

27 November 2018 | 2QFY19 Results Review

Tiong Nam Logistics Holdings Berhad

No rerating catalyst in the near term

INVESTMENT HIGHLIGHTS

- **1HFY19 normalised PAT fell short of estimates in view of lower capitalisation of property development projects**
- **Nonetheless, the logistics and warehousing segment was back in the black due to new customers from the FMCG sector**
- **E-commerce delivery segment and cross border trucking yet to delivery meaningful contributions amid tight competition**
- **Lack of new property developments in the pipeline, with the exception of Kota Masai township, to inhibit earnings growth**
- **Maintain NEUTRAL with a revised TP of RM0.75**

1HFY19 earnings fell short of estimates. Tiong Nam Logistics Holdings Bhd (Tiong Nam) reported 2QFY19 normalised PAT of RM0.4m (-97.7%yoy), which contributed to a 1HFY19 normalised PAT of RM8.5m (-62.8%yoy). This was below ours and consensus' FY19 earnings estimates by a variance of more than 10%. The deviation was mainly due to lower capitalisation of property development projects which led to higher finance costs.

Logistics and warehousing segment was back in the black. Tiong Nam's logistics and warehousing segment recorded a PBT of RM8.9m in 1HFY19 compared to the -RM2.5m loss before tax in 1HFY18. Moreover, EBITDA margins were +6ppts higher at 13% compared to the same period last year. The vast improvement came from the addition of new MNC customers from the FMCG sector which could boost the occupancy rate at its warehouses to approximately 80% for FY19 and subsequently 90% in FY20.

Longer gestation period for the oversea distribution centres. Meanwhile, Tiong Nam's oversea distribution centres has yet to deliver meaningful earnings contribution as the company is focusing on gaining reputation with certain customers before expanding service offerings to others. Likewise, its e-commerce delivery segment, 'Instant' will still be loss-making in FY19 amidst competition from new entries in the industry. Tiong Nam cited that it will maintain 'Instant' while waiting for the market to consolidate before making any huge expansions. As such finance costs will continue to remain elevated before breaking even.

Maintain NEUTRAL

Revised Target Price (TP): RM0.75
(From: RM0.92)

RETURN STATS

Price (26 th November 2018)	RM0.84
Target Price	RM0.75
Expected Share Price Return	-10.7%
Expected Dividend Yield	+2.4%
Expected Total Return	-8.3%

STOCK INFO

KLCI	1,701.99
Bursa / Bloomberg	8397/ TNL MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	456.19
Market cap. (RM'm)	380.92
Price over NA	0.54
52-wk price Range	RM0.83 - RM1.40
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	0.17m
3-mth Avg Daily Value	RM0.16m
Major Shareholders (%)	
Yong Kwee Lian	50.20
TNTT Realty Sdn Bhd	25.83
Ong Yoong Nyock	21.73
EPF	5.48

Looming weakness in property development segment. The property development segment performed poorly in 1HFY19, posting a PBT of RM6.3m (-81.6%yoy) due to lower unbilled sales of merely RM2.4m (vs RM80.2m in the same period last year) post the completion of the Pinetree Marina Resorts. Moving forward, the only project in the pipeline is the development of Kota Masai township which is expected to be launched towards the end of FY19/1QCY19 with an estimated GDV of RM150m. Overall, Tiong Nam is targeting to sell RM100m worth of unsold properties in FY19.

Downward revision in earnings forecasts. While the logistics segment will be driven by new MNC clients, we reckon that this would be weighed down by: (i) the sluggish performance of the property segment with no new projects in the pipeline except Kota Masai; and (ii) the overseas distribution centres and e-commerce delivery segment which is yet to turn profitable. In light of this, we are lowering our revenue contribution from the property segment and higher financing costs which lead to a reduction in our FY19 PAT margin forecast to below 10% from 12% previously for the segment. As such, our earnings forecasts for FY19 and FY20 are being revised downwards to RM21.9m and RM30.7m respectively.


Maintain NEUTRAL with a reduced target price of **RM0.75** per share. Our adjusted TP post-earnings revision is based on its sum-of-parts, consisting of: (i) its core logistics & warehousing business; (ii) Its property development arm; and (iii) the investment arm. This also takes into account of the exact number of warrants that have been exercised. A rerating catalyst would be: (i) the inclusion of Tiong Nam into the Securities Commission's list of Shariah-compliant securities; and (ii) the relocation of companies from China to South East Asia to circumvent the effects of the trade war. 

Table 1: SOP Valuation

Business segment/asset	Valuation Methodology	Value (RM'm)	Value Per Share (RM)
Logistics and warehousing	Price-to-earnings multiple of 10x FY20 Core PAT	179.9	0.39
Property development	RNAV @ WACC of 15%	101.9	0.22
Investment	Latest book value	21.8	0.05
Value per share	Before conversion of warrants	303.57	0.66
Add: Proceeds from exercise of warrants	Exercise price at RM1 by Dec 2018	40.0	0.09
Value per share	After conversion of warrants	343.57	0.75

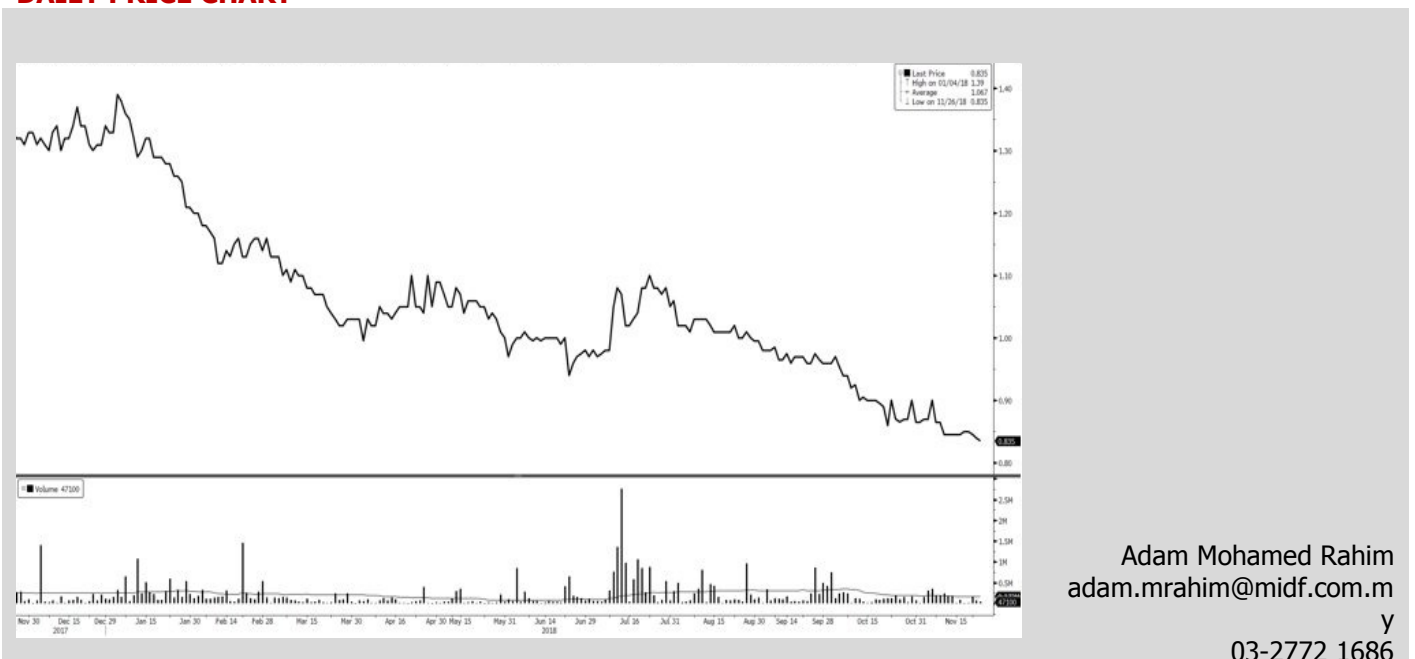
Source: MIDF Research

INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue (RM'm)	568.5	573.4	656.4	607.3	634.8
EBIT (RM'm)	124.9	127.2	87.9	70.8	85.9
Pre-tax Profit (RM'm)	105.8	100.6	54.6	27.9	39.4
Normalized PATAMI (RM'm)	53.6	59.7	44.5	21.9	30.7
FD EPS (sen)	11.8	11.9	8.7	4.8	6.7
EPS growth (%)	-21.4	1.4	-26.0	-46.0	39.9
PER(x)	7.1	7.0	9.5	17.6	12.6
Net Dividend (sen)	5.0	4.8	0.0	1.4	2.0
Net Dividend Yield (%)	6.0	5.7	0.0	1.7	2.4

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

TIONG NAM LOGISTICS HOLDINGS BHD: 2QFY19 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE Mar	2QFY19	%YoY	%QoQ	1HFY19	%YoY	
Revenue	152.1	-12.3	-2.0	307.2	-2.3	Completion of majority of property development projects
COGS	-117.7	-5.8	1.6	-233.6	0.5	
Gross Profit	34.3	-29.1	-12.5	73.6	-10.0	
Operating Expenses	-10.6	-31.0	-22.4	-24.2	-23.2	
EBITDA	23.8	-28.3	-7.3	49.4	-1.8	
Depreciation & amortisation	-7.6	13.5	3.1	-14.9	14.3	
EBIT	16.2	-38.8	-11.4	34.5	-7.5	
Finance Cost	-11.0	73.5	6.3	-21.3	58.2	
Share of profit from associates	0.0	13.6	85.0	-0.1	-324.6	
PBT	5.2	-74.1	-33.6	13.1	-45.4	
Tax Expenses	-1.6	-71.4	-28.8	-3.8	-53.5	
PAT	3.6	-75.1	-35.5	9.3	-41.2	
Extraordinary items & NCI	-3.2	-244.3	-231.9	-0.8	-111.2	
Normalized PATAMI	0.4	-97.7	-95.1	8.5	-62.8	

OPERATING SUMMARY

Logistics & Warehousing	2QFY19	%YoY	%QoQ	1HFY19	%YoY	Comments
Revenue	137.8	9.1	6.2	267.5	7.7	New MNC customers
Operating Expenses	-119.6	-0.4	5.3	-233.2	1.2	Scale back on warehouse expansion
EBITDA	18.1	195.5	12.7	34.2	93.5	
Depreciation & Amortisation	-7.5	13.3	2.9	-14.8	14.4	
EBIT	10.6	n.m.	20.8	19.4	311.3	
Net Finance Costs	-5.7	69.0	17.4	-10.5	45.5	
PBT	4.9	227.0	25.0	8.9	450.0	
Property Development	2QFY19	%YoY	%QoQ	1HFY19	%YoY	Comments
Revenue	13.8	-70.6	-45.6	39.1	-40.5	Completion of majority of property development projects
Operating Expenses	-8.6	-57.8	-37.8	-22.4	-18.9	
EBITDA	5.2	-80.5	-55.0	16.7	-56.2	
Depreciation & Amortisation	0.0	37.5	63.0	-0.1	12.7	
EBIT	5.2	-80.6	-55.2	16.7	-56.3	
Net Finance Costs	-5.3	246.3	3.8	-10.4	147.6	
PBT	-0.2	-100.6	-102.4	6.3	-81.6	

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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.