	22.3%	0.5%	215,786.0	18.94%	Contributed by regional distribution centre for Renesas and new secured businesses in electrical appliances and tobacco
PBT	9,055	22.8%	-1.5%	25,142.0	22.10%	-
Cold chain						
Revenue	21,156	N/A	15.3%	39,497.0	N/A	GCT contributed RM39.5m post-acquisition revenue
PBT	2,678	N/A	98.5%	4,027.0	N/A	-
Trucking						
Revenue	23,045	3.4%	1.3%	68,560.0	6.07%	New customers from FMCG and electronic appliances
PBT	-603	9.3%	33.9%	-2,203.0	43.24%	Increased fuel costs

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.