

25 May 2018 | 4QFY18 Results Review

Tasco Berhad

Cold chain business to fully contribute in FY19

INVESTMENT HIGHLIGHTS

- **FY18 results slightly below estimates**
- **International segment PBT dented by competitive freight charges**
- **Domestic segment revenue boosted by cold chain logistics**
- **Revise earnings downwards due to higher finance costs**
- **Maintain BUY with reduced TP of RM2.50 per share**

FY18 normalised PATAMI slightly below estimates. Tasco recorded 4QFY18 normalised PATAMI of RM6.8m (+45.9%yoy), bringing its FY18 normalised PATAMI to RM32.5m (+15.3%yoy). This was slightly below our estimates, representing 94.1% of the full year forecasts but met consensus' expectations at 98.0%. The slight deviation is attributed to higher finance costs for the new cold chain logistics business and increased professional and compliance expenses for corporate merger & acquisition exercises.

International segment revenue increased by +5.7%yoy in FY18.

Tasco's air freight forwarding revenue advanced by +0.3%yoy mainly due to the increased shipments of the semiconductor related products. The ocean freight forwarding business was doing equally well as it benefited from the increased import shipment from customers involved in office equipment, lighting and musical instruments, resulting in a +15.7%yoy increase in revenue. However, the PBT of the international segment declined by -12.7%yoy, dragged by competitive freight rates and surcharges in the ocean freight forwarding business.

Domestic segment boosted by CSC business.

Domestic segment revenue and PBT rose by +34.4%yoy and +74.1%yoy respectively in FY18 as the cold chain logistics business via GCT posted an RM61.4m post-acquisition revenue. Aside from that, the ongoing operations of the regional distribution centre for Renesas combined with a newly secured electrical appliance customer lifted PBT margins by +1.8ppts from a year ago. Both of these sub segments cushioned the +3.0%yoy increase in loss before tax incurred in the trucking division due to the fluctuation in fuel costs.

Maintain BUY

Revised Target Price (TP): RM2.50

(Previously: RM2.62)

RETURN STATS	
Price (24 May 2018)	RM1.93
Target Price	RM2.50
Expected Share Price Return	+29.5%
Expected Dividend Yield	+2.6%
Expected Total Return	+32.1%

STOCK INFO	
KLCI	1,775.66
Bursa / Bloomberg	5140 TASCO MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	200.00
Market cap. (RM'm)	386.00
Price over NA	1.07
52-wk price Range	RM1.55 - RM2.62
Beta (against KLCI)	1.20
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.03m
Major Shareholders (%)	
Real Fortune Portfolio	9.83
NYK Group	9.59
CIMB Group Holdings	2.87

Update of MILS acquisition. In April 2018, all conditions precedent in the share purchase agreement for the purchase of MILS and six parcels of leasehold land in Pulau Indah had been fulfilled, making these acquisitions unconditional. Notwithstanding this, the completion of these acquisitions is subject to the settlement of the balance purchase consideration of approximately RM121.4m according to the share sale agreement. Tasco has secured financing for the balance purchase consideration on 21 May 2018. Therefore, we opine that these acquisitions will conclude by 2HFY19.

Prospects in FY19. Moving forward, margins of Tasco Berhad will be mainly supported by; (i) the full contribution of the cold chain logistics business comprising of GCT and MILS and; (ii) the regional distribution centre supported by Renesas' growth in the chip market especially microcontrollers for electrified cars and driver assistance systems is expected to be strong as power efficiency becomes increasingly important as fuel efficiency amid tightening environmental regulations.

Earnings estimates. We are revising down our earnings estimates for FY19 by -4.8% to reflect higher finance costs for completing the MILS acquisition.


Maintain BUY with a reduced target price (TP) of RM2.50 per share (previously RM2.62 per share) with forward price-earnings (PE) ratio of 12x pegged to FY19 EPS of 20.8sen. Our 12x target for the forward PE ratio equates to the average forward PE of its peers as we practise conservatism in our valuation amidst increasing competition in Tasco's traditional core business. We believe that Tasco's impetus for growth lies in its newly acquired cold chain logistics assets which will grow with the regional distribution centre for Renesas in KLIA's freight forwarding complex. Fundamentals of TASCOS remain intact, trading at a forward PE ratio of 9.5x and a manageable net debt to equity ratio of 0.48x. 

Table 1: Comparable companies

Comparable company	Market Cap as of 24 May '18 (RM'm)	Last Price as of 24 May '18 (RM)	Consensus forward FY18 EPS (RM)	Forward PE ratio
Century Logistics	254.3	0.65	0.04	16.3
Freight Management	210.3	1.13	0.12**	9.4
Tiong Nam Logistics	469.4	1.03	0.11	10*
Average				11.9
Tasco	386	1.93	0.21	12.0

Source: Bloomberg, Companies, MIDFR

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

** Based on latest PER obtained from Bloomberg

INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18	FY19F	FY20F
Revenue (RM'm)	515.7	585.0	710.2	788.0	827.6
EBIT (RM'm)	45.9	43.3	52.2	70.5	83.6
Pre-tax Profit (RM'm)	44.1	41.8	42.0	55.7	69.6
Normalised PATAMI (RM'm)	30.7	31.2	32.5	41.6	52.0
EPS (sen)	11.7	13.7	1.5	2.1	2.6
EPS growth (%)	-0.2	1.2	-4.1	41.5	25.0
PER(x)	17.0	14.6	13.4	9.5	7.6
Net Dividend (sen)	4.5	4.5	4.5	5.0	5.0
Net Dividend Yield (%)	2.3	2.3	2.3	2.6	2.6

Source: MIDFR, Company

DAILY PRICE CHART



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TASCO 4QFY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		
	4QFY18	%YoY	%QoQ	FY18	%YoY	
FYE Mar						
Revenue	169.5	15.0	-11.6	710.2	21.5	Contribution from cold chain business
COGS	-124.5	10.5	-14.2	-534.7	21.4	
GP	45.0	29.7	-3.4	175.5	22.1	
Other income	8.4	30.9	902.6	10.7	28.8	
S&GA expense	-40.2	40.5	21.1	-134.0	24.9	
EBIT	13.2	5.7	-7.2	52.2	16.6	
Share from associates	-0.1	-193.7	73.3	-0.2	-152.5	
Finance expense	-3.4	743.7	8.2	-10.0	491.4	Financing of cold chain business
PBT	9.6	-20.8	-12.1	42.0	-3.5	
Tax expense	-4.5	-1.7	67.3	-12.3	-2.6	
PAT	5.1	-32.5	-38.2	29.7	-3.9	
NCI	-0.1	90.6	-19.7	-0.3	38.5	
PATAMI	5.0	-33.0	-38.3	29.4	-4.1	
Exceptional items	-1.8	-162.3	406.0	-3.1	-223.4	
Normalised PATAMI	6.8	45.9	-20.1	32.5	15.3	

Source: Company, MIDFR

BREAKDOWN OF BUSINESS SEGMENTS

International segment	4QFY18	%YoY	%QoQ	FY18	%YoY	Comments
Air Freight						
Revenue	40.2	-17.9	-10.6	171.0	0.3	Contribution of export shipments from E&E and aerospace
PBT	0.3	-47.8	-67.6	3.7	2.7	-
Ocean Freight						
Revenue	20.5	-9.1	-21.1	106.6	15.7	Increased import shipments for office equipment and lighting
PBT	1.1	-62.0	-27.0	8.6	-18.1	Competitive freight costs
Domestic segment	4QFY18	%YoY	%QoQ	FY18	%YoY	Comments
Contract Logistics						
Revenue	68.9	27.0	-9.9	284.7	20.8	Contributed by regional distribution centre for Renesas and new secured businesses in electrical appliances
PBT	11.1	117.4	22.7	36.3	41.1	-
Cold chain						
Revenue	21.9	N/A	3.6	61.4	N/A	GCT contributed RM61.4m post-acquisition revenue
PBT	3.2	N/A	20.8	7.3	N/A	-
Trucking						
Revenue	17.9	-16.7	-22.1	86.5	0.4	-
PBT	0.4	-321.1	-169.7	-1.8	3.2	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.