Lacklustre performance

Tiong Nam's 1Q18 revenue increased by 7.5% yoy to RM140.9m whilst core net profit fell by 58.8% yoy to RM5.4m, constituting 7.5% of our and 6.7% of consensus FY18E estimates. Tiong Nam's lacklustre earnings performance is due to higher operational costs, depreciation and other overhead expenses. With earnings below our and street estimates, we cut FY18-20E EPS by 4-44%. Downgrade to HOLD with a TP of RM1.68, based on SOTP valuation.

1Q18: Revenue up 7.5% yoy, core net profit down 58.8% yoy

Tiong Nam's total revenue rose by 7.5% yoy to RM140.9m. The revenue from the logistics and warehousing segment, which accounts for 86.6% of total revenue in 1Q18, recorded an increase of 13% yoy to RM122m, whilst revenue from the property development segment fell by 18% yoy to RM18.8m. The construction progress for SILC 7 is nearing completion, resulting in lower project development revenue. 1Q18 core net profit dropped significantly, down 58.8% yoy from RM13.1m in 1Q17 to RM5.4m in 1Q18. This is mainly due to higher operational cost (+15.6%) and depreciation from the logistics and warehousing segment (+33.5%), resulting in a decline of EBIT margin by 6.8ppts yoy.

1Q18 PBT down 91.5% qoq

In sequential terms, Tiong Nam posted a lower pre-tax profit of RM3.8m, a significant decline of 91.5% qoq compared to the pre-tax profit of RM44.6m in 4Q17. The sharp decline was due to a loss in fair value of quoted shares of RM8.8m (4Q17: gain of RM16.6m) and a lower gain in disposal of quoted shares of RM2.6m (4Q17: RM8.8m). Core net profit was down 67% qoq due to i) flattish revenue from logistics and warehousing segment (+0.1% qoq); ii) falling revenue from property development (-55.2% qoq) and iii) higher finance costs (+8.2% qoq)

Downgrade to HOLD with TP of RM1.68

We cut our FY18-20E EPS by 44%/4%/16% due to rising operational costs. Downgrade from BUY to HOLD with a lowered **TP of RM1.68**. Risks: moderating global growth and weak property sales.

Earnings & Valuation Summary

FYE 31 March	2016A	2017A	2018E	2019E	2020E
Revenue (RMm)	568.5	573.4	556.2	693.9	765.7
EBITDA (RMm)	145.5	151.9	107.5	163.4	181.0
Pretax profit (RMm)	105.8	100.6	50.1	99.2	110.8
Net profit (RMm)	77.1	81.5	39.9	80.0	89.4
EPS (sen)	18.5	19.0	9.3	18.7	20.9
PER (x)	9.5	9.3	18.8	9.4	8.4
Core net profit (RMm)	47.2	56.4	39.9	80.0	89.4
Core EPS (sen)	11.3	13.1	9.3	18.7	20.9
Core EPS growth (%)	(30.5)	16.0	(28.8)	100.5	11.7
Core PER (x)	15.5	13.4	18.8	9.4	8.4
Net DPS (sen)	5.0	4.8	2.4	4.8	5.3
Dividend Yield (%)	2.8	2.8	1.4	2.7	3.0
EV/EBITDA (x)	8.7	9.4	13.6	9.2	8.3
Chg in EPS (%)			-44%	-4%	-16%
Affin/Consensus (x)			0.5	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Tiong Nam

TNL MK
Sector: Transport & Logistics

RM1.76 @ 28 August 2017

HOLD (downgrade)
Downside: -5%

Price Target: RM1.68
Previous Target: RM1.90

Price Performance

	1M	3M	12M
Absolute	+1.7%	+0.6%	+12.8%
Rel to KLCI	+1.6%	+0.7%	+7.3%

Stock Data

Issued shares (m)	441.6
Mkt cap (RMm)/(US$m)	777.2/182.1
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	1.47-1.87
Est free float	34.4%
BV per share (RM)	1.57
P/BV (x)	1.12
Net cash/ (debt) (RMm)	(648.3)
ROE (2018E)	8.4%
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

TNTT Realty SB	24.9%
Yoong Nyock Ong	19.9%
Astinas Construction	5.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE Mar (RMm)	1QFY18	QoQ % chg	YoY % chg	Comment
Revenue	140.9	(14.1)	7.5	1Q revenue rose 7.5% yoy, underpinned by an increase in revenue from the logistics and warehousing segment (up 13% yoy). Revenue from the property development segment fell (down 18% yoy) due to lower construction revenue as one of the company's flagship projects, SILC 7 is nearing completion stage. In sequential terms, revenue decreased by 14.1% qoq due to lower revenue from the property development segment (4Q17: RM42.1m vs. 1Q18: RM18.8m).
Op costs	(119.0)	(7.6)	15.6	
EBITDA	21.9	(37.8)	(22.2)	1Q EBITDA fell by 37.8% qoq, on the back of lower revenue from the property development segment, which commands higher margins (EBITDA margins of property development: 62% vs. Logistics and warehousing: 9% in 1Q18).
EBITDA margin (%)	*15.5*	*(5.9)pts*	*(5.9)pts*	
Depn and amort	(6.4)	0.7	33.5	Depreciation increased, mainly from the logistics and warehousing segment.
EBIT	15.5	(46.2)	(33.5)	
EBIT margin (%)	*11.0*	*(6.6)pts*	*(6.8)pts*	
Int expense	(7.1)	8.2	18.5	
Int and other inc	-	na	na	
Inc from associates	(0.1)	(>100)	(19.4)	
EI	(4.7)	(>100)	(>100)	Exceptional items include: (i) Impairment of receivables: RM0.66m (ii) Gain on disposal of investment: RM3.10m (iii) Forex loss: RM0.33 (iv) Loss in quoted investment: RM8.8m
Pretax profit	3.8	(91.5)	(78.6)	
Tax	(2.6)	(54.5)	(30.5)	
Tax rate (%)	*69.8*	*56.8pts*	*48.2pts*	
Net profit to company	1.1	(97.1)	(91.7)	
MI	(0.5)	(8.0)	19.2	
Net profit	0.7	(98.2)	(94.9)	
EPS (sen)	0.2	(98.3)	(95.1)	
Core net profit	5.4	(67.2)	(58.8)	Core earnings are below our expectations and consensus estimates. We revised our earnings downward.

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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