

08 November 2018 | Corporate Update

Tiong Nam Logistics Holdings Berhad

Scaling back on its expansion plan

INVESTMENT HIGHLIGHTS

- **Warehouse capacity expansion scaled back to 5.9m sqft (previously 7.0m sqft) to maintain occupancy rate near 80%**
- **Overseas distribution centres and e-commerce delivery segments yet to deliver meaningful earnings**
- **Lack of new property developments in the pipeline, with the exception of Kota Masai township, to inhibit earnings growth**
- **Maintain NEUTRAL with a reduced TP of RM0.92 per share**

Scaling back on warehouse expansion plans. Initially, Tiong Nam Logistics Holdings Bhd (Tiong Nam) planned to expand its warehouse capacity to 7.0m sqft from the current 5.5m sqft by FY20. However, the management noted that only an additional 0.4m sqft of capacity will be added by FY20, bringing the total capacity to approximately 5.9m sqft. The capacity expansion will be carried out at Laos (0.03m sqft), Kulim (0.10m sqft) and Seelong (0.30m sqft). The scale back on warehouse expansion plans would enable Tiong Nam to focus on attaining larger clientele to optimise the existing warehouse capacity. Moreover, the occupancy rate for Tiong Nam's warehouses is expected to hit nearly 80% for FY19 due to the addition of new MNC customers involved in the FMCG sector.

No meaningful contribution from its new ventures. Meanwhile, Tiong Nam's overseas 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. Currently, countries like Myanmar are supported by a large local telecommunication company while Vietnam has not seen much traction in terms of volume. Likewise, its e-commerce delivery segment, 'Instant' will still be loss-making in FY19. Tiong Nam cited that it will maintain Instant while waiting for the market to consolidate before making any huge expansions.

Contribution from the property segment to trend lower. The PBT of the property segment in 2QFY19 is expected to be weaker than 1QFY19 due to lower unbilled sales and the completion of the Pinetree Marina Resorts. To recall, the PBT of the property development segment declined by -27.9%yoy to RM6.4m in 1QFY19. Moving forward, the new project that Tiong Nam is left with is the 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.

Maintain NEUTRAL

Reduced Target Price (TP): RM0.92
(previously: RM1.02)

RETURN STATS	
Price (7 th November 2018)	RM0.90
Target Price	RM0.92
Expected Share Price Return	+2.2%
Expected Dividend Yield	+2.6%
Expected Total Return	+4.8%

STOCK INFO	
KLCI	1,714.88
Bursa / Bloomberg	8397/ TNL MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	456.19
Market cap. (RM'm)	410.57
Price over NA	0.58
52-wk price Range	RM0.85 - RM1.46
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	0.19m
3-mth Avg Daily Value	RM0.18m
Major Shareholders (%)	
Yong Kwee Lian	50.20
TNTT Realty Sdn Bhd	25.83
Ong Yoong Nyock	21.73
EPF	5.54

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 sight except Kota Masai; and (ii) the overseas distribution centres and e-commerce delivery segment which is yet to deliver meaningful earnings contribution. Therefore, we are lowering our revenue contribution from the property segment which leads to a reduction in our FY19 PAT margin forecast to below 15.0% from above 20.0% previously for the segment. As such, our earnings forecast for FY19 and FY20 are being revised downwards by -19.9% and -19.6% to RM33.0m and RM40.5m respectively.


Maintain NEUTRAL with a reduced target price of RM0.92 per share. Our adjusted TP of RM0.92 (previously RM1.02 per share) 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. 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	174.2	0.34
Property development	RNAV @ WACC of 15%	66.4	0.13
Investment	Latest book value	21.8	0.04
Value per share	Before conversion of warrants	262.43	0.51
Add: Proceeds from exercise of warrants	Exercise price at RM1 by 2018	210.0	0.41
Value per share	After conversion of warrants	472.43	0.92

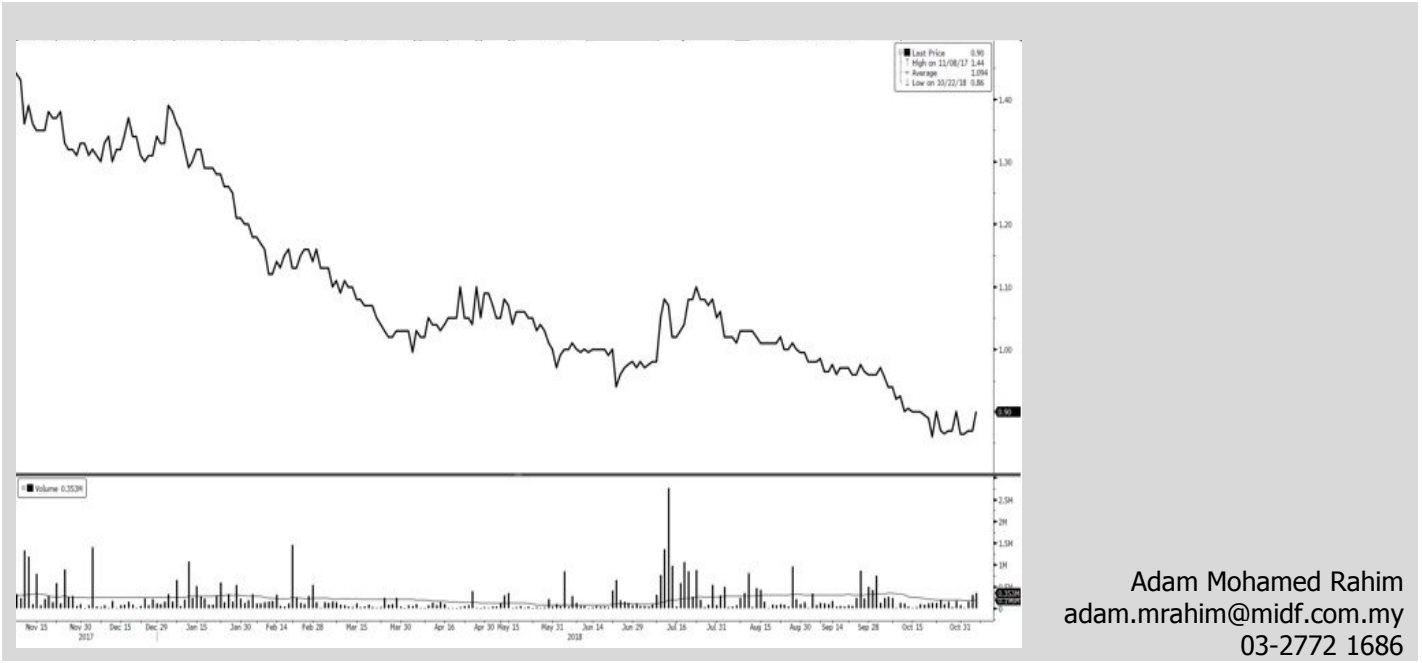
Source: MIDF Research

INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue (RM'm)	568.5	573.4	656.4	639.0	663.2
EBIT (RM'm)	124.9	127.2	87.9	81.8	94.8
Pre-tax Profit (RM'm)	105.8	100.6	54.6	42.6	52.4
Normalized PATAMI (RM'm)	53.6	59.7	44.5	33.0	40.5
FD EPS (sen)	11.8	11.9	8.7	6.4	7.9
EPS growth (%)	-21.4	1.4	-27.2	-25.7	22.5
PER(x)	8.5	8.4	10.4	14.0	11.4
Net Dividend (sen)	5.0	4.8	0.0	1.9	2.4
Net Dividend Yield (%)	5.0	4.8	0.0	2.1	2.6

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

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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.