11 September 2020

Transport | Logistics

TASCO (TASCO MK)

Not Rated

Ride On The J-Curve's Sweet Spot

Fair Value (Return):	MYR2.60 (+79%)
Price:	MYR1.45
Market Cap:	USD69.7m
Avg Daily Turnover (MYR/USD)	0.28m/0.07m

- **Fair value of MYR2.60 based on 15x CY21 P/E.** Our target multiple is pegged to its 5-year historical mean while representing a 20% discount to the Bursa Malaysia Transportation Index's 18x forward P/E. We believe the total logistics solutions provider is ready to reap the rewards of its past expansion drive on the back of revitalised demand for third-party logistics (3PL) services and cost optimisation – consequently delivering a near-3x leap in net profit to MYR32m in FY21F.
- **International Business Solutions (IBS) lifted by soaring air freight rates.** PBT for the segment surged 68% QoQ in 1QFY21 (+MYR1.2m), as Tasco was able to pass on the spike in air freight charges to customers with urgent shipments amidst limited flight capacity, aided by its regional logistics network as a 65%-owned subsidiary of NYK Group, one of the largest shipping companies in the world. Pricing has since peaked, but will likely stay elevated YoY on the back of persistent capacity shortage. The segment's performance is therefore expected to remain strong while supported by a rebound in volume demand subsequently.
- **Swift recovery seen for Domestic Business Solutions (DBS).** We understand that the segment is enjoying brisk business once more after the relaxation of the Movement Control Order (MCO) which affected its contract logistics (CL) and trucking divisions. In fact, we believe the bottomline may even top pre-MCO levels due to higher dependence on 3PL services to manage supply chain disruption risks. The warehousing business (90% utilisation) will receive a timely boost from the recent acquisition of additional capacity, while we also gather that the trucking division has turned profitable – partially helped by lower fuel costs.
- **Significant cost savings to sustain margin expansion.** This comes on management's steps taken to reduce overheads and lower financing costs from its ongoing debt refinancing exercise which is expected to amount to c.MYR10m PBT uplift in FY21F. Tasco was also just granted investment tax allowances (ITA) by MIDA via its plan to invest at least MYR240m over five years as an Integrated Logistics Services provider, which would allow the group to realise tax savings of at least MYR35m in the coming years.
- **A logistics frontrunner for COVID-19 vaccine?** We believe Tasco – the largest cold chain logistics provider in Malaysia following various acquisitions, and the only player with temperature specialty of as low as -30C – has done remarkably well even during MCO, thanks to firm demand for frozen products, fast food, and poultry. We foresee further M&A opportunities in this low-hanging fruit segment where scale and resources matter. In addition, Tasco could be a key candidate to be appointed as the inbound logistics handler for COVID-19 vaccine delivery by the Ministry of Health (MoH) once available, given its channel reach and overall facilities.

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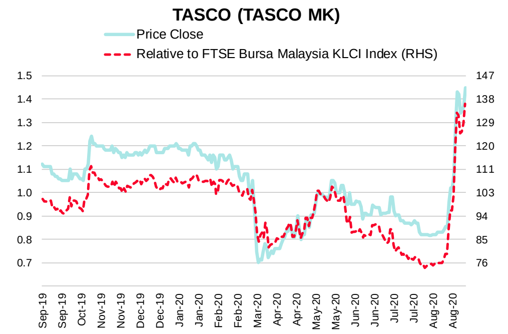
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	20.8	76.8	51.0	45.0	29.5
Relative	27.0	82.0	56.4	40.8	36.1
52-wk Price low/high (MYR)					0.70 – 1.45



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	737	747	814	863	913
Recurring net profit (MYRm)	12	8	32	36	40
Recurring net profit growth (%	(49.1)	(32.1)	290.0	11.7	11.7
Recurring P/E (x)	23.91	35.19	9.02	8.08	7.23
P/B (x)	0.8	0.7	0.6	0.6	0.6
P/CF (x)	6.81	6.62	4.07	3.82	3.58
Dividend Yield (%)	1.7	1.4	3.4	3.4	3.4
EV/EBITDA (x)	8.45	6.16	4.67	4.25	3.86
Return on average equity (%)	3.6	2.2	8.8	9.1	9.5
Net debt to equity (%)	77.4	28.9	27.7	24.2	20.0

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia
Malaysia
Transport
TASCO
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Valuation basis

15x P/E CY21F

Key drivers

i. Multi-year growth in demand for 3PL services;
ii. Rising cross-border trade activities;
iii. Cost efficiencies.

Key risks

i. Loss of key customers; and
ii. Decline in operating margins.

Company Profile

Tasco is a total logistics solutions provider with services including contract logistics, air freight forwarding, trucking, ocean freight forwarding and cold supply chain logistics.

Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring EPS	0.06	0.04	0.16	0.18	0.20
DPS	0.03	0.02	0.05	0.05	0.05
BVPS	1.86	2.18	2.29	2.42	2.57
Return on average equity (%)	3.6	2.2	8.8	9.1	9.5

Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring P/E (x)	23.91	35.19	9.02	8.08	7.23
P/B (x)	0.8	0.7	0.6	0.6	0.6
FCF Yield (%)	(57.9)	12.0	7.3	9.0	10.7
Dividend Yield (%)	1.7	1.4	3.4	3.4	3.4
EV/EBITDA (x)	8.45	6.16	4.67	4.25	3.86
EV/EBIT (x)	15.29	12.54	7.37	6.52	5.79

Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover	737	747	814	863	913
Gross profit	101	109	130	138	146
EBITDA	68	80	106	114	121
Depreciation and amortisation	(30)	(41)	(39)	(40)	(40)
Operating profit	37	39	67	74	81
Net interest	(18)	(18)	(15)	(16)	(17)
Pre-tax profit	19	21	52	58	64
Taxation	(5)	(11)	(12)	(14)	(15)
Reported net profit	13	9	39	43	47
Recurring net profit	12	8	32	36	40

Cash flow (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Cash flow from operations	43	44	71	76	81
Capex	(210)	(9)	(50)	(50)	(50)
Cash flow from investing activities	(178)	(6)	(49)	(49)	(49)
Dividends paid	(5)	(7)	(10)	(10)	(10)
Cash flow from financing activities	73	49	21	10	(27)
Cash at beginning of period	35	61	113	159	207
Net change in cash	(63)	87	43	37	5
Ending balance cash	(27)	149	156	196	212

Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total cash and equivalents	82	197	243	291	308
Tangible fixed assets	526	503	515	525	535
Total investments	8	7	7	7	7
Total assets	859	949	1,017	1,083	1,117
Short-term debt	81	87	87	87	87
Total long-term debt	290	254	300	337	337
Total liabilities	486	449	493	533	536
Total equity	373	500	523	550	582
Total liabilities & equity	859	949	1,017	1,083	1,117

Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Revenue growth (%)	3.7	1.4	8.9	6.0	5.8
Recurrent EPS growth (%)	(49.1)	(32.1)	290.0	11.7	11.7
Gross margin (%)	13.7	14.6	16.0	16.0	16.0
Operating EBITDA margin (%)	9.2	10.7	13.0	13.2	13.3
Net profit margin (%)	1.8	1.2	4.8	5.0	5.2
Dividend payout ratio (%)	38.3	45.0	25.5	23.3	21.2
Capex/sales (%)	28.6	1.2	6.1	5.8	5.5
Interest cover (x)	2.03	2.14	4.58	4.56	4.75

Source: Company data, RHB

Investment Thesis

Growth opportunities beckon from COVID-19

Freight forwarding business leveraging on scale and access to air capacity. Despite the pandemic lockdown which led to a crunch in both capacity and shipper volumes, Tasco's IBS segment has benefitted from a strong pricing environment amidst urgent shipment orders by customers for goods such as electrical and electronic (E&E) products to be shipped by air – which led its air freight division (AFF) performance to leapfrog in 1QFY21 and more than make up for the weakness in its ocean freight (OFF) division.

We attribute the outperformance to Tasco's regional business reach – as a 65%-owned subsidiary under Japan-based Nippon Yusen's (NYK) expansive logistics network across multiple geographies – while possibly also aided by its strategic partnership with AirAsia via the airline's logistics arm, Teleport, which may have allowed the group to better secure air cargo space amidst the capacity shortage.

Consequently, PBT contribution by IBS surged 70% YoY (68% QoQ) to MYR2.9m in 1QFY21, which partially offset the MCO's impact on its DBS segment whose PBT shrank 23% YoY (-52% QoQ).

Figure 1: Segmental PBT contribution – 1QFY21 vs 1QFY20 (Jun)

Division (RM'000)	FY2021	FY2020	Variance	
Custom Clearance	(179)	813	(992) / -122.0%	▼
Haulage	30	1,573	(1,543) / -98.1%	▼
Warehouse	2,204	1,460	743 / 50.9%	▲
In-Plant	619	1,528	(909) / -59.5%	▼
Contract Logistics	2,674	5,374	(2,700) / -50.2%	▼
Cold Supply Chain Logistics	2,886	1,315	1,572 / 119.5%	▲
Trucking	(1,598)	(1,556)	(42) / -2.7%	▼
Domestics Business	3,963	5,133	(1,170) / -22.8%	▼
AFF	3,394	1,162	2,231 / 191.9%	▲
OFF	(470)	555	(1,025) / -184.8%	▼
International Business	2,923	1,717	1,206 / 70.2%	▲
Support	(1,657)	(4,929)	3,271 66.4%	▲
TOTAL	5,229	1,921	3,308 / 172.3%	▲

Source: Company

Domestic operations find second wind from the pandemic. While Tasco's DBS segment was not immune to the partial standstill in goods movement during MCO, we gather that the subsequent demand for 3PL services has turned even stronger as businesses rushed to mitigate supply chain disruptions and ensure operational continuity during these unprecedented times. Tasco – deemed as the third largest 3PL player in the domestic market after DB Schenker and DHL and with end-to-end logistics capabilities – is well-positioned to capitalise on these opportunities spanning across the whole supply chain.

Tasco has already been seeing a significant recovery in its Contract Logistics (CL) and Trucking (TD) businesses – the two worst-hit divisions – since June's easing of the MCO. Specifically, this relates to the broad resumption in manufacturing and import/export activities benefitting the CL division's non-warehousing operations – with E&E customers forming part of its key customer base – while its warehouses continue to run at full capacity since MCO until present. Meanwhile, its TD business has been picking up due to the shift towards land transportation amid prevailing air and sea freight restrictions, as we note that its trucks are permitted to provide cross-border deliveries between Thailand and Singapore, whereas many truckers were turned away amid stringent border control measures imposed by the authorities.

Its specialised Cold Supply Chain (CSC) business has proven to be a shrewd acquisition, as operations remained busier than ever as an integral service to its clients primarily dealing in food & beverages (F&B), pharmaceutical and convenience retail throughout the MCO, thereby helping to cushion the earnings impact in 1QFY21. We understand that the division is achieving critical mass with the recent on-boarding of new key customers, including for its convenience retail business. The latter, which was previously loss-making and dragged on CSC's performance upon being transferred over in FY20, has now broken even and is set to deliver better results in line with the CSC division's upward trajectory, while further complemented by efficiency improvements along the way. 2HFY21 is also set to receive a capacity boost for the CSC division following the recently completed acquisition of industrial properties from Hai San Holdings, which include a total ambient and cold storage capacity of 375k sq ft. We estimate that this will equate to another 13,000 increase in pallets capacity from its current 37,000 – further cementing its leading position in the niche yet attractive cold chain logistics space with approximately one-third of the domestic market share.

Figure 2: Tasco's Dry and Cold warehousing assets

GOLD COLD TRANSPORT SDN BHD (GCT)

BERJAYA INDUSTRIAL LOGISTICS CENTRE (BILC)

Location	Berjaya Industrial Park, Section 32, Shah Alam
Land Area	7.7 acres
Built-up Area	330,000 sq. ft
Type	Cold Storage Warehouse
Pallets Capacity	26,000 pallets
Key Customers	Nestlé, Unilever, Nestlé Ice Cream, MB

GOLD COLD INTEGRATED LOGISTICS SDN BHD (GCIL)

WESTPORT LOGISTICS CENTRE (WPLC)

Location	Westport, Pulau Indah
Type	Ambient Warehouse, Cold Storage Warehouse and 17 acres vacant land
Land Area	39 acres
Built-up Area (Ambient)	250,000 sq. ft
Cold Storage Warehouse	
Built-up Area	138,000 sq. ft
Pallets Capacity	11,000 pallets
Key Customers	KFC, Pizza Hut, Ayamas

GC LOGISTICS SDN BHD (GCL)

BUKIT RAJA LOGISTICS CENTRE (BRLC)

Location	Jalan Solok Waja 3 / KU, Kawasan Perindustrian Bukit Raja, Klang
Built-up Area	320,000 sq. ft
Type	Ambient Warehouse
Resources	226 headcount
Segment	Retail distribution
Key Customers	7-Eleven, Shell Select, Village Grocer, Tesco, B.I.G.

GOLD COLD SOLUTIONS SDN BHD (GCS)

HAI SAN PROPERTIES

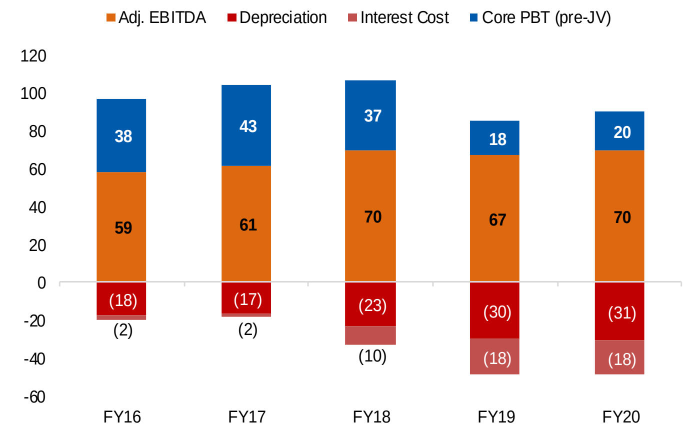
Location	Jalan Pelabuhan Utara, Bandar Sultan Suleiman, Pelabuhan Klang
Built-up Area	374,862 sq. ft
Type	Ambient Warehouse and cold storage

Source: Company

Leaner cost structure made possible by MCO downtime. After a three-year expansion drive into the cold chain and consumer logistics businesses, Tasco was able to catch a breather during the lockdown's partial idling of operations to review and right-size its cost base – which resulted in a c.MYR2m QoQ reduction in general and administrative expenses. While we gather that part of these cost savings are tied to operational run-rate, management believes that at least half of the savings should continue to accrue (ie MYR1m per quarter) as more efficiency gains are expected to be captured sequentially as well.

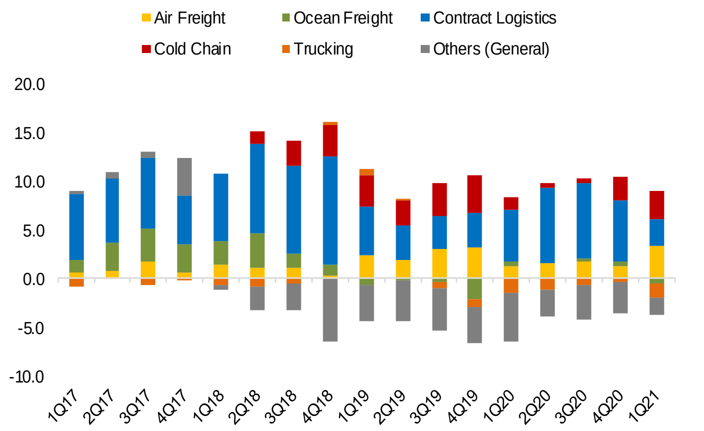
That said, we point out that Tasco's operational performance has remained decent as seen at the EBITDA level (Figure 3) – which alludes to its past three years' earnings dampener coming from increased non-operating costs (interest and depreciation charges) stemming from its debt-financed CSC foray since Jul 2017 (FY18 onwards). However, these are set to taper off primarily on lower financing costs going forward. This comes on the back of management's utilisation of Japan Overseas Infrastructure Investment Corporation For Transport & Urban Development's (JOIN) MYR125m investment proceeds last year – for a 30% equity stake in its CSC business – to pare down its debt, while the low interest rate environment also offers a timely opportunity to refinance at lower borrowing costs. Aside from that, Tasco should also find some relief for its trucking fleet which is close to being fully depreciated, while also benefitting from lower fuel prices (-20% YTD) which account for 30% of trucking unit's opex. All in, we expect both operating and non-operating cost savings in FY21F amounting to at least MYR10m.

Figure 3: Firm EBITDA masked by depreciation & debt costs



Source: Company

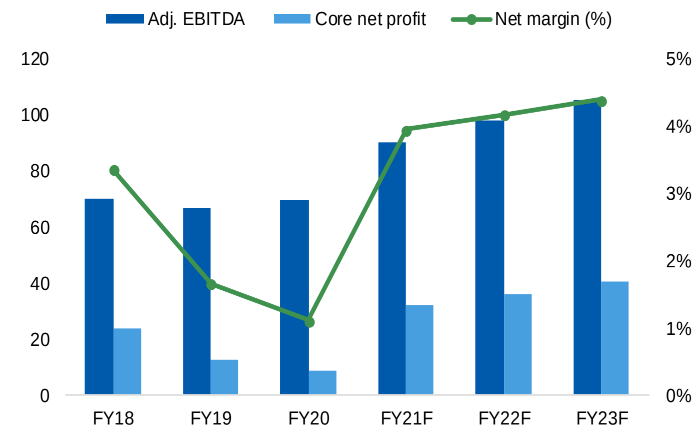
Figure 4: Segmental PBT evolution QoQ



Source: Company

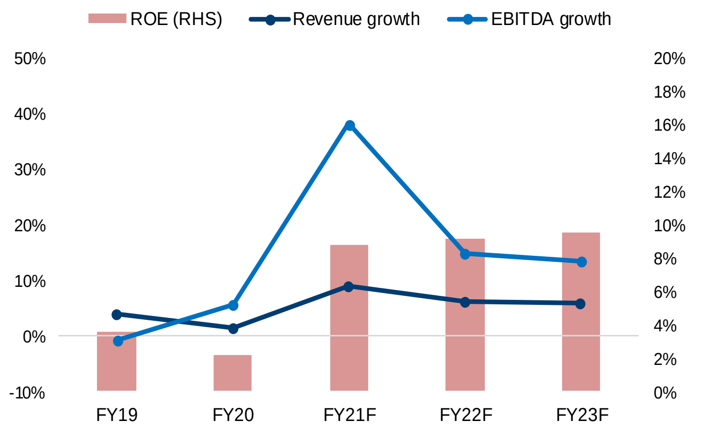
Imminent earnings resurgence after multi-year expansion growing pains. On the back of revitalised business growth and a decisively leaner cost structure, we believe Tasco's growing pains are in the rear view and expect the group to deliver a quantum leap in earnings from 2QFY21 onwards, culminating in FY21F core net profit of MYR32m (+290% YoY) for the group and followed by a new record profit in FY22F, after last peaking in FY11.

Figure 5: Earnings and margins set for a rebound



Source: Company

Figure 6: Stronger growth ahead will lift ROEs once more



Source: Company

Valuation & Recommendation

Mind the inflection point and position for growth ahead

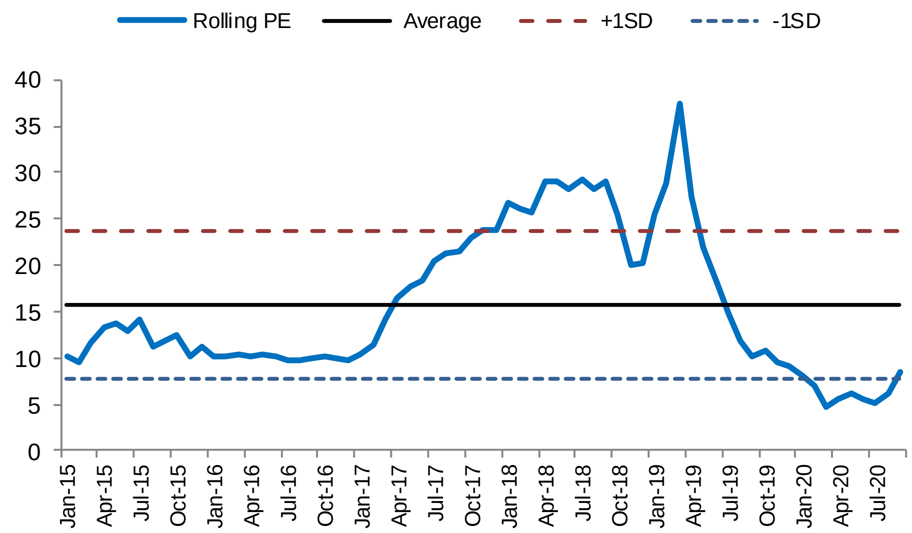
Fair value of MYR2.60, pegged to mean 15x P/E, offering a strong 79% upside. We believe the stock is deeply undervalued – trading at only 8x 2021F P/E (vs peer average of 18x/1SD below its 5-year mean). The stock may see an immediate re-rating as investors begin to digest 1QFY21's positive read-throughs on what is yet to come, in terms of earnings delivery. Correspondingly, current consensus FY21-22F profit estimates of MYR14-16m are overly conservative, in our view. We project a 10-year high core net profit of MYR32m (+290%) in FY21F – thanks to management's cost-cutting measures, reduced financing costs, near-term tailwinds from sky-high air freight rates, as well as robust growth traction for its domestic total logistics businesses. The stable EBITDA of MYR60m-MYR70m over the past five years is also testament to its solid operating performance, despite the volatile business cycle, while also undertaking its cold chain expansions at the same time. Last but not least, future earnings are set to be further lifted by a second round of ILS tax incentives granted by MIDA, which is expected to generate minimum tax savings of MYR35m (subject to the final amount of qualified capex) until fully utilised – presenting additional upside to our base case estimates, as we have yet to factor this into our forecasts.

Figure 7: Peer comparison

Company	Mkt Cap	P/E		EV/EBITDA		P/BV (x)		ROE (%)		Div yield (%)	
	(MYR m)	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
3PL Peers											
Tiong Nam	174.3	96.6	18.9	12.7	11.9	-	-	-	-	-	1.0
CJ Century	200.7	-	71.7	-	-	0.4	0.4	-	0.9	-	0.6
Freight Management	145.2	10.4	8.5	4.5	4.2	0.5	0.5	4.9	5.5	3.8	5.8
Weighted Average		**39.6**	**17.9**	**12.8**	**11.9**	**0.5**	**0.5**	**4.9**	**3.2**	**3.8**	**2.4**
Tasco	**290.0**	**11.1**	**8.3**	**6.7**	**6.0**	**0.6**	**0.5**	**5.1**	**6.4**	**3.4**	**3.4**
Bursa Transportation Index	**-**	**20.9**	**17.8**	**10.6**	**9.4**	**1.0**	**1.0**	**-**	**-**	**3.3**	**3.6**

*Note: *as at 10 Sep 2020; 3PL peers and sector index are based on consensus estimates*
Source: Bloomberg, RHB

Figure 8: Tasco is trading at -1SD to its 5-year historical mean P/E

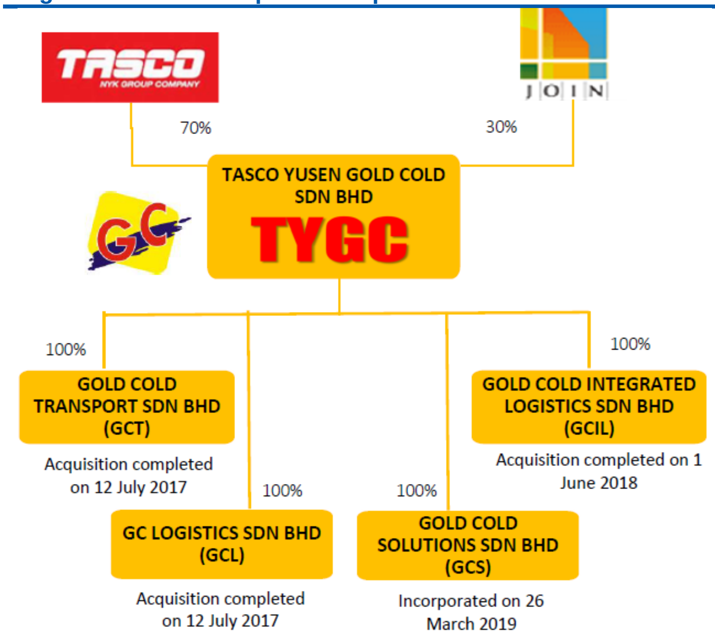


Source: Company, Bloomberg, RHB

At the inflection point – a value buy on top of a recovery play. Trading at only 0.7x FY21F P/NTA to tangible net assets of MYR2.20 per share, we deem the company to be deeply under-appreciated, from an asset-based perspective. This is in view of its multiple income-generating logistics warehouses, operating assets and long-term EPS accretive acquisitions over the past years. The market has by and large ignored the logistics sector, given its sluggish underperformance over the past few years, especially with those involved in last mile delivery having witnessed intense competition. However, we believe the 3PL space is worth a relook not only for its recovery play but also for its outsized growth drivers – characterised by a secular rise in demand for outsourced logistics services due to cost efficiency and asset-light benefits. This is as the industry is undergoing a consolidation phase, and yet, is presented with new niche opportunities such as cold chain and reverse logistics. In this regard, Tasco's strong fundamentals, coupled with synergy creation from multiple partnerships (Nippon Yusen, Yee Lee Corporation, JOIN, AirAsia etc), as well as shrewd M&A executions are beginning to bear fruit.

Investment by JOIN a strong vote of confidence, and more. In 2019, the Japan Overseas Infrastructure Investment Corporation For Transport & Urban Development (JOIN) – an 87.19%-owned entity of Japan's Ministry of Finance – bought a 30% stake in Tasco's unit Tasco Yusen Gold Cold (TYGC) for MYR125m. The exercise implicitly valued Tasco's entire cold chain business for MYR417m, a sizeable premium to its collective purchase consideration of MYR215m only two years ago. The value creation from this investment exercise is likely to garner deeper consideration, now that TYGC has established itself as Malaysia's largest cold chain network, with 50,000 pallets' capacity, constituting 33% share of the domestic market.

Figure 9: Cold chain partnership with JOIN



Source: Company

Figure 10: Cold chain clientele base

Source: Company

Figure 11: Tasco's group-wide clientele

Source: Company

Key Risks

Key risks for the company include:

i. Loss of key customers and/or access to freight capacity;

ii. Prolonged COVID-19 pandemic and cross-border lockdowns;

iii. Weaker-than-expected recovery in trade and manufacturing activities;

iv. Margin pressures due to intensifying competition in the contract logistics space.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-09-24	Drop Coverage	na	1.07
2019-08-23	Neutral	1.25	1.15
2019-05-30	Buy	2.01	1.32
2019-02-22	Neutral	1.40	1.36
2018-08-17	Neutral	1.80	1.70
2018-05-25	Neutral	2.05	1.90
2018-02-12	Neutral	2.20	1.98

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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