

30 May 2018 | FY18 Results Review

Tiong Nam Logistics Holdings Berhad

Higher operating expenses bane on earnings

Maintain Neutral

Reduced Target Price (TP): RM1.05

(From: RM1.23)

INVESTMENT HIGHLIGHTS

- **FY18 earnings in line with our estimates**
- **Logistics division remains in the red**
- **Revenue of property development segment flourished**
- **Revise earnings forecast downwards**
- **Maintain NEUTRAL with an adjusted TP of RM1.05 per share**

FY18 earnings in line with our estimates. Tiong Nam reported 4QFY18 normalised PAT of RM9.6m (-37.3%yoy), contributing to a FY18 normalised PAT of RM45.3m (-21.5%yoy). The results met our estimates but fell short of consensus, accounting for only 98% and 93% of respective full year forecasts.

Logistics division remains in the red. The logistics and warehousing segment posted a +12.4%yoy increase in revenue for FY18 due to newly secured customers combined with the business expansion of existing ones. However, the segment reported a loss before tax of -RM1.9m in FY18 compared to a PBT of RM20.8m in FY17 mainly attributable to the +19.1%yoy increase in operating expenses amid expansion of warehousing capacity and overseas distribution centres. These ventures would only deliver meaningful earnings contributions from FY19 onwards, in our view.

Property segment stands strong. Property development revenue and PBT jumped by +23.4%yoy and +21.0%yoy respectively in FY18. We reckon that this segment was mainly supported by the construction progress for flagship projects in Nusajaya, Johor. Moving forward, Tiong Nam is confident to sell RM100m worth of unsold properties in FY19 combined with its upcoming Kota Masai township in Johor Bahru by the end of FY19 with an estimated GDV of RM150m.

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 6.5% in FY19. As such, our earnings forecast for FY19 is lowered to RM59.3m (previously RM67.3m).

RETURN STATS	
Price (28 May 2018)	RM1.03
Target Price	RM1.05
Expected Share Price Return	+1.9%
Expected Dividend Yield	+3.4%
Expected Total Return	+5.3%

STOCK INFO	
KLCI	1,775.84
Bursa / Bloomberg	8397/ TNL MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	456.76
Market cap. (RM'm)	469.44
Price over NA	0.67
52-wk price Range	RM0.99 - RM1.79
Beta (against KLCI)	0.97
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.09m
Major Shareholders (%)	
TNTT Realty SB	25.64
Yoong Nyock Ong	19.55
EPF	5.63


Maintain NEUTRAL with an adjusted target price of RM1.05 per share. Our adjusted TP of RM1.05 (previously RM1.23 per share) 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	12.2	0.02
Property development	RNAV @ WACC of 15%	125.7	0.25
Tiong Nam logistics REIT	Valued @ capitalization rate of 7.5%	440.0	0.86
Subtract: Debt related to warehouse financing	Outstanding value	-250.0	-0.49
Value per share	Before conversion of warrants	327.89	0.64
Add: Proceeds from exercise of warrants	Exercise price at RM1 by 2018	210.0	0.41
Value per share	After conversion of warrants	537.89	1.05

Source: MIDF Research

INVESTMENT STATISTICS

FYE Dec	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue (RM'm)	568.5	573.4	657.9	688.3	726.2
EBIT (RM'm)	124.9	127.2	87.2	111.4	119.0
Pre-tax Profit (RM'm)	105.8	100.6	54.6	78.1	83.6
Normalized PATAMI (RM'm)	53.6	59.7	45.7	59.5	63.7
FD EPS (sen)	11.8	11.9	8.9	11.6	12.4
EPS growth (%)	-21.4	1.4	-25.2	30.4	7.0
PER(x)	8.8	8.6	11.6	8.9	8.3
Net Dividend (sen)	5.0	4.8	3.6	3.5	3.7
Net Dividend Yield (%)	4.9	4.7	3.5	3.4	3.6

Source: MIDFR, Company

DAILY PRICE CHART



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TIONG NAM: FY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		Comments
	FYE Mar	4QFY18	%YoY	%QoQ	FY18	
Revenue	170.8	5.6	-1.1	657.9	14.7	Mainly due to increase in property revenue
COGS	-119.7	0.4	-4.6	-477.8	18.5	
Gross Profit	51.1	20.2	8.0	180.1	5.8	
Operating Expenses	-17.3	-235.9	3.0	-65.6	245.1	
EBITDA	33.7	-38.9	10.8	114.5	-24.3	
Depreciation & amortisation	-7.3	16.2	6.4	-27.3	15.4	
EBIT	26.4	-46.0	12.0	87.2	-31.6	
Finance Cost	-11.2	142.3	43.1	-32.6	18.4	
Share of profit from associates	0.0	-100.6	98.3	-0.1	-111.5	
PBT	15.1	-66.1	-2.8	54.6	-45.7	
Tax Expenses	-7.5	19.1	40.1	-21.0	19.0	
PAT	7.6	-80.1	-25.3	33.6	-59.5	
Extraordinary items & NCI	2.0	108.6	-26.4	12.0	-148.6	
Normalized PATAMI	9.6	-37.3	-25.5	45.7	-21.5	

OPERATING SUMMARY

Logistics & Warehousing	4QFY18	%YoY	%QoQ	FY18	%YoY	Comments
Revenue	131.4	5.3	-0.2	511.3	12.4	New logistics customers
Operating Expenses	-112.7	1.7	-6.4	-463.6	19.1	
EBITDA	18.7	33.0	65.7	47.6	-27.5	
Depreciation & Amortisation	-7.3	16.4	6.5	-27.2	13.9	
EBIT	11.4	46.4	158.3	20.5	-51.1	
Net Finance Costs	-10.7	43.5	142.2	-22.3	5.6	
PBT	0.7	112.5	6281.8	-1.9	-109.0	
Property Development	4QFY18	%YoY	%QoQ	FY18	%YoY	Comments
Revenue	39.4	6.7	-4.2	146.3	23.4	Construction progress in Nusajaya projects
Operating Expenses	-19.1	5.1	-13.3	-68.7	28.7	
EBITDA	20.3	8.3	6.3	77.6	19.1	
Depreciation & Amortisation	0.0	-16.1	-3.7	-0.1	-6.5	
EBIT	20.3	8.3	6.3	77.5	19.1	
Net Finance Costs	0.7	-65.5	-126.8	-6.0	0.5	
PBT	20.9	1.5%	26.0	71.4	21.0	

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.