

Tiong Nam Logistics Holdings Berhad

(8397 | TNL MK) Transportation & Logistics | Industrials

Maintain SELL

Revised Target Price: RM0.32

Previously RM0.37

Challenging times ahead

KEY INVESTMENT HIGHLIGHTS

- **Tiong Nam's MNC customers to buffer supply and demand shocks from the Covid-19 pandemic towards warehousing business**
- **Industrial and commercial property purchases likely to be deferred by businesses**
- **Weak travel demand to suppress occupancy rates for hotel and dormitory segment**
- **Earnings forecast unchanged**
- **Maintain SELL with a revised TP of RM0.32 per share as we ascribe a lower target PER for the logistics and property development business**

MNC customers to buffer supply and demand shocks. We gathered that the occupancy rate of Tiong Nam's warehouse business was at 75-80% between January to end February 2020. We expect to see slight downward pressure on warehouse occupancy rates amidst China's manufacturing slowdown when the infection rate of Covid-19 peaked around mid-February 2020. Notwithstanding this, we opine that Tiong Nam's MNC customers (mainly from the FMCG segment) will buffer to the supply and demand shocks created by the Covid-19 provided that the pandemic will subside in 2HCY20.

Industrial and commercial property purchases likely to be deferred by businesses. Most of Tiong Nam's property development segment consist of industrial and commercial property, i.e. Tiong Nam Business Park. With the Covid-19 pandemic impacting local businesses with overseas exposure, we believe that businesses will defer big ticket purchases such as property and instead conserve more cash to remain operational during this tough environment. Hence we reaffirm our view that it will still be challenging year for Tiong Nam's property segment.

Weak travel demand to suppress occupancy rates for hotels. Tiong Nam's hotel and dormitory business which include Fraser Place Puteri Harbour and Pinetree Marina Resort is located in Johor. Rates will be adversely affected in the amidst weak travel demand due to the Covid-19 pandemic. As such, we remain with our view that the hotel and dormitory segment to be loss-making in FY20.

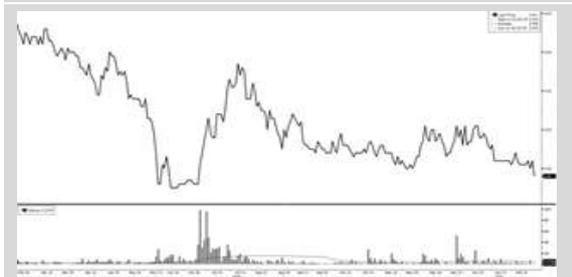
Earnings estimates. No changes are made to our estimates. We expect 4QFY20 to be a week on a quarterly basis, recording a normalised PATAMI of RM1.0-2.0m due to the aforementioned reasons. This will lead to our unchanged earnings forecast of RM6.8m for FY20.

Target price. Although no adjustments were made to our earnings estimates, we are revising our target price lower to **RM0.32** per share (previously RM0.37). The adjustment was due to a lower target PER of 8.0x (previously 9.5x) and 5.0x (previously 7.0x) for the logistics and warehousing segment and property development segment respectively to reflect the heightened macro-economic risks and tough operating 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.

RETURN STATISTICS

Price @ 25 th Mar 2020 (RM)	0.37
Expected share price return (%)	-13.51
Expected dividend yield (%)	0.00
Expected total return (%)	-13.51

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	1,324.50
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)

ADAM Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

Maintain SELL. We opine that the company lacks rerating catalyst in the immediate term especially in the property segment with a remaining unsold GDV which is 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 2HFY20 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. We expect Tiong Nam will face difficulty in achieving a normalised PATAMI of at least RM40m seen in the past years where the property development segment contributed at least 20.0% to Tiong Nam's overall topline. As such we maintain our **SELL** call on Tiong Nam. A rerating 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 8x FY21 Core PAT	125.5	0.28
Property development	Price-to-earnings multiple of 5x FY21 Core PAT	3.4	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		143.67	0.32

Source: MIDF Resear

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)	44.9	-6.7	6.8	10.7	11.2
Normalised PATAMI (RM'm)	44.9	-6.7	6.8	10.7	11.2
EPS (sen)	8.9	-1.5	1.5	2.4	2.5
EPS growth (%)	-25.3	-116.6	-201.9	57.2	4.5
PER(x)	4.2	-25.0	24.6	15.6	15.0
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, MIDF

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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.