Corporate Update | Thursday, 29 December 2022

# Tiong Nam Logistics Holdings Berhad

***Downgrade to* SELL**
*(from* NEUTRAL)

(8397 | TNL MK) Transportation & Logistics | Industrials

**JV project in Sedenak Tech Valley**

***Unchanged* Target Price: RM0.68**

## KEY INVESTMENT HIGHLIGHTS

- **JV agreement with JLand Group to jointly develop a 300-acres land at Sedenak Tech Valley**
- **The purchase consideration for the land is RM52.3m**
- **Land development only expected to commence 3 years after obtaining approvals and getting consultation**
- **Downgrade to SELL with an unchanged TP of RM0.68**

**Partnering up with JLand Group.** Following the Preliminary Collaboration Agreement (PCA) between Tiong Nam Logistics Holdings Berhad's (Tiong Nam) wholly owned subsidiary, Tiong Nam Logistics Solution (TNLS), and JLand Group Sdn Bhd (JLG) that was entered into on 14 August 2022, the two parties have entered into a joint venture agreement (JVA) to invest in a new company called JTN Logistics Park Sdn Bhd (JTN). The former has a 51% stake in JTN, while the latter owns the remaining 49%. The parties will be jointly developing a 300-acres land within the Phase 1 Logistics Park at Sedenak Tech Valley (the JV Project).

**Acquisition of land.** JTN will be acquiring the 99 years leasehold land measuring 300-acres for a purchase consideration of RM52.3m (RM4 per sq ft). This is to be funded by bank borrowing and advance from shareholders of which the allotment of shares is to be completed in the next 3 months. It was agreed that the development costs of the JV Project shall be sourced from Tiong Nam and/or external financing with no funding from JLG.

**Neutral on the JV project.** We are neutral on this partnership due to the long gestation period of the JV Project, with the land development only expected to commence 3 years after relevant approvals have been obtained and the necessary consultation has been completed. According to the management, Sedenak Tech Park will house industrial properties which will be marketed for the expansion and relocation of manufacturers, particularly from Singapore. The Group believes that the proposition is attractive given the relatively lower land price and operating costs as well as the tax incentives.

**Downgrade to SELL.** We are maintaining our TP of **RM0.68** (FY24F EPS pegged to 22x), but we recommend to take profit after the recent price rally. Hence, we downgrade our call on Tiong Nam from NEUTRAL to **SELL**. Tiong Nam has seen thinning profit margins due to mounting cost pressures and its net gearing has soared to 1.4x as at 1HFY23 or Sep-22 (the highest relative to its peers) due to its large-scale expansion. A potential upside would be an early possession of its 1.1m sq ft mega warehouse in Senai which will be leased to an MNC as well as cross-selling opportunities that could moderate from this. Initially targeted to complete in Nov-23, the warehouse was already 75% completed in Nov-22. However, we remain cautious on the volatile earnings trend as the Group continues to invest in its expansion projects.

| RETURN STATISTICS | |
|---|---|
| Price @ 28th December 2022 (RM) | 0.79 |
| Expected share price return (%) | -13.9 |
| Expected dividend yield (%) | 0.0 |
| **Expected total return (%)** | **-13.9** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 16.2 | 15.9 |
| 3 months | 31.7 | 25.4 |
| 12 months | -2.5 | 1.8 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,480.11 |
| 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) | 406.10 |
| 52-wk price range | RM0.54 - RM0.82 |
| Beta vs FBM KLCI (x) | 0.62 |
| 3-mth average daily volume (m) | 0.18 |
| 3-mth average daily value (RM'm) | 0.13 |
| 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 |
| 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) | 104.4x | n.m. | 38.6x | 25.5x | 21.6x |

*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