Tiong Nam Logistics Holdings Berhad

(8397 | TNL MK) Transportation & Logistics | Industrials

Termination of Coverage

Weak set of results

***Previous* Target Price: RM0.68**

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 results missed expectations**
- **Tiong Nam slipped into the red in 3QFY23, recording core LATAMI of -RM2.3m due to higher operating costs**
- **Last call was SELL with TP of RM0.68**
- **Ceasing coverage on Tiong Nam**

Below expectations. Tiong Nam Logistics Holdings Berhad (Tiong Nam) reported core PATAMI of RM4.2m in 9MFY22 (FYE March). This came in below expectations, making up merely 40% and 33% of ours and consensus' expectations. The deviation was mainly due to higher-than-expected operating costs.

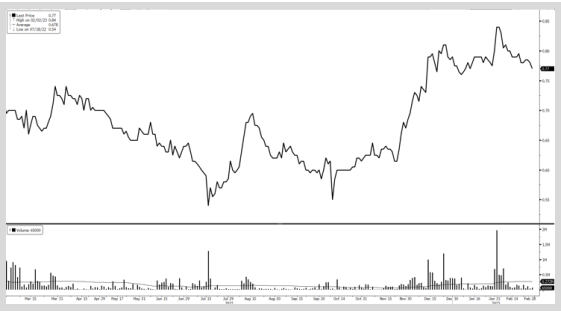
Quarterly. Tiong Nam slipped into the red again in 3QFY23. Core LATAMI of -RM2.3m was derived after excluding fair value gain of RM2.4m and other exceptional items. This marks a significant drop in earnings against the core profits recorded in 2QFY23 (-148.6%mom) and 3QFY22 (-157.2%yoy). Although the logistics and warehousing segment has been recording healthy growth in revenue on the back of buoyant demand, Tiong Nam faced mounting cost pressures due to higher labour cost and lease expenses, which led to thinning profit margins.

Cumulatively. For the 9-month period, core PATAMI fell to RM4.2m (-29.6%yoy) due to similar reasons. The growth in its core logistics and warehousing segment's topline was largely attributed to the acquisition of new customers and the organic growth of its existing customers. It was previously reported that the main sectors that contributed to the growth were food and beverage (F&B), information technology (IT) and electrical and electronics (E&E). The effective tax rate remained high due to the non-deductible expenses related to its loss-making subsidiaries in the property development business.

Termination of coverage. We are ceasing our coverage on Tiong Nam as we reprioritise our resources. The Group's earnings have been volatile mainly due to the underperformance of its property development division which historically contributed c.40% to its PBT and its gearing ratio stayed high at 1.6x as at Dec-22 due to its robust expansion. With a couple of mega projects in its pipeline (Senai warehouse and JV project in Sedenak Tech Valley), the Group might be raising funds via a REIT IPO. Our last call on the stock was **SELL** with a TP of **RM0.68**.

RETURN STATISTICS	
Price @ 27th February 2023 (RM)	0.77
Expected share price return (%)	-11.7
Expected dividend yield (%)	0.0
Expected total return (%)	**-11.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.8	-1.8
3 months	-2.5	17.6
12 months	10.8	22.4

KEY STATISTICS	
FBM KLCI	1,455.50
Syariah compliant	Yes
F4BGM Index	-
ESG Grading Band (Star Rating)	-
Issue shares (m)	514.05
Estimated free float (%)	41.67
Market Capitalisation (RM'm)	395.81
52-wk price range	RM0.54 - RM0.84
Beta vs FBM KLCI (x)	0.68
3-mth average daily volume (m)	0.27
3-mth average daily value (RM'm)	0.21
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)	96.3x	n.m.	38.5	24.8x	20.8x

Sources: Company, MIDFR

TIONG NAM: 3Q23 RESULTS SUMMARY

(RM'm unless stated otherwise)	Quarterly					Cumulatively		
Income Statement	**3Q23**	**2Q23**	**3Q22**	**QoQ**	**YoY**	**9M23**	**9M22**	**YoY**
Revenue	187.5	177.0	180.7	6.0%	3.8%	542.4	513.0	5.7%
Finance cost	-12.1	-10.7	-10.6	-13.1%	-14.4%	-32.5	-31.9	-2.0%
Operating profit	3.5	5.6	5.6	-37.8%	-37.3%	12.5	10.6	18.0%
Associates	-1.0	-1.1	-1.0	6.0%	-1.7%	-2.9	-1.0	-175.8%
PBT	2.5	4.5	4.6	-45.6%	-46.0%	9.6	9.6	0.8%
Taxation	-2.0	-2.7	-2.9	24.8%	31.2%	-6.8	-5.7	-20.3%
PAT	0.5	1.9	1.6	-75.5%	-72.3%	2.8	3.9	-27.6%
PATAMI	0.2	1.7	1.1	-88.3%	-81.7%	2.2	2.9	-22.2%
Core PATAMI	-2.3	4.7	4.0	-148.6%	-157.2%	4.2	6.0	-29.6%
EBIT margin (%)	1.9%	3.2%	3.1%			2.3%	2.1%	
PBT margin (%)	1.3%	2.6%	2.5%			1.8%	1.9%	
Core PATAMI margin (%)	-1.2%	2.6%	2.2%			0.8%	1.2%	
Tax rate (%)	-81.5%	-58.9%	-63.9%			-70.8%	-59.3%	

Sources: Company & MIDFR

SEGMENTAL BREAKDOWN

(RM'm unless stated otherwise)	Quarterly					Cumulatively		
Income Statement	**3Q23**	**2Q23**	**3Q22**	**QoQ**	**YoY**	**9M23**	**9M22**	**YoY**
Revenue								
Logistics & warehousing	185.4	175.6	178.0	5.5%	4.1%	533.5	504.9	5.3%
Investment	0.9	0.8	0.1	18.2%	1038.5%	2.3	0.3	87.3%
Property development	1.3	0.5	1.7	165.1%	-22.8%	6.4	3.3	48.7%
Dormitory	-0.03	0.1	1.0	-126.0%	-103.5%	0.2	4.5	-1869.9%
PBT								
Logistics & warehousing	2.5	3.0	6.1	-15.7%	-58.6%	10.6	24.9	-135.5%
Investment	2.5	-3.3	1.9	176.2%	36.0%	-3.8	2.4	-163.1%
Property development	-1.7	5.6	-2.4	-130.3%	30.1%	5.2	-7.5	244.4%
Dormitory	-0.9	-0.8	-0.9	-13.5%	4.8%	-2.3	-10.2	337.3%

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