

Tasco Berhad

(5140 | TASC0 MK) Transportation & Logistics | Industrials

Exceeded expectations but risks linger from Covid-19

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 normalised earnings exceeded expectations**
- **International business segment PBT dropped by -5.6%yoy in 9MFY20 impacted by air freight forwarding segment**
- **Growth in warehousing and haulage business cushioned the performance of the domestic business segment**
- **Earnings forecast revised upwards to reflect higher-than-expected net income**
- **Maintain NEUTRAL with an revised TP of RM1.10 per share**

9MFY20 normalised PATAMI exceeded estimates. Tasco recorded 3QFY20 normalised PATAMI of RM3.5m (>+28.8%yoy). This brings Tasco's 9MFY20 earnings to RM8.4m (-19.7%yoy) which exceeded our full year FY20 estimates at >85.0% but met street estimates at 79.3%. The higher-than-expected earnings were due to the significant increase in other income.

International segment PBT decreased by -5.6%yoy in 9MFY20. Tasco's ocean freight forwarding (AFF) segment saw a profit of RM1.1m compared to a -RM1.4m loss a year ago. Strength in the segment came from the revenue hike of (+30.5%yoy) in the ocean freight forwarding business which was supported by strong export shipments from solar panel and aerospace customers coupled with newly secured tender business of medical devices. Nevertheless, overall gains for the segment were dragged by the -39.5% PBT decline for air freight forwarding business. This was due to the drop in export shipments and business of capacitor and chemical customers.

Trucking division remains in the red... PBT of the domestic business segment decreased by -8.7%yoy in 9MFY20, mainly contributed by the trucking division. Higher fixed operating costs and lower deliveries for E&E, telecommunication cigarettes and automotive parts customers pushed the trucking division into a loss before tax of -RM3.5m in 9MFY20 (vs PBT of RM0.1m in 9MFY19). Nevertheless, The cold supply chain (CSC) business recorded a +20.9%yoy increase in revenue underpinned by strong demand for the service. Nevertheless, the PBT declined by -73.8%yoy in the same period due to the internal reorganisation exercise. Note that the loss-making convenience retail business was transferred to the CSC business from the warehousing business effective 1st April 2019.

...but contract logistics business cushioned the domestic business segment. Meanwhile, other sub-segments such as the contract logistics business experienced a +70.2%yoy increase in PBT in 9MFY20. Bulk of the sub-segment's performance was supported by the >+100%yoy PBT growth in the warehousing businesses due to newly acquired FMCG customer and better warehouse occupancy. Likewise, the haulage business performed well amidst higher container deliveries for E&E and musical instrument customers. This outweighed the decline in in-plant business and custom clearance due to reduced shipments from a solar panel customer and project cargo coupled with the cessation of business with an energy manufacturer.

Maintain NEUTRAL
Revised Target Price: RM1.10
 (Previously RM1.22)

RETURN STATISTICS

Price @ 27 th Feb 2020 (RM)	1.11
Expected share price return (%)	-0.90
Expected dividend yield (%)	+2.15
Expected total return (%)	7.32

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.3	-1.4
3 months	-7.5	0.7
12 months	-16.5	-5.3

KEY STATISTICS


FBM KLCI	1,505.59
Syariah compliant	No
Issue shares (m)	200.00
Estimated free float (%)	31.74
Market Capitalisation (RM'm)	222.00
52-wk price range	RM1.03 - RM1.73
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	3.40
Monthly volatility (%)	26.23
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Real Fortune Portfolio Sdn Bhd	9.83
Nippon Yusen KK	9.59
CIMB Group Holdings Bhd	1.90

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Prospects in the wake of the Covid-19 outbreak. Despite many factories in China being granted permission to resume operations, many manufacturers are not immediately resuming full production either due to manpower shortage, in response to or as a precaution to ensure quarantine measures for returning workers. This will in turn cause delays in delivery of goods to outside of China which include ASEAN countries. Warehouse operations are also at risk as there will be lesser goods to be stored amidst the shortage of incoming shipments from overseas, particularly China.

Earnings estimates. As results exceeded our expectations, we are revising our earnings forecasts upwards for FY20 to RM11.0m (previously RM9.0m) to reflect the higher-than-expected portion of other income and more contained finance costs. Conversely, we are adjusting our earnings downwards for FY21 to RM14.6m (previously RM20.4m) as we pencil in a moderate revenue growth to exercise conservatism amidst the Covid-19 outbreak.

Target price. Following the change in our earnings forecast, we are revising our target price to **RM1.10 per share** (previously RM1.22). Our target price is derived by pegging our FY21 EPS to a forward PE ratio of 15.0x which equates to the average five-year PE ratio.

Maintain NEUTRAL. Looking ahead at 4QFY20, we opine that headwinds would come in the form of rising operational costs particularly due to new minimum wages beginning in CY20. Finance costs will remain elevated for the rest of the year before reducing gradually following rescheduled payments in FY21. Meanwhile, if the Covid-19 outbreak continues longer than expected, manufacturing of goods such as semiconductors will face downward pressure. This in turn will impact shipments of such goods which are mainly transported via air freight to China. Nonetheless, this would be cushioned by the internal reorganisation mentioned earlier which aimed was to expand the clientele of the CSC business to include convenience stores, petrol kiosks and pharmacies. All things considered, we are maintaining our **NEUTRAL** stance on Tasco. 

INVESTMENT STATISTICS

Financial year ending 31 st March (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	710.2	736.8	741.5	772.7	805.9
EBIT (RM'm)	52.2	37.4	36.5	37.6	40.3
Pre-tax Profit (RM'm)	42.0	18.7	16.3	22.0	25.1
PATAMI (RM'm)	29.4	13.1	11.0	14.6	16.5
Normalised PATAMI (RM'm)	27.1	12.0	11.0	14.6	16.5
EPS (sen)	13.5	6.0	5.5	7.3	8.3
EPS growth (%)	-7.8	-55.8	-8.4	33.6	13.2
PER(x)	8.2	18.6	20.3	15.2	13.4
Net Dividend (sen)	4.5	2.5	2.5	2.5	2.5
Net Dividend Yield (%)	4.1	2.3	2.3	2.3	2.3

Source: Company, MIDFR

TASCO: 3QFY20 RESULTS SUMMARY

Financial year ending 31 st March (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Revenue	190.1	2.9	-0.3	561.2	557.4	0.7
COGS	-163.2	2.8	-0.7	-482.5	-480.1	0.5
GP	27.0	4.0	2.4	78.7	77.3	1.8
Other income	2.7	297.4	51.5	6.5	3.6	78.1
S&GA expense	-18.7	7.2	5.8	-56.9	-51.9	9.7
EBIT	11.0	19.7	4.9	28.3	29.0	-2.6
Share from associates	-0.2	153.1	66.4	-0.5	-0.3	96.1
Finance expense	-4.6	-1.8	0.9	-14.0	-14.0	0.1
PBT	6.1	39.8	6.4	13.8	14.8	-6.8
Tax expense	-2.2	91.3	51.1	-4.2	-3.6	17.0
PAT	3.9	21.0	-9.1	9.5	11.2	-14.6
NCI	0.0	-101.4	-100.6	-0.3	-0.2	10.8
PATAMI	3.9	23.7	-5.5	9.3	10.9	-15.1
Exceptional items	0.4	-10.2	348.8	0.9	0.5	79.6
Normalised PATAMI	3.5	28.8	-12.7	8.4	10.4	-19.7

OPERATING SUMMARY

International Segment	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Air Freight						
Revenue	36.3	-17.3	-2.9	109.8	128.9	-14.8
PBT	1.6	-43.9	11.7	4.3	7.1	-39.6
Ocean Freight						
Revenue	24.3	20.2	6.7	71.9	55.1	30.5
PBT	0.5	-205.9	363.0	1.1	-1.4	182.3
Domestic Segment	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Contract Logistics						
Revenue	79.5	5.2	-2.4	233.2	240.3	-2.9
PBT	7.6	119.0	-0.3	20.7	12.2	70.2
Cold chain						
Revenue	29.9	16.0	4.6	87.2	72.1	20.9
PBT	0.6	-82.7	21.0	2.4	9.1	-73.9
Trucking						
Revenue	20.1	4.7	-1.8	59.2	61.1	-3.1
PBT	-0.8	25.3	-33.5	-3.5	0.1	<-100

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.