

27 February 2018 | 3QFY18 Results Review

## Tiong Nam Logistics Holdings Berhad

*Higher operating expenses to strain profitability*

**Maintain Neutral**

**Adjusted Target Price (TP): RM1.23**

*(From: RM1.43)*

### INVESTMENT HIGHLIGHTS

- **9MFY18 fell short of estimates**
- **Logistics division remains in the red**
- **Revenue of property development segment flourished**
- **Revise earnings forecast downwards**
- **Maintain NEUTRAL with an adjusted TP of RM1.23 per share**

**9MFY18 fell short of estimates.** Tiong Nam reported 3QFY18 normalized PAT of RM12.9m (+10.6%yoy). This contributed to a 9MFY18 normalised PAT of RM35.5m (-22.5%yoy,) which missed both ours and consensus estimates, accounting for only 68% of our respective full year forecasts. The shortfall was due to a higher effective tax rate of 34% in 3QFY18 due to certain expenses which were not tax deductible and operating expenses which rose by +21.6%yoy.


**Logistics division remains in the red.** The logistics & warehousing revenue rose by +13.4%yoy in 3QFY18 due to newly secured customers combined with the business expansion of existing ones. However, the segment registered a loss before tax of -RM0.01m compared to the PBT of RM5.5m recorded in the same quarter of the preceding year attributable to the +22.2%yoy increase in operating expenses. We reckon that the bulk of operating expenses is related to start-up costs from the cross-border trucking business and new overseas distribution centre. These ventures would only deliver meaningful earnings contributions from FY19 onwards, in our view. Overall, we expect expenses to remain heightened, with a propensity to rise further, with RM100m in capex budgeted for FY18.

**Property segment flourished.** The operating expenses of Tiong Nam's property segment in 3QFY18 ballooned up to RM22.0m from RM0.9m in 3QFY17. Nonetheless, this was mitigated by the ongoing construction of projects in Nusajaya which includes the Silc7 and the Pine tree which contributed revenue of RM41.1m (+77.8%yoy). Moving forward, Tiong Nam is confident to sell RM100m worth of unsold properties in FY19.

RETURN STATS	
Price (26 Feb 2018)	RM1.16
Target Price	RM1.23
Expected Share Price Return	+6.0%
Expected Dividend Yield	+2.5%
<b>Expected Total Return</b>	<b>+8.5%</b>

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	8397/ TNL MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	456.73
Market cap. (RM'm)	529.80
Price over NA	0.77
52-wk price Range	RM1.10 - RM1.83
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	0.24m
3-mth Avg Daily Value	RM0.30m
Major Shareholders (%)	
TNTT Realty SB	25.04
Yoong Nyock Ong	20.06
EPF	5.64

**Reducing our earnings forecasts.** With revenue only expected to compensate for the rising costs gradually over the coming quarters, we raise our assumptions for operating expenses and financing costs which led to a reduction in our EBIT margin forecast for the logistics and warehousing division from 7.5% to 7.0% in FY18. As such, our earnings forecast for FY18 and FY19 is lowered to RM46.0m (previously RM52.1m) and RM67.3m (previously RM71.0m), respectively.

**Maintain NEUTRAL with an adjusted target price of RM1.23 per share.** Our adjusted TP of RM1.23 (previously RM1.43) is based on its sum-of-parts, consisting of: (1) Its core logistics & warehousing business; (2) Its property development arm and; (3) The value of its warehouses if it were listed under a REIT structure. We reckon that although Tiong Nam is in a market leading position in the integrated logistics industry, the operating expenses incurred for its expansions are compressing its margins. A rerating catalyst would be the IPO of its logistics assets injected into a REIT structure could provide immediate rerating catalyst for the stock, giving rise to the potential of special dividends. 

**Table 1: SOP Valuation**

Business segment/asset	Valuation Methodology	Value (RM'm)	Fully diluted value Per Share (RM)
Logistics and warehousing	Price-to-earnings multiple of 10x FY19 Core PAT	122.1	0.19
Property development	RNAV @ WACC of 13%	199.0	0.30
Tiong Nam logistics REIT	Valued @ capitalization rate of 7.5%	640.0	0.97
Subtract: Debt related to warehouse financing	Outstanding value	-250.0	-0.38
<b>Value per share</b>	<b>Before conversion of warrants</b>	<b>711.09</b>	<b>1.08</b>
Add: Proceeds from exercise of warrants	Exercise price at RM1 by 2018	210.0	0.32
<b>Value per share</b>	<b>After conversion of warrants</b>	<b>921.09</b>	<b>1.40</b>

Source: MIDF Research

## INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	618.0	568.5	573.4	618.6	657.5
EBIT (RM'm)	124.5	124.9	127.2	92.3	123.6
Pre-tax Profit (RM'm)	110.7	105.8	100.6	61.6	90.5
Normalized PATAMI (RM'm)	68.6	53.6	59.7	47.2	68.9
FD EPS (sen)	16.3	12.7	12.2	7.2	10.5
EPS growth (%)	44.0	-21.4	3.9	-41.3	45.9
PER(x)	7.8	9.9	9.5	16.2	11.1
Net Dividend (sen)	4.0	5.0	4.8	2.9	4.2
Net Dividend Yield (%)	2.3	2.9	3.5	2.5	3.6

Source: MIDFR, Company

## DAILY PRICE CHART



Source: Bloomberg

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## TIONG NAM: 9MFY18 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE Mar	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
Revenue	172.8	24.1	-0.4	487.1	18.3	Mainly due to increase in property revenue
COGS	-125.5	46.3	0.4	-358.0	26.1	
Gross Profit	47.3	-11.6	-2.4	129.1	1.0	
Operating Expenses	-16.8	21.6	9.9	-48.3	52.0	
EBITDA	30.5	-23.2	-8.1	80.8	-15.9	
Depreciation & amortisation	-6.9	-2.3	3.5	-19.9	15.1	
EBIT	23.5	-27.7	-11.0	60.9	-22.7	
Finance Cost	-7.9	-28.3	24.1	-21.3	-6.7	
Share of profit from associates	-0.1	-215.5	-440.9	-0.1	-140.9	
PBT	15.6	-28.3	-22.6	39.5	-29.5	
Tax Expenses	-5.4	25.2	2.2	-13.5	18.9	
PAT	10.2	-41.5	-30.2	26.0	-41.7	
Extraordinary items & NCI	2.7	181.9	36.1	9.5	782.0	
Normalized PATAMI	12.9	-8.7	-22.3	35.5	-18.0	

## OPERATING SUMMARY

Logistics & Warehousing	3QFY18	%YoY	%QoQ	9MFY18	%YoY	Comments
Revenue	131.6	13.4	4.3	379.9	15.2	New logistics customers
Operating Expenses	-120.4	22.2	0.2	-350.9	26.0	
EBITDA	11.3	-36.0	83.7	29.0	-43.7	
Depreciation & Amortisation	-6.9	-3.0	3.6	-19.9	14.8	
EBIT	4.4	-58.2	977.8	9.1	-73.3	
Net Finance Costs	-4.4	-12.6	30.8	-11.7	-15.0	
PBT	-0.01	-100.2	99.7	-2.5	-112.4	
Property Development	3QFY18	%YoY	%QoQ	9MFY18	%YoY	Comments
Revenue	41.1	77.8	-12.4	106.9	199.7	Construction progress in Nusajaya projects
Operating Expenses	-22.0	2444.2	8.3	-49.6	523.3	
EBITDA	19.1	-14.3	-28.3	57.3	106.7	
Depreciation & Amortisation	0.0	-12.9	-15.6	-0.1	291.3	
EBIT	19.1	-14.3	-28.3	57.2	106.6	
Net Finance Costs	-2.5	-53.5	60.1	-6.7	-8.6	
PBT	16.6	-2.1	-33.7	50.5	147.7	

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.