

28 April 2021

Transport | Logistics

## TASCO (TASCO MK)

**Buy** (Maintained)

### Stellar FY21 Performance; Keep BUY

- Maintain BUY, with a higher TP of MYR1.65 from MYR1.45, 31% upside and c.2% yield.** Tasco's FY21 (Mar) results overshot expectations, accounting for 118% and 112% of our and Street's estimates. We expect the group's earnings momentum to sustain into FY22F, buoyed by solid top-line growth, recovery in freight traffic, and utilisation of its Integrated Logistics Services (ILS) tax allowances. At 17x CY22F P/E, the stock is still trading at a 30% discount to its regional peers.
- Above expectations.** FY21's record-high PATAMI of MYR41.3m (+364% YoY) came on the back of robust results (+41% QoQ) in 4QFY21, primarily led by its international freight forwarding segment alongside favourable FX movements. The strong numbers seen at its international segment were underpinned by a still tight freighter capacity in the market, while we understand that Tasco has also secured more chartered flights for its customers. Meanwhile, its domestic logistics segment continued to chalk up higher revenue (+12% QoQ) in spite of the imposition of MCO 2.0, owing to the sturdy performance of its contract logistics and trucking divisions.
- Stronger logistics demand to underpin FY22F prospects.** We anticipate Tasco's top-line growth to carry over into FY22F, driven by a recovery in freight volumes post-pandemic in addition to new business customers secured. These should also help to support the international segment's margins, while the constrained air and sea freight conditions worldwide appear unlikely to be resolved anytime soon. From FY22 onwards, Tasco is also set to reap the benefits of its ILS investment tax allowances as it embarks on a multi-pronged expansion drive, which should result in much lower effective tax rates as well as a larger base of income-generating logistics assets over the coming years.
- FY22-23F earnings raised by 13-14%.** This is mainly after incorporating higher revenue contributions from both its international and domestic business segments. We also pencil-in Tasco's recent acquisition of Sabah-based Hypercold Logistics (c.1% PATAMI contribution) and introduce our FY24F projections at the same time.
- Keep BUY with a higher TP of MYR1.65,** pegged to an unchanged 22x target P/E on CY22F EPS (+0.5SD above its 5-year mean of 18x). We continue to like Tasco for its strong earnings trajectory, scarcity of listed logistics players with similar operational and growth profiles, and undemanding valuation while trading at a 30% discount to regional peers' c.24x. Key downside risks to our call include a weaker-than-expected recovery in freight volumes, and higher-than-expected operating expenses.

Target Price (Return):	MYR1.65 (31.0%)
Price:	MYR1.26
Market Cap:	USD246m
Avg Daily Turnover (MYR/USD)	9.32m/2.28m

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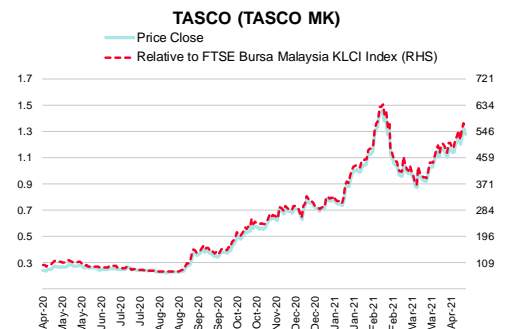


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	67.3	24.8	24.1	125.8	472.7
Relative	68.6	24.5	22.5	118.7	455.4
52-wk Price low/high (MYR)	0.20 – 1.44				



Source: Bloomberg

#### Overall ESG Score: 3.1 (out of 4); unchanged

##### E: Good

The group has identified and begun carrying out various eco-friendly initiatives centred on environmental protection and stewardship.

##### S: Good

Comprehensive measures have been taken to ensure the safety and livelihood of its employees, as well as corporate social responsibility contributions.

##### G: Excellent

Clear transparent practices and objective targets have been put in place to ensure stakeholder engagement and management efficiency.

Forecasts and Valuation	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Total turnover (MYRm)	747	947	1,001	1,053	1,112
Recurring net profit (MYRm)	8	41	55	61	65
Recurring net profit growth (%)	(32.1)	400.9	33.2	11.2	6.0
Recurring P/E (x)	122.32	24.42	18.33	16.48	15.55
P/B (x)	2.3	2.1	2.0	1.8	1.7
P/CF (x)	23.00	12.05	10.20	9.33	8.82
Dividend Yield (%)	0.4	0.4	1.6	1.8	1.9
EV/EBITDA (x)	15.14	11.12	10.16	9.10	8.55
Return on average equity (%)	2.2	8.1	11.2	11.6	11.3
Net debt to equity (%)	28.9	28.8	25.3	22.7	19.6

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (MYR)	Mar-20	Mar-21	Mar-22F	Mar-23F	Mar-24F
Malaysia	Recurring EPS	0.01	0.05	0.07	0.08	0.08
Transport	DPS	0.01	0.01	0.02	0.02	0.02
<b>TASCO</b>	BVPS	0.54	0.59	0.64	0.69	0.75
TASCO MK	Return on average equity (%)	2.2	8.1	11.2	11.6	11.3
Buy						
	<b>Valuation metrics</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	122.32	24.42	18.33	16.48	15.55
22x P/E CY22F	P/B (x)	2.3	2.1	2.0	1.8	1.7
	FCF Yield (%)	3.5	4.2	1.9	2.8	3.4
<b>Key drivers</b>	Dividend Yield (%)	0.4	0.4	1.6	1.8	1.9
Structural growth in demand for 3PL services;	EV/EBITDA (x)	15.14	11.12	10.16	9.10	8.55
Rising cross-border trade activities;	EV/EBIT (x)	30.83	17.37	15.59	13.64	12.79
Market consolidation opportunities						
	<b>Income statement (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
<b>Key risks</b>	Total turnover	747	947	1,001	1,053	1,112
Loss of key customers, and decline in operating margins	Gross profit	109	151	165	179	189
	EBITDA	80	110	120	133	141
	Depreciation and amortisation	(41)	(40)	(42)	(44)	(47)
	Operating profit	39	70	78	89	94
	Net interest	(18)	(14)	(15)	(18)	(20)
	Pre-tax profit	21	56	63	71	75
	Taxation	(11)	(17)	(6)	(6)	(7)
	Reported net profit	9	37	55	61	65
	Recurring net profit	8	41	55	61	65
	<b>Cash flow (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
	Cash flow from operations	44	84	99	108	114
	Capex	(9)	(41)	(80)	(80)	(80)
	Cash flow from investing activities	(6)	(40)	(79)	(79)	(79)
	Dividends paid	(7)	(8)	(16)	(18)	(19)
	Cash flow from financing activities	49	(111)	77	23	(39)
	Cash at beginning of period	61	113	78	194	259
	Net change in cash	87	(67)	96	52	(4)
	Ending balance cash	149	44	174	246	255
	<b>Balance sheet (MYRm)</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
	Total cash and equivalents	197	116	233	297	307
	Tangible fixed assets	503	515	554	589	623
	Total investments	7	8	8	8	8
	Total assets	949	961	1,100	1,208	1,260
	Short-term debt	87	39	39	39	39
	Total long-term debt	254	232	340	400	400
	Total liabilities	449	424	522	585	588
	Total equity	500	537	578	624	672
	Total liabilities & equity	949	961	1,100	1,208	1,260
	<b>Key metrics</b>	<b>Mar-20</b>	<b>Mar-21</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
	Revenue growth (%)	1.4	26.6	5.7	5.2	5.6
	Recurrent EPS growth (%)	(32.1)	400.9	33.2	11.2	6.0
	Gross margin (%)	14.6	16.0	16.5	17.0	17.0
	Operating EBITDA margin (%)	10.7	11.6	12.0	12.7	12.7
	Net profit margin (%)	1.2	3.9	5.5	5.8	5.8
	Dividend payout ratio (%)	45.0	10.9	30.0	30.0	30.0
	Capex/sales (%)	1.2	4.3	8.0	7.6	7.2
	Interest cover (x)	2.14	4.89	5.34	4.84	4.78

Source: Company data, RHB

Figure 1: Tasco's results snapshot

FYE Mar (MYRm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>	<b>186.2</b>	<b>242.7</b>	<b>295.9</b>	21.9	58.9	<b>747.4</b>	<b>946.6</b>	26.6	Driven mainly by the International freight forwarding segment, in addition to its contract logistics and cold supply chain divisions
<b>EBITDA</b>	<b>21.9</b>	<b>29.5</b>	<b>37.6</b>	27.5	71.7	<b>79.9</b>	<b>114.3</b>	43.0	
<i>EBITDA Margin (%)</i>	<i>11.7</i>	<i>12.1</i>	<i>12.7</i>			<i>10.7</i>	<i>12.1</i>		
Depreciation	(10.9)	(9.7)	(11.0)	13.9	1.3	(40.7)	(39.5)	(2.9)	
<b>EBIT</b>	<b>11.0</b>	<b>19.8</b>	<b>26.5</b>	34.2	141.9	<b>39.2</b>	<b>74.8</b>	90.6	Broad margin expansion across the group's business divisions
<i>EBIT Margin (%)</i>	<i>5.9</i>	<i>8.1</i>	<i>9.0</i>			<i>5.3</i>	<i>7.9</i>		
Interest expense	(4.3)	(3.4)	(3.4)	0.4	(21.1)	(18.3)	(14.4)	(21.5)	Reduced borrowings and interest cost savings
Associates	0.2	0.3	0.1	<i>nm</i>	<i>nm</i>	(0.3)	0.3	<i>nm</i>	
El/Others	0.0	0.0	0.0	<i>nm</i>	<i>nm</i>	0.6	0.0	<i>nm</i>	
<b>Pretax profit</b>	<b>6.8</b>	<b>16.7</b>	<b>23.2</b>	38.7	239.6	<b>20.6</b>	<b>60.7</b>	194.6	
<i>Pretax Margin (%)</i>	<i>3.7</i>	<i>6.9</i>	<i>7.8</i>			<i>2.8</i>	<i>6.4</i>		
Tax	(6.5)	(4.5)	(6.5)	43.5	0.4	(10.7)	(17.0)	59.2	
<i>Effective tax rate (%)</i>	<i>94.6</i>	<i>27.0</i>	<i>28.0</i>			<i>51.9</i>	<i>28.0</i>		
Minority Interest	(0.7)	(0.6)	(0.3)	(41.1)	(53.5)	(1.0)	(2.4)	136.0	
<b>PATAMI</b>	<b>(0.4)</b>	<b>11.6</b>	<b>16.3</b>	40.9	>100	<b>8.9</b>	<b>41.3</b>	364.3	
<b>Core PATAMI</b>	<b>(0.4)</b>	<b>11.6</b>	<b>16.3</b>	40.9	>100	<b>8.2</b>	<b>41.3</b>	400.8	Exceeded both our and Street's expectations at 118% and 112% of full-year estimates
<i>Core Net Margin (%)</i>	<i>(0.2)</i>	<i>4.8</i>	<i>5.5</i>			<i>1.1</i>	<i>4.4</i>		

Source: Company data

Figure 2: Segmental breakdown of results

FYE Mar (MYRm)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)	Comments
<b>Revenue</b>									
Air Freight	33.9	73.3	98.0	33.6	189.3	143.7	288.6	100.9	Elevated air freight rates amidst supply chain disruptions
Ocean Freight	23.7	29.4	41.6	41.7	75.8	95.5	117.8	23.3	Hike in ocean freight rates due to shipping market constraints
Contract Logistics	77.8	88.1	103.1	17.0	32.4	311.0	342.5	10.1	
Cold Chain	30.3	32.0	31.9	(0.2)	5.2	117.5	126.0	7.2	Secured new food & beverage and pharmaceutical customers
Trucking	20.5	20.0	21.3	6.7	3.7	79.7	71.8	(9.9)	Affected by MCO in 1HFY21
<b>Segmental Profit</b>									
Air Freight	1.2	5.7	8.3	45.2	586.4	5.5	22.6	310.8	Flow-through from stronger freight rates
Ocean Freight	0.5	1.2	1.9	63.5	264.5	1.6	3.0	84.6	
Contract Logistics	6.2	11.7	10.2	(12.7)	64.2	26.9	34.4	28.0	Improving contributions from the warehousing and haulage divisions, in particular
Cold Chain	2.5	2.1	2.4	14.1	(5.1)	4.9	9.9	103.1	
Trucking	(0.4)	(0.4)	(0.1)	(78.9)	(78.9)	(3.9)	(2.0)	(48.5)	Reduction in operating costs
Others (Support)	(3.2)	(3.5)	0.4	(112.1)	(113.4)	(14.4)	(7.2)	(49.6)	Reduction in non-operating and general expenses

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-04-02	Buy	1.45	1.13
2021-03-18	Buy	1.25	0.94
2021-01-28	Buy	5.00	1.02
2021-01-18	Buy	4.75	0.91
2020-09-11	Not Rated	na	0.38
2019-09-24	Drop Coverage	na	0.27
2019-08-23	Neutral	1.25	0.29
2019-04-01	Buy	2.01	0.41
2019-02-22	Neutral	1.40	0.34
2018-08-17	Neutral	1.80	0.43
2018-05-25	Neutral	2.05	0.48
2018-02-12	Neutral	2.20	0.50

Source: RHB, Bloomberg

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