Tiong Nam Logistics Holdings Berhad

Downgrade to NEUTRAL
(Previously BUY)

(8397 | TNL MK) Transportation & Logistics | Industrials

Lacklustre performance

***Revised* Target Price: RM0.68**
(Previously RM0.75)

KEY INVESTMENT HIGHLIGHTS

- **Core PAT of RM1.8m in 1QFY23 missed our estimate**
- **Earnings were dragged down by higher opex, but associate loss was narrower**
- **Downward revision of FY23E/FY24F PAT estimates by -40%/-31%**
- **Downgrade to NEUTRAL with a revised TP of RM0.68**

Below expectations. Tiong Nam Logistics Holdings Berhad's (Tiong Nam) reported core PATAMI of RM1.8m in 1QFY23. This came in well below our expectation as it merely makes up 10% of our initial full-year estimate. The negative deviation was due to margin contraction resulting from higher-than-expected operating expenses.

Quarter-on-quarter. Core PATAMI of RM1.8m (+136.0%) saw a notable improvement from a core LATAMI of -RM5.0m, albeit seeing a marginal decline in revenue by -0.1%qoq. This was made possible on the back of narrower share of loss in its hospitality associate – Terminal Perintis Sdn Bhd (TPSB) of -RM0.7m against -RM6.5m in 4QFY22. This was largely driven by the resumption of travels in 1QFY23 which had boosted the occupancy rates in Fraser Place Puteri Harbour Hotel. Note that the Group had recently diluted its stake in TPSB from 100% to 49% in 3QFY22 to focus on utilising its resources for the expansion of its primary business.

Year-on-year. On a year-on-year basis, Tiong Nam's revenue grew by +6.6%yoy due to its growing clientele and the organic growth of its existing clients' businesses. Clients from the food & beverage (F&B) and the information technology (IT) sectors were the top contributors to the growth. However, this was offset by higher operating expenses related to the expansion of its business. The effective tax rate was also higher owing to the non-deductible expenses related to its loss-making subsidiaries in the property development business. Consequently, core PATAMI fell by -11.4%yoy.

Downgrade to NEUTRAL. Factoring in the weak set of results, we revised down our FY23E/FY24F PATAMI to RM10.5m (-40%)/RM15.9m (-31%) after adjusting for higher operating costs. Though we believe that the growth within the logistics & warehousing is sustainable given its growing MNC clientele, we turned cautious on the Group's earnings volatility whereby the cost escalation was largely caused by its robust business expansion. As such, we are downgrading our call from BUY to **NEUTRAL** with a lower TP of **RM0.68** (from RM0.75). The TP was derived by pegging the revised FY24F EPS to an unchanged PE of 22x.

RETURN STATISTICS	
Price @ 29th August 2022 (RM)	0.62
Expected share price return (%)	+9.6
Expected dividend yield (%)	0.0
Expected total return (%)	**+9.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.8	7.2
3 months	-2.3	-0.9
12 months	-26.9	-22.5

KEY STATISTICS	
FBM KLCI	1,501.57
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆
Issue shares (m)	514.05
Estimated free float (%)	41.67
Market Capitalisation (RM'm)	321.28
52-wk price range	RM0.54 - RM0.97
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	74.84
Monthly volatility (%)	18.07
3-mth average daily volume (m)	0.13
3-mth average daily value (RM'm)	0.08
Top Shareholders (%)	
Ong Yoong Nyock	25.02
Tntt Realty Sdn Bhd	23.56
AmBank M Bhd	3.67

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INVESTMENT STATISTICS

Income Statement	FY2021A	FY2022A	FY2023E	FY2024F	FY2025F
Revenue	602.1	691.0	702.0	723.7	753.0
EBITDA	123.6	123.1	133.4	141.1	146.8
EBIT	63.5	59.0	59.7	68.8	71.5
PBT	20.9	17.1	17.6	25.3	26.4
PATAMI	11.4	5.1	10.5	15.9	18.8
Core PATAMI	3.9	(2.4)	10.5	15.9	18.8
Core EPS (sen)	0.8	(0.5)	2.0	3.1	3.7
PER (x)	81.9x	n.m.	30.3x	20.0x	16.9x

Sources: Company, MIDFR

TIONG NAM: 1Q23 RESULTS SUMMARY

(All in RM'm unless stated otherwise)	Quarterly				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue	177.9	178.0	166.9	-0.1%	6.6%
EBITDA	28.0	33.0	29.2	-15.0%	-4.0%
EBIT	43.6	48.2	45.0	-9.5%	-3.1%
Finance cost	(9.7)	(10.2)	(10.3)	4.4%	6.0%
Associates	(0.7)	(6.5)	(0.02)	88.8%	-3361.9%
PBT	2.7	7.6	3.0	-64.9%	-10.6%
Taxation	(2.2)	(5.2)	(1.2)	59.0%	-72.3%
PAT	0.5	2.3	1.7	-78.4%	-70.9%
PATAMI	0.4	2.2	1.5	-83.0%	-75.3%
MI	0.1	0.1	0.2	68.6%	-30.6%
Core PATAMI	1.8	(5.0)	2.1	136.0%	-11.4%
EBIT margin (%)	24.5%	27.1%	27.0%		
PBT margin (%)	1.5%	4.3%	1.8%		
Core PATAMI margin (%)	1.0%	n.m.	1.2%		
Tax rate (%)	-81.1%	-69.4%	-42.1%		

Sources: Company, MIDFR

SEGMENTAL BREAKDOWN

(All in RM'm unless stated otherwise)	Quarterly				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue					
Logistics & warehousing services	172.5	171.2	163.8	0.7%	5.3%
Investment	0.7	2.1	0.2	-66.9%	300.6%
Property development	4.6	4.4	1.2	2.8%	286.9%
Dormitory	0.1	0.2	1.72	-34.0%	-92.3%
PBT					
Logistics & warehousing services	5.1	6.2	9.9	-17.6%	-48.9%
Investment	(3.0)	2.4	0.03	-226.3%	-10083.3%
Property development	1.3	0.6	(2.2)	100.5%	157.0%
Dormitory	(0.7)	(1.6)	(4.75)	55.6%	85.0%

Sources: 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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology