



## Tiong Nam Logistics Holdings Berhad

Valuable "Stock" in Warehouse

**TP: RM1.82 (+40%)**

Last traded: RM1.30

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY

**BUY**

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### Executive Summary

- Tiong Nam Logistics Holdings Berhad (Tiong Nam) is an integrated logistics player. Listed on the Main Market of Bursa Malaysia, Tiong Nam is a Shariah-compliant company with a market capitalisation of RM547mn.
- Tiong Nam has a fleet size of 2,106 commercial vehicles. It also has 77 warehouses, which include general warehouse, bonded warehouse, cold room, Automated Storage Retrieval System (ASRS) and spare parts warehouse in Malaysia, Singapore and Thailand.
- Tiong Nam started its property development business in 2010, focusing mainly on industrial properties and customized warehouses.
- In FY16, the Logistics and warehousing segment contributed 77% of the group's total revenue while the property segment contributed 23%. At the EBIT level, contribution from the logistics and warehousing segment and property segment was at 60% and 40% respectively.
- Mr. Ong Yoong Nyock is the founder of Tiong Nam. He is the group's managing director, overseeing day-to-day operations. Mr. Ong and family effectively own 66.3% stake in Tiong Nam.
- Tiong Nam offers total logistics solution and 3<sup>rd</sup> Party Logistics (3PL) services on a 24/7 basis. As far as industry competition is concerned, we opine that the competition level is moderately high in this integrated logistics solution subsector.
- Size is important for 3PL operators to have significant assets, which can be customized and fit to clients' supply chain systems. Among the core competences are the fleet size and warehouses Tiong Nam possesses, which make the company the largest logistics player in Malaysia.
- Currently, Tiong Nam is building a new ASRS in Shah Alam with a storage capacity of 100,000 sq.ft. It is also in the midst of application for a development order to build a multi-storey warehouse with a storage capacity of 1mn sq.ft.
- Tiong Nam has vast vacant landbank, measuring 253 acres. This will allow the company to provide storage space to its customer in the future, which is important to retain the relationship.
- The current soft market condition has little impact on Tiong Nam's property segment, which has been focusing on niche development, as it has not eroded profit margins.
- Note that the average EBITDA margin for property development is 40%, which is higher than the industry's margin of average 20%, due to product mix and low land cost.

### Share Information

Bloomberg Code	TNL MK
Stock Code	TNLOGIS (8397)
Listing	Main Market
Share Cap (mn)	420.7
Market Cap (RMmn)	546.9
Par Value	0.2
52-wk Hi/Lo (RM)	1.50/0.915
12-mth Avg Daily Vol ('000 shrs)	518.8
Estimated Free Float (%)	33.7
Beta	0.9

### Major Shareholders (%)

Ong family (66.3%)

### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	90.9	118.8
Consensus	57.5	88.9
TA's / Consensus (%)	158.1	133.6
Previous Rating	Initiate coverage	

### Financial Indicators

	FY17	FY18
Net Gearing (%)	72.3	57.1
FCF/share (sen)	17.4	19.2
P/CFPS (x)	7.5	6.8
ROE (%)	14.3	16.6
NTA/Share (RM)	1.6	1.8
Price/NTA (x)	0.8	0.7

### Share Performance (%)

Price Change	TNLOGIS	FBM KLCI
1 mth	1.6	(0.0)
3 mth	3.2	(2.9)
6 mth	(7.1)	(1.4)
12 mth	4.0	(5.5)

### (12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- The increase in land value in recent years bodes well to Tiong Nam as future rental collections will be adjusted higher. The average tenure of warehouse is about 2 years.
- The higher land cost would also increase the entry barrier higher for new entrants, especially in Klang Valley. Tiong Nam will be immune to this as it has already owned 25 warehouses and has 253 acres of undeveloped landbank.
- Tiong Nam will benefit further from escalating land prices by unlocking the asset value via REIT. After its first fail attempt in 2013, market is expecting the company to “REIT” its assets again in Malaysia, which we believe is just a matter of time.
- Tiong Nam’s balance sheet has been highly capitalized by debt, which is a preferred funding option given the recurring nature of interest payments can be perfectly matched by monthly rental collections.
- We forecast Tiong Nam to achieve FY17-19 core profit of RM90.9mn/RM118.8mn/RM121.8mn respectively, premised on the following assumptions. This represent a 3-year CAGR of 26.9% for FY16-19.
  - i. Increase in warehouse storage capacity to 4.85mn sq.ft. in FY17, 4.96mn sq.ft. in FY18 and 6.0mn sq.ft. in FY19;
  - ii. A blended occupancy rate of 87.5%, 88.2% and 77.8% for FY17-19 respectively;
  - iii. 34.8% jump in FY17 property revenue as PineTree Residence is expected to progress to superstructure works after the completion of substructure; and
  - iv. New property sales of RM129.7mn, RM223.1mn and RM250.0mn for FY17-19 respectively.
- We value Tiong Nam at RM1.82/share, using sum-of-parts valuation method, which can be dissected into 2 main components, i.e.: Logistics & Warehousing and Property. For the logistics and warehousing segment, we peg a PE multiple of 10x CY17 earnings, which is slightly above the peer’s average of 9.3x. For the property segment, we peg a PE multiple of 6x FY17 earnings, which is at par with our target PER for small-cap property companies.

### Earnings Summary (RM mn)

FYE Mar 31	2015	2016	2017F	2018F	2019F
Revenue	618.0	572.8	680.2	794.5	850.7
EBITDA	140.4	127.9	186.8	234.6	244.1
EBITDA margin (%)	22.7	22.3	27.5	29.5	28.7
Pretax profit	110.7	107.3	139.8	182.8	187.4
Adj PBT	107.0	87.3	139.8	182.8	187.4
Reported net profit	72.9	79.6	90.9	118.8	121.8
Core profit	69.2	59.5	90.9	118.8	121.8
Reported EPS (sen)	17.7	19.1	21.6	28.2	28.9
Core EPS (sen)	16.8	14.3	21.6	28.2	28.9
Core EPS growth (%)	23.0	(14.7)	51.1	30.7	2.5
PER (x)	7.4	6.8	6.0	4.6	4.5
GDPS (sen)	4.0	5.0	5.5	7.0	7.5
Div yield (%)	3.1	3.8	4.2	5.4	5.8

**BACKGROUND**

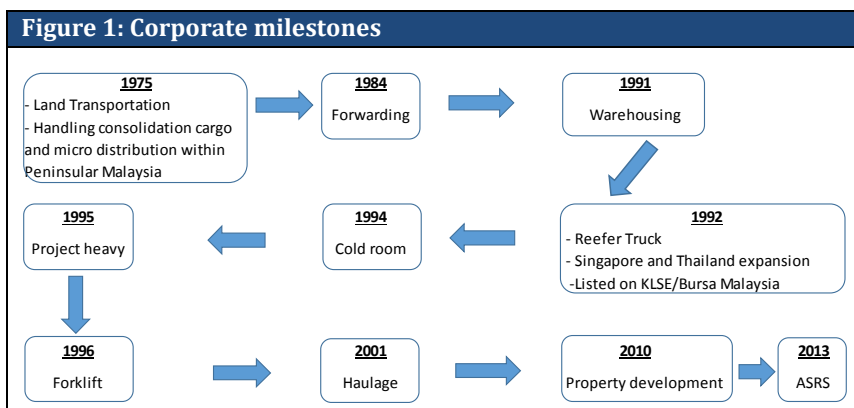
Tiong Nam Logistics Holdings Berhad (Tiong Nam) is an integrated logistics company based in Johor. Established in 1975, Tiong Nam has transformed from a pure land transportation operator with asset size of less than RM100mn to the largest logistics solutions company in Malaysia in terms of fleet size and warehouse. Listed on the Main Market of Bursa Malaysia, Tiong Nam is a Shariah-Compliant company with a market capitalization of RM547mn based on last closing share price of RM1.30.

Tiong Nam has a fleet size of 2,106 commercial vehicles, comprising prime movers, container trailers, box and reefer trucks in various size, lorry cranes, lower-loader, cometto, cranes in multiple tonnages, goldholfer, car carriers and vans. With these, Tiong Nam is able to carry out any kinds of road transportations logistics in Malaysia.

As an active integrated logistic player in Malaysia, Tiong Nam invested heavily in warehouses to provide one-stop solutions, which also known as third party logistics (3PLs), to clients from in-bound logistics, to warehousing, inventory management, packaging and outbound logistics. In Malaysia, 3PLs has become a trend for multinational companies especially those involved in F&B, automotive, tobacco and E&E industries. Currently, Tiong Nam has 77 warehouses, which consist of general warehouse, bonded warehouse, cold room, Automated Stored Retrieval System (ASRS) and spare parts warehouse (see Appendix A) in Malaysia, Singapore and Thailand.

Leveraging on the sizable landbank it acquired in the past, Tiong Nam started its property development business in 2010, which focused on industrial properties and customised warehouses. We like the property development and believe it is a complementary approach to provide another “basket” to diversify earnings and at the same time, building more warehouses to boost future earnings.

For FY16, logistics and warehousing services contributed 77% (FY15: 67%) of the group’s total revenue while the property segment contributed 23% (FY15: 32%). At the EBIT level, contribution from logistics and warehousing services (excluding revaluation gain) and property was at 60% and 40% respectively as the property segment (40%) commands higher margin than the logistics and warehousing (17%). In terms of breakdown between logistics and warehousing, we understand that revenue contribution from logistics is higher than warehousing but EBIT contribution is equal between the two.



Source: Tiong Nam & TA Research

### Shareholding & management structure

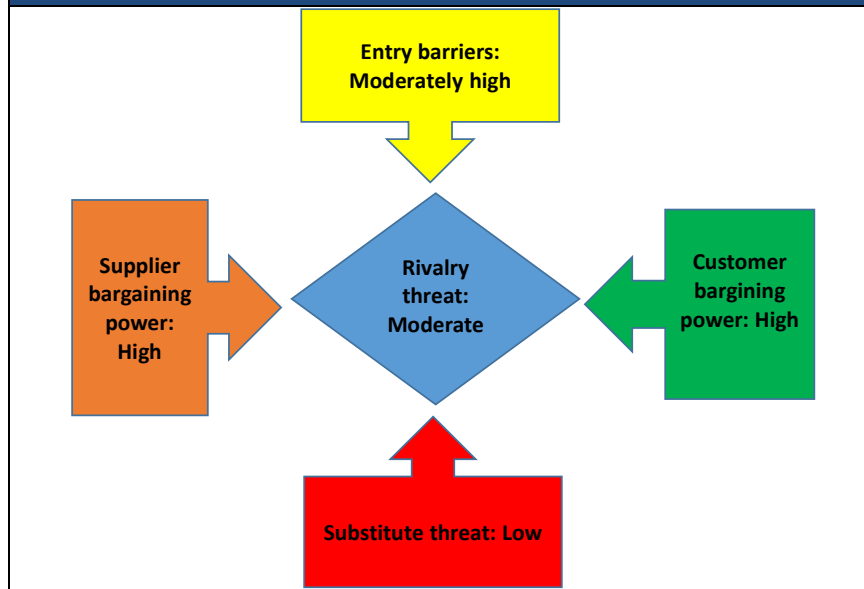
Mr. Ong Yoong Nyock is the founder and managing director of Tiong Nam, overseeing day-to-day operations. Mr. Ong started the transportation business in 1975 with a small fleet of lorries transporting general cargo in Johor. Under his stewardship, Tiong Nam was accredited with Frost & Sullivan Malaysia Excellence Award for Year 2007, 2008, 2012, 2013, 2014, 2015 under the Best Domestic Logistics Services Provider category. Also, it won the Best Domestic Road Transportation Service Provider and Best Regional Road Transportation Service Provider of the year 2015.

Mr. Ong and family effectively own 66.3% stake in Tiong Nam.

### LOGISTICS INDUSTRY

In Malaysia, the logistics industry is highly fragmented with more than 10,000 players involved in various scopes of logistics activities, including road, rail, air and sea transport. In recent years, it has gradually evolved toward 3<sup>rd</sup> party logistics and 4<sup>th</sup> party logistics, which provide integrated logistics solutions (ILS) including inbound logistics, warehousing, outbound logistics, sales and marketing, and after-sales services. In the ILS segment, we opine that the competition level is moderately high.

Figure 2: Moderately high competition in the ILS segment



1. **Entry barrier:** Entry barrier is moderately high as the business requires significant CAPEX. To qualify for International Integrated Logistics services (IILS) status, MIDA requires a player to manage at least 20 units of commercial vehicles and 5,000 sq.m. of warehouse space.
2. **Rivalry among players:** Within the ILS sub-segment, rivalry is moderately high as services offered are identical.
3. **Bargaining power of buyer:** The bargaining power of buyer is high as the clients, who outsource their stocking and warehousing services, are usually those big multi-national companies.
4. **Bargaining power of supplier:** In this case, lorry drivers are deemed as appropriate suppliers as they will carry out the transportation services. We believe that the bargaining power of supplier is strong due to shortage of lorry drivers in the market.
5. **Threat of substitute:** We do not see any close substitute to replace logistics and warehousing services.

## INVESTMENT CASE

### 1) Growing demand for integrated logistics solutions

**i. Outsourced logistics vs. In-house logistics.** In a typical supply chain model, it involves movements of products from upstream to downstream, which cover sourcing and procurement, conversion and production, and logistics management. By outsourcing logistics needs, management believes that it can free up company's resources and focus on what it knows best. Meanwhile, it is believed that outsourced logistics would lead to effective cost management by leaving the logistics needs within the supply chain to the experts.

In Tiong Nam, the company offers total logistics solutions and also 3PL services on a 24/7 basis. In essence, it can integrate a supply chain management by picking up overseas cargoes that arrived at airport/seaport at night. It can store raw materials or other inputs for clients for its production requirement. It can then distribute the finished products to various outlets nationwide. It can also prepare delivery orders and invoices for the clients. Last but not least, it can pick up defect goods on behalf of client for rectification. In short, Tiong Nam provides one-stop logistics and warehousing solutions, which can strategically benefit those firms, which often do not have time, resources or expertise in logistics management

**ii. Size is important.** As 3PL will bundle all logistics and warehousing services, it will require operators to have significant assets in terms of transportation vehicles and warehouses that can be customised and fit into clients' supply chain systems.

For this reason, Tiong Nam has been growing its fleet size and has become the largest logistics player in Malaysia. It has 2,106 commercial vehicles, comprising prime movers, container trailers, box and reefer trucks in various size, lorry cranes, lower-loader, cometto, cranes in multiple tonnages, goldholfer, car carriers and vans (see Figure 3). Of these, we understand that 90% of the vehicles are leased from third party subcontractors, who are also working as lorry drivers in Tiong Nam. According to management, Tiong Nam has close to 2000 subcontractors and lorry drivers to help transporting goods from one place to another.

**Figure 3: Fleet size (31 Dec 2014)**

18 ton	578
8 ton	321
3 ton	372
1 ton	249
Low loader	11
Heavy crane	12
Trailer	485
Light vehicle	78
<b>Total</b>	<b>2106</b>

Source: Tiong Nam & TA Research

We believe Tiong Nam is also the largest warehouse owner in Malaysia, operating 77 warehouses with combined storage space of 4.7mn sf located in Malaysia (71 warehouses), Singapore (4) and Thailand (2) (see Figure 4). In Malaysia, these warehouses, including general warehouse, bonded warehouse, cold room, ASRS and spare parts warehouse (see Appendix A), are located at major towns and seaports and this has formed an important network for the company to handle and consolidate small volume cargoes, which small operators are unable to cope with.

Currently, Tiong Nam is building a new ASRS in Shah Alam with a storage capacity of 100,000sf. According to management, this new warehouse is targeted for completion in July-16 and is able to mitigate the space shortage issue spilled over from the existing ASRS warehouse. However, we are conservatively projecting an occupancy rate of 50% in FY17.

Besides that, the company is in the midst of application for a development order to build a multi-storey warehouse with a storage capacity of 1mn sq.ft. When completed in FY19, this is expected to be one of a few multi-storey warehouses in Klang Valley. We are positive on this development and believe this will be one of the re-rating catalysts going forward as Tiong Nam can easily ramp up its storage capacity further by 1mn sq.ft. without the need to acquire additional landbank.

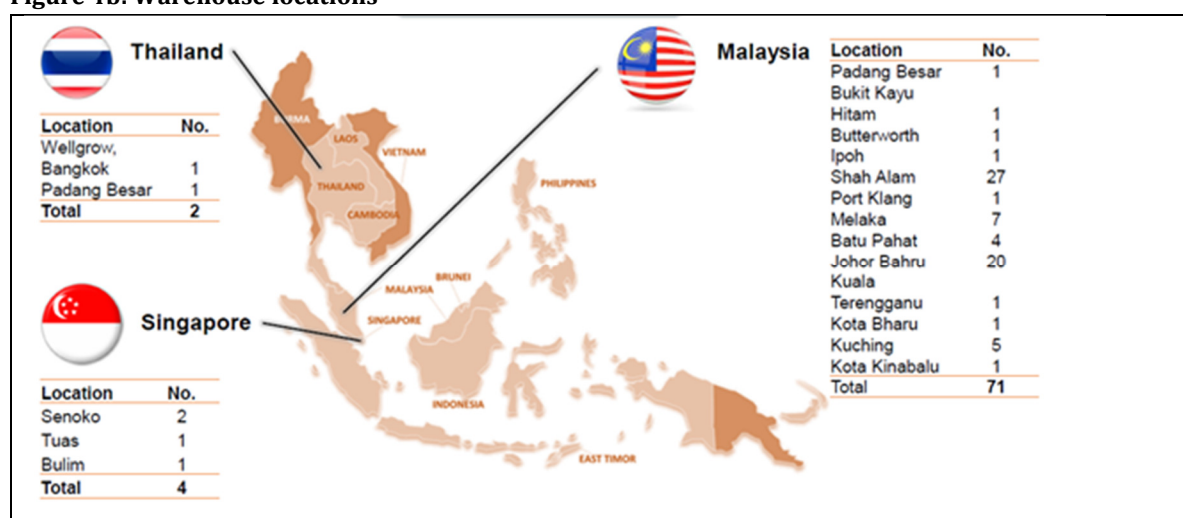
Other pipeline warehouse development include one general warehouse in Melaka Krubong (20,000 sq.ft.) and Tanjung Langsat (100,000 sq.ft.), which are targeted for completion by FY17 and FY18 respectively. Also, the group is in discussion with land owners to construct a number of warehouses and cold rooms at Port of Tanjung Pelepas.

Figure 4a: Warehouse particulars

Type of warehouse	Location	No of warehouse	Storage (sf)	Utilisation (%)
General	Klang Valley	19	1,496,483	98.7
	Johor Bahru	11	526,544	89.6
	Other	29	1,128,746	90.8
<b>Total</b>		<b>59</b>	<b>3,151,773</b>	
Bonded & FCZ	Klang Valley	1	200,964	100
	Johor Bahru	8	849,009	72.2
<b>Total</b>		<b>9</b>	<b>1,049,973</b>	
Cold room	Klang Valley	6	354,102	77.2
	Johor Bahru	1	33,847	0
<b>Total</b>		<b>7</b>	<b>387,949</b>	
ASRS	Shah Alam	1	98,906	86
Spare part	Shah Alam	1	9,352	100
<b>Grand total</b>		<b>77</b>	<b>4,697,953</b>	

Source: Tiong Nam & TA Research

Figure 4b: Warehouse locations



Source: Tiong Nam & TA Research

**iii. Reliability.** As a 3PL operator, Tiong Nam rarely engages in any unnecessary price wars as pricing is usually not the main determinant of contract award. Clients who opted for 3PL services are usually big and have extensive distribution outlets. As such, they will need a sophisticated stocking and distribution system to cope with its production. For instance, in a typical case of F&B client, the client would have to ensure that the logistics company adheres to its first-in first-out inventory system to avoid wastage. Also, the temperature inside the warehouse must be fine-tuned to avoid food damages. Meanwhile, for computer and high-tech server service centre, it would usually require the logistics company to follow its just-in-time delivery system.

Due to different warehousing and distribution requirements, Tiong Nam will charge different fares according to the level of services rendered. However, what is critical in retaining customers is the reliability of its warehousing and logistics services, which can help the customers to minimize cost in the long run. Note that Tiong Nam is the pioneer in the 3PL model and currently providing the services to its clients in the food and oil & gas industries.

## **2) Huge landbank at "old" price**

Tiong Nam sits on vast vacant landbank, measuring 253 acres, sprawling from Johor to Klang Valley, Kuantan, Melaka, and Perak. The net carrying value of this landbank was RM244mn or average RM22 per sq.ft. as at FY15. However, the actual purchase cost without revaluation is substantially lower. Note that Tiong Nam has adopted a policy to revalue its land and buildings every five years.

**i. Sustained business relationship.** The possession of huge landbank shows a remarkable foresight of management in projecting future needs of warehouse space. This will allow Tiong Nam to grow together with its clients in the future. We believe this, ie: the ability to provide storage space when it is needed in the future, is crucial in sustaining long term business relationship with the clients.

**ii. Strategic venture into property development.** Tiong Nam started its property venture back in 2010 and had completed numerous commercial and industrial projects, which comprise mainly factories, shop offices and customized warehouses. We believe property venture is a strategic move to leverage on the landbanking opportunity it has and the property development experience it possesses.

Against the current soft property market condition, we believe the impact to the company is insignificant as the group has been focusing on niche development, special-purpose property, where demand is relatively stable. Importantly, the company is still earning an EBITDA margin of 40% under the current market conditions, which is higher than the industry's average margin of 20%, thanks to favourable property mix and low land cost.

As at Dec-16, Tiong Nam has RM266mn unbilled sales, representing 2.0x FY16 property revenue. Also, it possesses undeveloped landbank, measuring 152.7 acres, with a potential GDV of estimated RM1.5bn. Looking forward, we project the group to rake in new sales of RM130mn/RM223mn/RM250mn for FY17/18/19 respectively.



**Figure 5: On-going project**

Project	Land area (acres)	GDV (RM'mn)	Completion status (%)	Take-up rate (%)
Tiong Nam Industrial Park 2 @ Shah Alam (Ph 1) - SD factories & detached factories	18.4	207.5	100	97.9
Tiong Nam Business Park @ Sil 2 ( Ph 1) - Shop offices	8	100.1	100	96.6
Tiong Nam Business Park @ Kempas 2 (Ph 1) - Shop offices, SD & detached offices	24.8	173	96.1	81.1
Pinetree Residence @ Puteri Harbour - Hotel (251 rooms) & serviced apt (268 units)	3.2	457.8	16.3	65.3
Tiong Nam Business Park @ SilC7 (Ph1) - Shop offices	9.8	218.8	49.1	75
Tiong Nam Business Park @ Batu Pahat 8 - Shop office	10.1	103.6	27.6	25.3
<b>Total</b>	<b>74.3</b>	<b>1260.8</b>		

Source: *Tiong Nam*

### 3) Benefitting from escalating land cost operationally and financially

**Positive rental renewal.** Like any other properties in Malaysia, rental collection from warehouse will usually increase in tandem with the increase in land value. This is mainly due to the surge in the replacement cost of warehouse and thus higher rental is required to maintain the yield. Note that the tenure of Tiong Nam's warehouse averaged about 2 years.

Besides, Tiong Nam would benefit as higher land cost would increase the entry barrier for new entrants, especially in Klang Valley. Tiong Nam will be immune as the company already owns and operates 28 warehouses (2.2mn sf storage space) in Klang Valley. Furthermore, it has undeveloped landbank of 253 acres for future warehouse plans.

**Unlocking asset value.** Financially, Tiong Nam could unlock the value of these income-generating warehouses via REIT. In fact, the company had contemplated the warehouse REIT idea back in 2013 to deal with its financial gearing. However, the plan was eventually aborted. Since then, it has been one of the market talks that Tiong Nam would "reit" its warehouses, and it is just a matter of time.

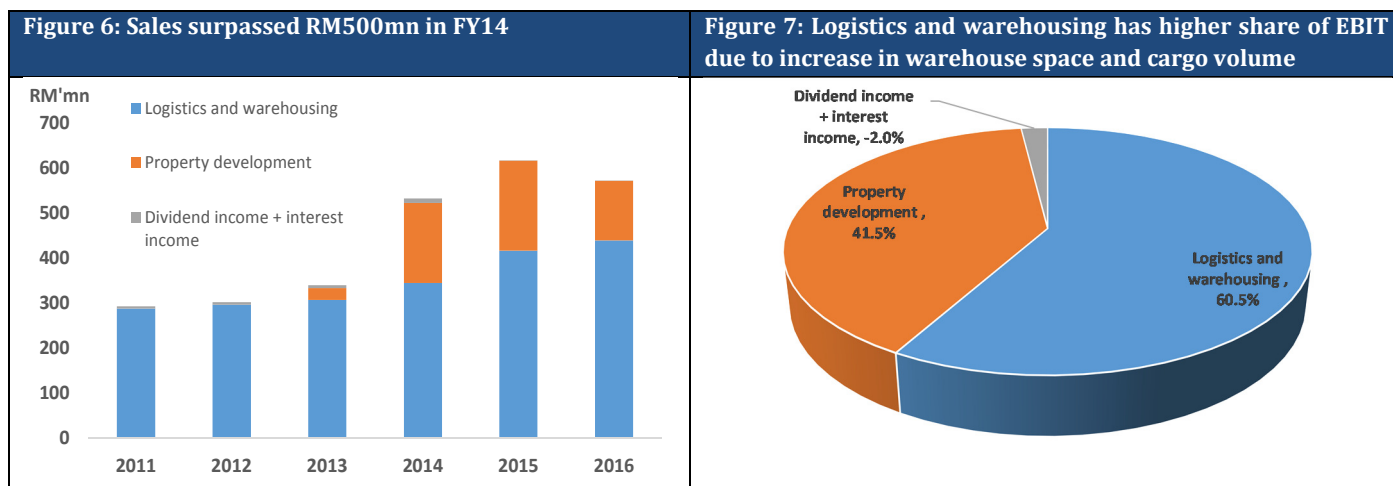
According to management, Tiong Nam adopts an accounting policy of revaluing its land and buildings every five years. It has last revalued most of its land and buildings in 2011 (or FY12) and will be revaluing these assets again this year (FY17). As such, we believe the timing could be perfect for the company to restart the REIT plan this year or after the land revaluation is completed.

### FORECAST

**Significant earnings milestone.** Tiong Nam's revenue surpassed the RM500mn mark first time in its history in FY14 (see Figure 6), when the property development division contributed additional RM152mn (>6x increase) in FY14, driven by higher progress billing from its flagship projects, i.e.: Tiong Nam Industrial Park 2, Tiong Nam Business Park, and Logistics Clusters, Nusajaya. At the same time, the logistics and warehousing division recorded 12% growth in revenue. The revenue stayed above RM500mn in FY15 and FY16 as the logistics and warehousing division continued to register decent performance (+21% growth in FY15 and +6% growth in FY16), which offset the decline in property revenue in FY16 (-34% contraction).



In terms of breakdown (see Figure 7), logistics and warehousing contributed 77% (67%) and property development contributed 23% (32%) to the group's FY16 (FY15) revenue. At the EBIT level, contributions from the logistics and warehousing accounted for 60% (32%) and the property accounted for the balance 40% (68%) of share of FY16 (FY15) earnings. The change in earnings breakdown in FY15 and FY16 was due to 1) maiden contributions from new warehouses, 2) increased cargo volume, and 3) slowdown in property progress billing.



Source: *Tiong Nam*

**Logistics and warehousing support for FY16 performance.** As far as earnings comparison is concerned, *Tiong Nam* achieved core profit of RM51.2mn for FY16, after stripping out revaluation gains and other exceptional items. It was 25.5% lower than the core profit last year as several commercial and industrial property projects have reached the tail-end, while the residential PineTree Residence@Puteri Harbour project has yet to reach the significant billing stage. The dismal property performance was partially mitigated by additional income from 2 new cold rooms opened in FY16 and increased cargo volume.

The adjusted PBT margin contracted by 3.4%-points to 13.9% in FY16 due unfavourable earnings mix.

**Gearing.** Given the recurring nature of rental incomes from warehouses, debts are considered as preferred financing options as the recurring rental collections can perfectly match the repeat interest payments. As such, *Tiong Nam's* balance sheet is highly capitalized by debts, which represents 1x the size of shareholders' funds as at FY15. However, we understand that most of the landbank in *Tiong Nam's* balance sheet has not been revalued after 2011. As such, there would be significant improvement in net gearing in FY17 when the company revalues these properties five years later in 2016. In our calculation, we estimate the revaluation gain could be as much as the land cost stated in FY16 accounts as the price of industrial land in Shah Alam (RM130psf – RM160psf) is significantly higher (>100%) than the book value of land stated 5 years ago.

In comparison with its peers, *Tiong Nam's* balance sheet seems a little overstretched with high net gearing of 1x versus peers' net cash position. However, we think this is in line with the company's strategy to own instead of lease warehouses to have tighter control over warehouse operations while enjoying land price appreciation. As such, we can observe *Tiong Nam's* logistics and warehouse assets were significantly higher than its peers (see Figure 8). We like *Tiong Nam's* approach to push the balance sheet to its limit to cater for rising demand for warehouse space. To de-gear, *Tiong Nam* can always dispose of warehouses to its REIT after being set up later.

Figure 8: Balance sheet comparison

Audited FY15	Land RM'mn	Warehouse & building RM'mn	Motor vehicles RM'mn	Total PPE RM'mn	Cash RM'mn	Total debts RM'mn	Shareholders' funds RM'mn	Debt/logis warehse asset %	Debt/PPE %	Net gearing x
Century Logistics	101.3	182.3	62.0	358.4	89.5	88.2	288.8	25.5	24.6	Net cash
Complete Logistic	18.2	11.8	0.9	80.6	15.9	16.0	101.1	51.5	19.8	nm
Integrated Logistics	0.8	67.6	2.8	135.3	120.8	83.2	319.2	117.0	61.5	Net cash
See Hup	17.2	4.0	84.3	127.8	4.4	19.5	59.1	18.5	15.3	0.3
Tasco	51.6	179.8	85.0	391.6	57.1	54.8	299.1	17.3	14.0	Net cash
Xin Hwa	44.9	47.7	23.5	127.6	24.6	39.2	127.5	33.7	30.7	0.1
<b>Average</b>	<b>39.0</b>	<b>82.2</b>	<b>43.1</b>	<b>203.5</b>	<b>52.1</b>	<b>50.1</b>	<b>199.1</b>	<b>43.9</b>	<b>27.6</b>	<b>Net cash</b>
<b>vs</b>										
<b>Tiong Nam</b>	<b>231.2</b>	<b>268.7</b>	<b>61.7</b>	<b>580.2</b>	<b>22.4</b>	<b>460.1</b>	<b>458.2</b>	<b>81.9</b>	<b>79.3</b>	<b>1.0</b>

Source: Companies' FY15 annual report

**Forecast.** We forecast Tiong Nam to achieve FY17-19 core profit of RM90.9mn/RM118.8mn/RM121.8mn respectively, premised on the following assumptions. This represent a 3-year CAGR growth of 26.9% for FY16-19.

- i. Increase in warehouse storage capacity to 4.85mn sf in FY17, 4.96mn sf in FY18 and 6.0mn sf in FY19;
- ii. A blended occupancy rate of 87.5%, 88.2% and 77.8% for FY17-19 respectively;
- iii. 34.8% jump in FY17 property revenue as PineTree Residence is expected to progress to superstructure works after the completion of substructure; and
- iv. New property sales of RM129.7mn, RM223.1mn and RM250.0mn for FY17-19 respectively.

**Dividend policy.** There is no formal dividend policy in Tiong Nam. However, we project the company to pay 25-26% of earnings as dividends for FY17-19. In the event Tiong Nam initiates its REIT plan, we believe the balance IPO proceeds after retiring its debts, will likely be paid out as special dividend.

## RISKS

**Driver shortage.** The shortage of lorry drivers is a threat to any transportation companies, including Tiong Nam. To mitigate the problem, the company will sub-contract some logistics jobs to third party drivers and lease their lorries.

**Tenancy discontinuation.** There are one third of Tiong Nam's warehouses, which are currently leased from third party. As such, non-renewal of tenancies is a risk to Tiong Nam. In view of this, Tiong Nam has a number of warehouse under construction to mitigate this problem.

**Potential loss of business.** In a rare situation where a customer ceases its business operation in Malaysia, Tiong Nam's business will be affected. As such, it is important that Tiong Nam continues expanding and diversifying its customer base. According to management, none of the customers contribute more than 5% of revenue to Tiong Nam currently.

## VALUATION AND RECOMMENDATION

**Tiong Nam (Buy, TP: RM1.82):** We value Tiong Nam at RM1.82/share, using sum-of-parts valuation method, which can be dissected into 2 main components, i.e.: Logistics & Warehousing and Property. For the logistics and warehousing segment, we peg a PE multiple of 10x CY17 earnings, which is slightly above the peer's average of 9.3x. For the property segment, we peg a PE multiple of 6x FY17 earnings, which is at par with our target PER for small-cap property company.

Tiong Nam, being the largest land transportation and warehouse owner in Malaysia, is currently trading at inexpensive price to earnings of 4.9x CY17 EPS. This is unjustifiable given its strong earnings growth prospect. In addition, the establishment of REIT in the near run could free up the group's resources and enhance its balance sheet quality. With this in mind, we initiate coverage on Tiong Nam with a **Buy** recommendation.

**Figure 9: SOP-valuation**

Operating Units	Valuation Method	% stake	Value (RM'mn)
Transportation & warehousing	PER 10x CY17 Earnings	100%	671
Property	PER 6x CY17 Earnings	100%	268
<b>Total</b>			<b>939</b>
Conversion of warrants @ RM1.00			210
<b>SOP valuation</b>			<b>1,149</b>
Enlarged share base (mn)			631
<b>Fair value/ share (RM)</b>			<b>1.82</b>

**Figure 10: Peer comparison**

Stock	Price	Market cap	EPS growth (%)		PE (x)		Dividend yield (%)		ROE (%)	
	RM	RM'mn	CY16	CY17	CY16	CY17	FY16	FY17	FY16	FY17
Tasco	1.59	318.0	(21.3)	6.8	10.8	10.1	2.5	2.5	9.0	8.9
Xin Hwa	1.05	189.0	55.9	(7.7)	8.1	8.8	0.0	0.0	17.4	15.4
Freight Management	1.21	211.1	8.9	8.0	9.7	9.0	4.1	5.0	10.0	10.4
<b>Average</b>		<b>239.4</b>	<b>14.5</b>	<b>2.4</b>	<b>9.5</b>	<b>9.3</b>	<b>2.2</b>	<b>2.5</b>	<b>12.1</b>	<b>11.6</b>
<b>vs</b>										
<b>Tiong Nam</b>	<b>1.30</b>	<b>546.9</b>	<b>11.9</b>	<b>26.7</b>	<b>6.2</b>	<b>4.9</b>	<b>3.8</b>	<b>4.2</b>	<b>11.2</b>	<b>14.3</b>

**Profit and Loss (RM'mn)**

FYE Mar	2015	2016	2017F	2018F	2019F
<b>Revenue</b>	<b>618.0</b>	<b>572.8</b>	<b>680.2</b>	<b>794.5</b>	<b>850.7</b>
<b>EBITDA</b>	<b>140.4</b>	<b>127.9</b>	<b>186.8</b>	<b>234.6</b>	<b>244.1</b>
Depr. & Amor.	(14.9)	(18.9)	(22.4)	(24.5)	(26.5)
Net finance cost	(18.6)	(21.8)	(24.6)	(27.4)	(30.2)
Associate & JV	4.8	1.2	1.3	1.3	1.3
EI	3.7	20.1	0.0	0.0	0.0
PBT	110.7	107.3	139.8	182.8	187.4
<b>Adj PBT</b>	<b>107.0</b>	<b>87.3</b>	<b>139.8</b>	<b>182.8</b>	<b>187.4</b>
Tax	(27.9)	(21.8)	(36.4)	(47.5)	(48.7)
MI	(9.9)	(5.9)	(12.6)	(16.4)	(16.9)
Net profit	72.9	79.6	90.9	118.8	121.8
<b>Core profit</b>	<b>69.2</b>	<b>59.5</b>	<b>90.9</b>	<b>118.8</b>	<b>121.8</b>
EPS (sen)	16.8	14.3	21.6	28.2	28.9
DPS (sen)	4.0	5.0	5.5	7.0	7.5

**Cash Flow (RM'mn)**

FYE Mar	2015	2016	2017F	2018F	2019F
PBT	110.7	107.3	139.8	182.8	187.4
Non- cash item	12.6	18.6	22.4	24.5	26.5
Chg in working cap.	(50.6)	10.1	48.8	22.4	18.1
Tax	(24.0)	(21.8)	(36.4)	(47.5)	(48.7)
Others	11.0	(1.2)	(1.3)	(1.3)	(1.3)
<b>CFO</b>	<b>59.7</b>	<b>113.0</b>	<b>173.4</b>	<b>180.9</b>	<b>181.9</b>
Capex	(101.6)	(100.0)	(100.0)	(100.0)	(100.0)
Others	(7.7)	0.0	0.0	0.0	0.0
<b>CFI</b>	<b>(109.4)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>	<b>(100.0)</b>
Net Borr./Rpmt	66.5	70.0	70.0	70.0	70.0
Dividend Paid	(10.5)	(21.0)	(23.1)	(29.4)	(31.6)
Others	(31.2)	0.0	0.0	0.0	0.0
<b>CFF</b>	<b>24.8</b>	<b>49.0</b>	<b>46.9</b>	<b>40.6</b>	<b>38.4</b>

**Key Assumptions**

	2015	2016	2017F	2018F	2019F
No of warehouse	-	77.0	80.0	81.0	80.0
Storage capacity (mn sf)	-	4.7	4.9	5.0	6.0
Property sales (RM'mn)	-	120	130	223	250





**Balance Sheet (RM'mn)**

FYE Mar	2015	2016	2017F	2018F	2019F
PPE	580.2	828.4	906.0	981.6	1055.1
Inv. properties	98.5	111.6	111.6	111.6	111.6
Goodwill	2.7	2.7	2.7	2.7	2.7
Others	8.7	0.8	2.1	3.4	4.7
<b>LT Assets</b>	<b>690.1</b>	<b>943.6</b>	<b>1022.4</b>	<b>1099.3</b>	<b>1174.1</b>
Inventories	16.9	44.1	18.6	21.8	23.3
Trade & other rec.	197.3	187.6	167.7	185.0	186.5
Cash	22.4	9.9	130.1	251.6	371.9
Others	289.6	275.1	275.1	275.1	275.1
<b>ST Assets</b>	<b>526.3</b>	<b>516.7</b>	<b>591.6</b>	<b>733.4</b>	<b>856.8</b>
<b>Total Assets</b>	<b>1216.4</b>	<b>1460.3</b>	<b>1614.0</b>	<b>1832.7</b>	<b>2030.9</b>
Trade and other pay.	235.4	251.6	255.1	297.9	319.0
ST Borrowings	197.9	122.0	157.0	192.0	227.0
Others	13.5	2.1	2.1	2.1	2.1
<b>ST Liabilities</b>	<b>446.8</b>	<b>375.8</b>	<b>414.2</b>	<b>492.1</b>	<b>548.2</b>
LT Borrowings	262.2	422.6	457.6	492.6	527.6
Others	26.6	43.9	43.9	43.9	43.9
<b>LT Liabilities</b>	<b>288.8</b>	<b>466.6</b>	<b>501.6</b>	<b>536.6</b>	<b>571.6</b>
Share Cap	84.1	84.1	84.1	84.1	84.1
Reserves	374.1	517.8	585.6	674.9	765.1
<b>Shareholder's Funds</b>	<b>458.2</b>	<b>601.9</b>	<b>669.7</b>	<b>759.0</b>	<b>849.3</b>
MI	22.6	16.0	28.5	45.0	61.9
<b>Liabilities + Equities</b>	<b>1216.4</b>	<b>1460.3</b>	<b>1614.0</b>	<b>1832.7</b>	<b>2030.9</b>

**Ratios**

	2015	2016	2017F	2018F	2019F
EPS Growth (%)	23.0	(14.7)	51.1	30.7	2.5
PER (x)	7.8	9.1	6.0	4.6	4.5
Div Yield (%)	3.1	3.8	4.2	5.4	5.8
Net cash (RMm)	(437.7)	(534.7)	(484.5)	(433.1)	(382.7)
Net gearing (x)	1.0	0.9	0.7	0.6	0.5
ROE (%)	16.1	11.2	14.3	16.6	15.1
ROA (%)	6.2	4.4	5.9	6.9	6.3
NTA (RM)	1.08	1.42	1.59	1.80	2.01
P/NTA (x)	1.2	0.9	0.8	0.7	0.6
EV/EBITDA (x)	7.0	8.5	5.5	4.2	3.8

Appendix A: Type of warehouses

	<p><b>General warehouse</b></p> <ul style="list-style-type: none"> <li>• Providing distribution centre services.</li> <li>• In-house warehouse management system to increase the efficiency of order processing.</li> </ul> <p><b>Bonded warehouse</b></p> <ul style="list-style-type: none"> <li>• Providing clients with legal custody of all taxable goods without having to pay duties/taxes until such time when the goods are shipped for conversion use or export and re-export.</li> </ul>
	<p><b>Cold room</b></p> <ul style="list-style-type: none"> <li>• Along with refrigerated containers and transportation services, Tiong Nam have a range of temperature controlled warehouses from ambient (28°C-30°C), air conditioned (18°C-22°C), chilled (2°C-4°C), frozen (-18°C and below) and deep freezing treatment (-25°C) to store any variety of goods.</li> </ul>
	<p><b>Automated storage retrieval system (ASRS)</b></p> <ul style="list-style-type: none"> <li>• A fully-imported mobile racking systems, now with ASRS ensures the full utilisation of storage space.</li> </ul> <p><b>Benefits</b></p> <ul style="list-style-type: none"> <li>• Reduced labour for transporting, now with ASRS ensure the full utilisation space.</li> <li>• Maximising warehousing space and increasing efficiency.</li> <li>• Increased accuracy of inventory tracking.</li> </ul>
	<p><b>Spare parts</b></p> <ul style="list-style-type: none"> <li>• Spare parts warehousing is based on an original logistics approach, which enables us to deliver spare parts on a daily basis to more than 19 service centres and multiple core on site deliveries throughout Malaysia.</li> </ul>

Source: Tiong Nam

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