

LOGISTICS

25 September 2019

Tax cut may have limited benefits; demand challenges persist

Our industry interactions suggest that while the recent corporate tax sop will aid earnings of select logistics companies within our coverage, the benefits may not be proportional to the cut as large corporate clients likely negotiate for better pricing. Four of our coverage stocks – TCIEXP, MLL, CCRI and FSCSL – could see earnings uptick ranging between 1-10%. Accordingly, we change our TP, but maintain rating across companies. MLL, TCIEXP and FSCSL remain top long-term, fundamental picks, while TRPC is our top value pick.

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Earnings benefit unlikely to be commensurate with tax cut: Our industry checks suggest that logistics service providers with large corporate clientele may face negotiations on pricing, as the latter look to have the tax cut benefit passed on to their customers. Working capital benefits will also vary – FTL/asset-light players with low margins are unlikely to readily benefit till TDS incidence is lowered (~2%/10% for transportation/warehousing currently), while express/LTL players should profit from lower advance tax.

Earnings accretion in varying degrees: From our coverage universe, TCI Express (TCIEXP) and Mahindra Logistics (MLL) fall in the full tax bracket and are hence best placed to benefit. But we expect competitive pressure and client renegotiation to limit the earnings increase to 10%/1% for TCIEXP/MLL. Future Supply Chain (FSCSL) has nil tax liability in FY20, but is likely to benefit from FY21. Given its ~28% tax rate in FY19, the earnings boost for Container Corp is estimated at only 4%. Transport Corp (TRPC) and Allcargo (AGLL) will not see any impact as they are in the 18-22% tax bracket.

Targets increased, ratings maintained: We raise our Jun'20 target prices for TCIEXP, MLL and FSCSL by 7%, 2%, and 2% respectively, building in the tax impact. For CCRI, we move to a TP of Rs 575 from Rs 530, factoring in the earnings upgrade and a slight increase in one-year forward P/E.

Demand climate remains subdued: Some logistics stocks have rallied over the past few days, bolstered by the tax cut and progress on the national draft logistics policy. However, we reiterate our cautious near-term view on the sector where demand remains feeble, as evidenced by weak market indicators (EXIM trade, major port volumes, container rail traffic). We expect most logistics companies to miss Q2FY20 estimates, sparking earnings downgrades.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
AGLL IN	109	125	BUY
CCRI IN	581	575	ADD
FSCSL IN	527	730	BUY
MAHLOG IN	387	525	BUY
TCIEXP IN	700	840	BUY
TRPC IN	290	365	BUY

Price & Target in Rupees | Price as of 24-Sep | MAHLOG = MLL



Tax rate impact

FIG 1 – REVISED EFFECTIVE TAX RATE ASSUMPTIONS

Company	FY19	Old assumption (%)			Revised tax rate (%)		
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AGLL	18.3	22.0	22.0	22.0	22.0	22.0	22.0
CCRI	28.0	28.0	28.0	28.0	25.2	25.2	25.2
FSCSL	0.0	0.0	28.0	30.0	0.0	25.2	25.2
MLL	35.1	34.0	34.0	34.0	25.2	25.2	25.2
TCIEXP	34.9	35.0	35.0	34.0	25.2	25.2	25.2
TRPC	21.6	21.0	21.0	22.0	21.0	21.0	22.0

Source: Company, BOBCAPS Research

FIG 2 – REVISED EARNINGS ESTIMATES

(Rs)	Old EPS			New EPS			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AGLL	10.4	11.8	13.2	10.4	11.8	13.2	0.0	0.0	0.0
CCRI	17.1	14.8	15.3	17.8	15.4	15.9	3.9	3.7	4.0
FSCSL	23.3	28.3	34.4	23.3	28.5	35.8	0.0	0.8	3.9
MLL	13.4	17.9	22.2	13.6	18.2	22.8	1.2	1.8	2.5
TCIEXP	22.6	24.8	10.0	28.3	30.5	7.8	35.5	37.5	5.6
TRPC	22.1	25.6	30.3	22.1	25.6	30.3	0.0	0.0	0.0

Source: Company, BOBCAPS Research

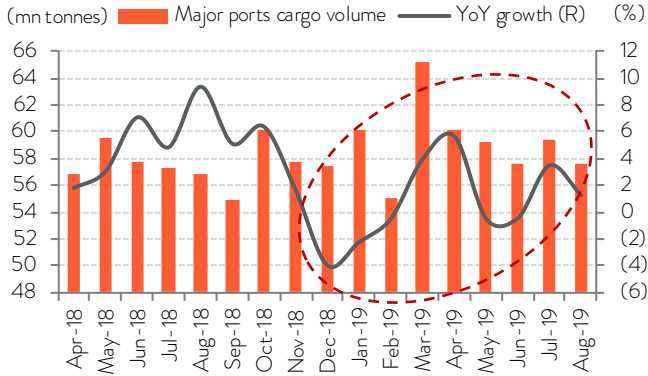
FIG 3 – REVISED TARGET PRICES

(Rs)	Change in TP (Rs)		Change in rating		Rationale
	Old	New	Old	New	
AGLL	125	125	BUY	BUY	NA
CCRI	530	575	ADD	ADD	Increased one-year forward P/E multiple to 25x from 24x alongside earnings revision. Although the CMP leaves little upside from our TP, we maintain ADD rating as positive news flows may keep the stock buoyant
FSCSL	715	730	BUY	BUY	Earnings revision
MLL	515	525	BUY	BUY	Earnings revision
TCIEXP	785	840	BUY	BUY	Earnings revision
TRPC	365	365	BUY	BUY	NA

Source: Company, BOBCAPS Research

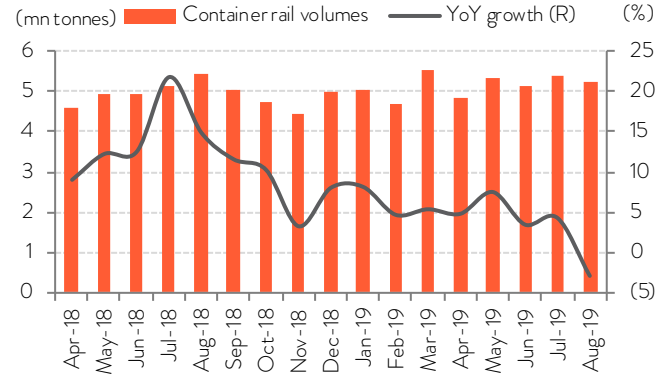
Demand climate remains tough

FIG 4 – MAJOR PORT VOLUMES GREW ONLY 1.9% YOY IN FY20 YTD



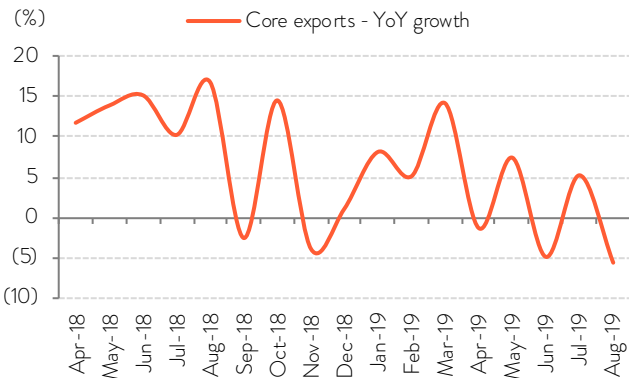
Source: Company, BOBCAPS Research

FIG 5 – CONTAINER RAIL VOLUME GROWTH HAS ALSO BEEN MUTED AT 3.3% YOY



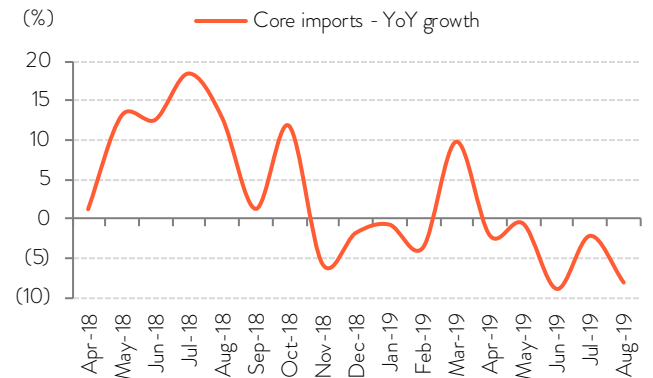
Source: Company, BOBCAPS Research

FIG 6 – NON-OIL, NON-GOLD EXPORTS (US\$ TERMS) FLAT IN FY20 YTD



Source: Company, BOBCAPS Research

FIG 7 – NON-OIL, NON-GOLD IMPORTS DOWN 4.5% YOY IN FY20 YTD



Source: Company, BOBCAPS Research

Stock performance

FIG 8 – ALLCARGO LOGISTICS

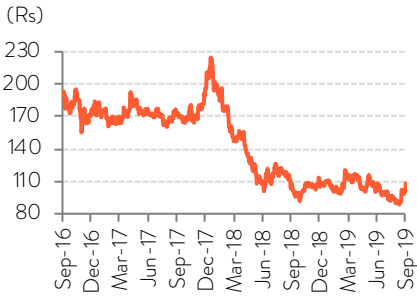


FIG 9 – CONTAINER CORP OF INDIA

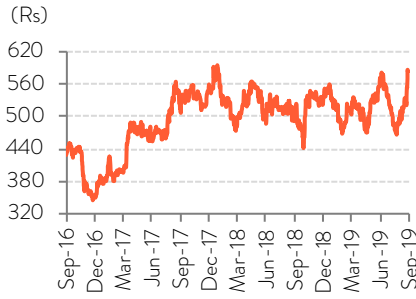


FIG 10 – FUTURE SUPPLY CHAIN SOLUTIONS

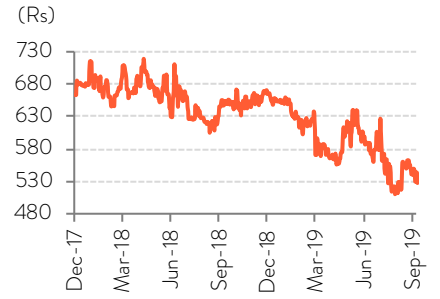


FIG 11 – MAHINDRA LOGISTICS

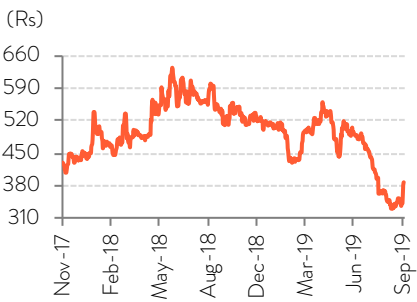


FIG 12 – TCI EXPRESS

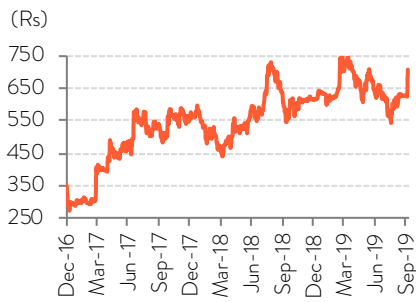
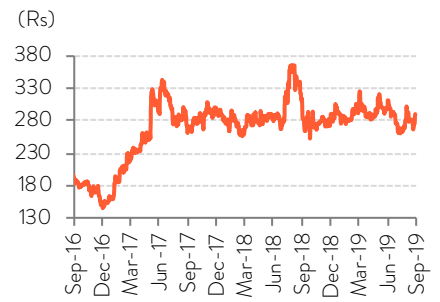


FIG 13 – TRANSPORT CORP OF INDIA



Source: NSE

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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