Special Report: Sector continues to be plagued by stiff competition

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DESPITE cargo volumes improving as economic activity gradually picks up, analysts are not very bullish on transport and logistics counters as they face stiff competition in an already difficult business environment.

The majority of analysts maintain an "underweight" recommendation on the sector.

AmBank Research says the Covid-19 pandemic has resulted in a steep contraction in port throughput, a total collapse in demand for air travel and disruption to logistics services, particularly international mail and parcels. It expects container throughput at the ports to recover to pre-Covid-19 levels only in 2022.

The research firm sees the parcel delivery segment as the lone bright spot in the current environment as the pandemic and resultant social distancing accelerate the switch in consumers' shopping habits from physical stores to online channels.

Citing research data by e-commerce ecosystem player Commerce.Asia, AmBank Research says the value of merchandise sold via e-commerce in Malaysia surged 149% year on year (y-o-y) in the first quarter of 2020 amid the pandemic.

"The growth in e-commerce sales translates to rising volumes of parcels handled by parcel delivery companies such as Pos Malaysia Bhd and GD Express Carrier Bhd (GDex)," it says in a report on May 14.

However, the sector has low entry barriers. AmBank Research points out that a crowded playing field, with 116 players as at March 2020, has given rise to cut-throat competition and a severe squeeze on margins.

Affin Hwang Capital Research is also maintaining an "underweight" call on the transport and logistics sector and giving the aviation segment a miss for the time being owing to the difficult business environment.

"While we expect a gradual relaxation in cross-border travel in the coming months to increase air passenger traffic, the recovery may be slow and we do not expect passenger volumes to return to pre-Covid-19 levels even by 2021," its analyst Isaac Chow says in a strategy report on June 16.

For exposure, the research firm says Westports Holdings Bhd is its relative preference for its strategically located port and relatively milder earnings contraction in

2020/21. However, it is maintaining its “sell” rating on Tiong Nam Logistics Holdings Bhd owing to stiff competition.

Pos Malaysia announced last Monday that its net loss for the first quarter ended March 31, 2020 (1QFY2020) narrowed to RM49.22 million from RM141.13 million a year ago, boosted by an upward revision in postal rates. Revenue fell 6.1% y-o-y to RM558.5 million.

Kenanga Research analyst Raymond Choo Ping Khoon says Pos Malaysia’s results came in below its expectations, prompting it to revise downwards its FY2020 and FY2021 net profit estimates for the group by 22% and 26% respectively. Given Pos Malaysia’s inability to close down its bricks-and-mortar post offices, unionised workforce and losses in its postal services segment, he says its losses are only expected to continue moving forward.

“The courier business will continue to operate in a competitive environment pressured by price and cost challenges,” he writes in a note to investors last Tuesday.

Of the six analysts covering Pos Malaysia, four recommend a “hold,” one a “buy” and another a “sell”, with a consensus target price of 97 sen. Year to date, the stock is down 33%, closing at 99.5 sen last Tuesday, giving it a market capitalisation of RM778.86 million.

Earnings of transport and logistics companies such as GDex, CJ Century Logistics Holdings Bhd and Tasco Bhd also took a hit in the first quarter of 2020 as lockdowns started towards the end of March.

GDex saw a 96% y-o-y drop in net profit for the third quarter ended March 31, 2020 (3QFY2020) to RM210,000, even though revenue rose 13% y-o-y to RM88.24 million.

MIDF Research is maintaining its "neutral" stance on GDex with a target price of 48 sen, as it believes its valuation remains stretched at a 12-month trailing price-earnings ratio of 122.7 times compared with the industry average of about 15 times.

"We believe that other non-listed players such as Ninja Van and J&T will remain a threat in the next two to three years as these companies continue to receive funding," it says in a note on May 28.

GDex's share price has increased 33% since the start of the year, closing at 36 sen on Tuesday, giving it a market value of RM2.03 billion.

Despite current headwinds from the coronavirus outbreak, RHB Investment Research has upgraded Freight Management Holdings Bhd's stock to a "buy" from "neutral", with a lower target price of 53 sen from 63 sen. This is in part due to its core operations' geographically diversified footprint, as well as broad customer base across various industries such as pharmaceuticals and consumer staples.

“We like Freight Management for its resilient multimodal revenue streams and attractive yields of 7%-8%, while trading at a steep discount to the Bursa Transportation index and its integrated logistics peers — at 7.6 times forward P/E,” its analyst Lester Siew writes in a March 19 note. The group is slated to release its first-quarter 2020 results on June 23.

YTD, Freight Management has seen its shares fall 18% to close at 50 sen last Monday, giving it a market capitalisation of RM139.61 million.