

Tiong Nam Logistics Holdings Berhad

(8397 | TNL MK) Transportation & Logistics | Industrials

Maintain SELL

Revised Target Price: RM0.37

Previously RM0.39

Additional pressures to be felt from Covid-19 outbreak

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 normalised earnings broadly within expectations**
- **Commendable occupancy rate of circa 75.0% sustains the profitability of the logistics and warehousing segment**
- **Property development segment supported by sale of properties**
- **No signs of break-even for hotel and dormitory segment which has a low occupancy rate of <30%**
- **Covid-19 outbreak to dent prospects for logistics and hotel segment**
- **Earnings forecast unchanged**
- **Maintain SELL with an revised TP of RM0.37 per share as we ascribe a lower target PER for the logistics business**

9MFY20 normalised PATAMI broadly within expectations. Tiong Nam recorded a 3QFY20 normalised PATAMI of RM2.5m (>+100%yoy). This brings Tiong Nam's 9MFY20 earnings to RM5.5m (-7.3%yoy) which broadly met our and consensus' full year FY20 estimates at 80.8% and 69.9% respectively. The lower earnings were due to lingering weakness in the hotel segment and increase in overhead expenses.

Logistics division remains profitable. The logistics and warehousing segment remained in the black for the eighth consecutive quarter after recording a PBT of RM4.5m in 3QFY20 (-51.1%yoy). This brings 9MFY20 PBT to RM19.2m (+6.1%yoy) for the segment which translates to a 4.6% PBT margin. We opine that the segment's performance was underpinned by its MNC customers which helped sustain the occupancy rate for its warehouses at approximately 75.0%.

Property segment recorded profit. The property development segment recorded a PBT of RM1.4m in 9MFY20, +19.2%yoy higher compared to a year ago. The earnings growth for the segment was partially supported by sales of properties which we believe cover Tiong Nam Business Park in Batu Pahat and Johor Bahru. This was also despite the absence of unbilled sales as of 31 December 2019 as there were no new project launches. Management noted that its upcoming Kota Masai township project with an estimated GDV of RM150m is targeted to be launched in 2HFY21. However, we opine that there could be a further delay given the challenging property market in Johor.

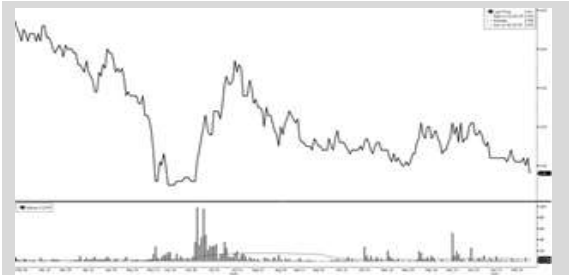
No signs of break-even for hotel segment. The hotel and dormitory segment recorded a bigger loss before tax of -RM11.0m for 9MFY20 compared to just -RM2.3m a year ago. This was due to finance costs in 9MFY20 which surged by more than eight times compared to the same period last year. Moreover, the segment has been recording losses since commencement in 3QFY19 with an occupancy rate of around 25-30% which is still far away from reaching its 50% occupancy rate to break even.

Earnings estimates. While earnings were broadly met our expectations, we are not adjusting our earnings estimates. The reason being is that we believe 4QFY20 will be a weak quarter amidst headwinds from the Covid-19 outbreak which will impact the: (i) logistics and warehousing segment; and (ii) hotel and dormitory segment.

RETURN STATISTICS

Price @ 24 th Feb 2020 (RM)	0.44
Expected share price return (%)	-15.91
Expected dividend yield (%)	0.00
Expected total return (%)	-15.91

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.3	-3.2
3 months	-12.9	2.5
12 months	-31.3	-20.6

KEY STATISTICS

FBM KLCI	1,490.06
Syariah compliant	Yes
Issue shares (m)	455.67
Estimated free float (%)	40.28
Market Capitalisation (RM'm)	196.22
52-wk price range	RM0.42 - RM0.65
Beta vs FBM KLCI (x)	0.59
Monthly velocity (%)	12.78
Monthly volatility (%)	34.04
3-mth average daily volume (m)	0.51
3-mth average daily value (RM'm)	0.25
Top Shareholders (%)	
Tntt Realty Sdn Bhd	27.15
Ong Yoong Nyock	19.63
Employees Provident Fund Board	4.67

Analyst(s)

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Target price. Although no adjustments were made to our earnings estimates, we are revising our target price lower to **RM0.37 per share** (previously RM0.39). The adjustment was due to a lower target PER of 9.5x (previously 10x) for the logistics and warehousing segment to reflect the challenging environment due to the Covid-19 outbreak. Our target price is based on sum-of-parts, consisting of: (i) its core logistics & warehousing business; (ii) its property development arm; (iii) hotel and dormitory segment and; (iii) its investment arm.

Maintain SELL. We opine that the company lacks a re-rating catalyst in the immediate term especially in the property segment with a remaining unsold GDV of more than RM300m as of 30 December 2019. We believe that Tiong Nam will face difficulty in launching the Kota Masai project in time by 2HFY21 given that the majority of its property projects are located in Johor. Recall that in CY19, Johor saw a 10.4% decline in office occupancy rates, substantially higher than Penang that faced a 1.4% drop. Meanwhile, Johor accounted for most of the property overhang in Malaysia with 18,517 units as at 3QCY19 followed by Selangor and Kuala Lumpur with 7,226 and 5,170 units respectively. With regard to the Covid-19 outbreak, we think that it will exert downward pressure on logistics and hotel and dormitory business.

Tiong Nam has a sales office in Shenzhen, China and Hanoi along with distribution centres spread out in ASEAN such as Singapore, Thailand and Myanmar. 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.


Moreover, its hotel and dormitory segment is still expected to be in the red for FY20. The location of its hotel and dormitory business which include Fraser Place Puteri Harbour and Pinetree Marina Resort is just across the causeway from Singapore. Therefore, we opine that occupancy rates may be adversely affected in the short term amidst the number of Covid-19 cases in Singapore which have reached above 80, the fifth country with the fifth largest of Covid-19 cases outside China. As such we maintain our **SELL** call on Tiong Nam. A re-rating catalyst would be: (i) a faster-than-expected recovery from Covid-19; and (ii) the pickup in Johor's property market. 

Table 1: SOTP Valuation

Business segment/asset	Valuation Methodology	Value (RM'm)	Fully diluted value Per Share (RM)
Logistics and warehousing	Price-to-earnings multiple of 9.5x FY21 Core PAT	149.0	0.33
Property development	Price-to-earnings multiple of 7x FY21 Core PAT	4.8	0.01
Investments	Latest full-year book value	12.8	0.03
Hotel and dormitory	Price to book value multiple of 0.9x FY21 Book value per share	252.0	0.55
Debt related to warehouse financing	Estimated outstanding value	-250.0	-0.55
Value per share		168.6	0.37

Source: MIDF Research

INVESTMENT STATISTICS

Financial year ending 31 st March (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	656.4	589.9	607.2	662.1	704.5
EBIT (RM'm)	87.9	56.8	60.1	71.2	73.7
Pre-tax Profit (RM'm)	54.6	10.7	11.4	17.9	18.7
PATAMI (RM'm)	44.5	-1.8	6.8	10.7	11.2
Normalised PATAMI (RM'm)	8.9	-1.5	1.5	2.4	2.5
EPS (sen)	-25.3	-116.6	-201.9	57.2	4.5
EPS growth (%)	4.9	-29.8	29.2	18.6	17.8
PER(x)	0.0	-0.1	0.5	0.0	0.0
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

TIONGNAM: 2QFY20 RESULTS SUMMARY

Financial year ending 31 st March (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	3Q20	YoY (%)	QoQ (%)	9M20	9M19	YoY (%)
Revenue	155.9	6.6	0.2	461.5	453.4	1.8
COGS	-114.5	-3.3	-1.1	-343.2	-352.0	-2.5
Gross Profit	41.4	48.8	4.2	118.2	101.4	16.6
Operating Expenses	-14.2	64.6	1.0	-41.1	-32.8	25.3
EBITDA	27.2	41.8	6.0	77.2	68.6	12.4
Depreciation & amortisation	-12.2	55.7	3.6	-33.3	-22.7	46.7
EBIT	15.0	32.2	8.0	43.8	45.9	-4.5
Finance Cost	-10.9	10.2	-3.5	-33.3	-31.2	6.6
Share of profit from associates	0.0	77.0	-40.0	0.0	-0.3	-90.3
PBT	4.1	217.9	58.4	10.5	14.3	-26.7
Tax Expenses	-1.8	>100	>100	-3.9	-3.8	1.9
PAT	1.8	>100	36.2	5.0	8.9	-43.7
Core PATAMI	2.5	>100	-19.9	5.5	5.9	-7.3
		(+/- ppts)	(+/- ppts)			(+/- ppts)
Core PATAMI Margins (%)	1.6	3.4	-3.7	3.5	1.3	2.2
EBIT Margins (%)	9.6	1.9	-18.6	28.5	10.1	18.4
Tax Rate (%)	-44.6	-41.7	76.3	-108.8	-26.6	-82.2

Source: Company, MIDFR

OPERATING SUMMARY

Logistics & Warehousing	3Q20	%YoY	%QoQ	9M20	9M19	%YoY
Revenue	137.9	0.0	0.9	416.1	405.4	2.6
Operating Expenses	-118.9	1.6	3.4	-354.0	-350.3	1.1
EBITDA	19.0	-9.0	-12.3	62.1	55.1	12.6
Depreciation & Amortisation	-10.6	44.7	3.3	-28.9	-22.2	30.4
EBIT	8.4	-37.9	-26.3	33.2	33.0	0.6
Net Finance Costs	-3.9	-9.7	-18.7	-14.0	-14.9	-6.1
PBT	4.5	-51.1	-31.7	19.2	18.1	6.1
Property Development	3Q20	%YoY	%QoQ	9M20	9M19	%YoY
Revenue	13.8	80.0	-7.8	35.1	46.8	-25.1
Operating Expenses	-8.4	1.3	-11.1	-21.6	-30.9	-30.1
EBITDA	5.5	813.2	-2.4	13.5	16.0	-15.4
Depreciation & Amortisation	-0.5	<-100.0	1.2	-1.5	-0.1	>100.0
EBIT	5.0	>100.0	-2.7	12.0	15.8	-24.4
Net Finance Costs	-3.8	11.2	8.5	-10.6	-14.6	-27.8
PBT	1.2	>100	-26.3	1.4	1.2	19.2
Hotel	3Q20	%YoY	%QoQ	9M20	9M19	%YoY
Revenue	4.1	593.6	20.3	9.7	0.6	>100.0
Operating Expenses	-2.0	29.5	-53.2	-9.8	-1.5	<-100.0
EBITDA	2.1	>100.0	>100.0	-0.1	-1.0	-88.2
Depreciation & Amortisation	-1.1	>100.0	7.9	-2.9	-0.4	<-100.0
EBIT	1.0	>100.0	>100.0	-3.0	-1.4	<-100.0
Net Finance Costs	-3.0	>100.0	7.2	-7.9	-0.9	<-100.0
PBT	-2.0	12.2	57.5	-11.0	-2.3	<-100.0

Source: Company, MIDFR

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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.