

# Tasco Berhad

(5140 | TASC0 MK) Transportation & Logistics | Industrials

## Air freight forwarding business to face further headwinds

### KEY INVESTMENT HIGHLIGHTS

- **Some key suppliers for Apple in Malaysia have halted production due to the MCO**
- **Therefore, Tasco's Air freight forwarding and warehousing business to face further headwinds**
- **JV with Yee Lee Corp to also be affected as MCO will lead to lower footfall at Shell's petrol kiosks**
- **Earnings forecast downwards**
- **Maintain NEUTRAL with a revised TP of RM0.73 per share**

**Tasco's exposure to the air freight forwarding business** Tasco's international business segment makes up approximately 30.0% of the company's total revenue. Under Tasco's international business segment, around 65.0% of revenue is contributed by the air freight forwarding segment. Recall that for 9MFY20, the air freight forwarding segment saw its revenue and PBT decline by -15.0%yoy and -40.0%yoy respectively due to the drop in export shipments of capacitors and chemical customers.

**Air freight forwarding business to face further headwinds amidst Covid-19 pandemic.** The Government Malaysia has imposed a Movement Control Order (MCO) from 18 to 31 March 2020. According to Bloomberg, key suppliers for Apple's smartphone components in the country such as Murata Manufacturing Co., Renesas Electronics Corp and Ibiden Co have halted production as a result of the MCO. So far, we understand that Renesas Electronics Corp is a client of Tasco. Therefore, this will not only impact the air freight forwarding business in the short term as products of these companies are usually transported via air rather than sea but also warehousing business as less goods will need to be stored before shipment overseas. China's official manufacturing PMI also dropped to an all-time low of 35.7 points in February 2020. In addition, Tasco's strategic partnership with **AirAsia Group Berhad (AAGB) (NEUTRAL; TP: RM0.63)** will also be affected as the airline saw a -2.3%yoy drop in the number of flights for February 2020 amidst capacity cuts especially to North Asia.

**Retail convenience logistics to also be impacted by weak retail sector.** We expect revenue for the JV between Yee Lee Corp Berhad and Tasco to be affected from the MCO via the contract with Shell Malaysia Trading Sdn Bhd to provide supply chain services for Shell convenience retail outlets in Peninsula Malaysia. The reason being is that the MCO will translate into lower fuel consumption amongst consumers, indirectly impacting the footfall at petrol kiosks.

**Earnings estimates.** We are revising our earnings estimates for FY20, FY21 and FY22 to RM10.7m (previously RM11.0m), RM14.3m (previously RM14.6m) and RM16.3m (previously from RM16.5m) respectively. This is the net effect of taking into account of the: (i) lower revenue from the air freight forwarding and warehousing (under contract logistics) segment; (ii) lower contribution from joint venture with Yee Lee Corp Berhad; and (iii) lower diesel pump price of RM1.75 per litre announced by the Government of Malaysia last week. As such, we are expecting 4QFY20 normalised PATAMI to fall in the range of RM1.0-2.2m, representing a yearly growth of -0.2% to -0.5%

**Maintain NEUTRAL**  
**Revised Target Price: RM0.73**  
 (Previously RM1.10)

### RETURN STATISTICS

Price @ 24 <sup>th</sup> Mar 2020 (RM)	0.77
Expected share price return (%)	-5.20
Expected dividend yield (%)	+3.20
Expected total return (%)	-2.00

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-35.3	-23.9
3 months	-37.5	-20.8
12 months	-50.7	-36.2

### KEY STATISTICS

FBM KLCI	1,291.14
Syariah compliant	No
Issue shares (m)	200.00
Estimated free float (%)	31.74
Market Capitalisation (RM'm)	150.00
52-wk price range	RM0.65 - RM1.73
Beta vs FBM KLCI (x)	1.18
Monthly velocity (%)	11.02
Monthly volatility (%)	36.46
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.03
Top Shareholders (%)	
Real Fortune Portfolio Sdn Bhd	9.83
Nippon Yusen KK	9.59
CIMB Group Holdings Bhd	1.89

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**Target price.** Following the change in our earnings forecast, we are revising our target price to **RM0.73** per share (previously RM1.10). Our target price is derived by pegging our FY21 EPS to a forward PE ratio of 10.2x (previously 15.0x) which is -1SD of its five-year historical average PER, reflecting the broad market weakness due to the Covid-19 pandemic.

**Maintain NEUTRAL.** We expect manufacturing and production activity in China to gradually recover in 2HCY20 provided that the fears of Covid-19 have subsided. However, the 'pent-up' demand in and outside China once factories resume running at full tilt will lead to a crowded market whereby local companies such as Tasco will have to compete with bigger established companies in offering attractive services. Meanwhile, the lower diesel pump prices could help Tasco in managing its fuel cost structure which makes up 3-4% of Tasco's operating expense. All things considered, we are maintaining our **NEUTRAL** stance on Tasco. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> March (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
<b>Revenue (RM'm)</b>	<b>710.2</b>	<b>736.8</b>	<b>736.1</b>	<b>765.1</b>	<b>798.0</b>
EBIT (RM'm)	52.2	37.4	36.2	37.3	39.9
Pre-tax Profit (RM'm)	42.0	18.7	16.0	21.6	24.7
PATAMI (RM'm)	29.4	13.1	10.7	14.3	16.3
<b>Normalised PATAMI (RM'm)</b>	<b>27.1</b>	<b>12.0</b>	<b>10.7</b>	<b>14.3</b>	<b>16.3</b>
EPS (sen)	13.5	6.0	5.4	7.2	8.1
EPS growth (%)	-7.8	-55.8	-10.1	33.4	13.3
PER(x)	5.7	12.9	14.3	10.7	9.5
Net Dividend (sen)	4.5	2.5	2.5	2.5	2.5
Net Dividend Yield (%)	5.8	3.2	3.2	3.2	3.2

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.