

22 June 2020

Tan Chong Motor

1QFY20 Below Expectations

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

1QFY20 plunged into the red with core losses of RM10.5m (from core PATAMI of RM15.1m in 1QFY19 and RM6.6m in 4QFY19), below our/consensus expectations of FY20 core profit of RM48.7m/RM31.4m respectively, due to lower-than-expected sales and higher-than-expected effective tax rate. As such, we cut FY20E earnings to core losses of RM15.3m from core profit of RM48.7m, and revise FY21E CNP by -44%. Despite new launches ahead, we believe TCHONG's market share will continue to be repressed by competitors especially the national car segment. **Maintain UP with a lower TP of RM0.700 (from RM0.750) based on revised 14x FY21E EPS (from 10x FY20 EPS).**

1QFY20 below expectations. 1QFY20 plunged into the red with core losses of RM10.5m (from core PATAMI of RM15.1m in 1QFY19 and RM6.6m in 4QFY19), below our/consensus expectations of FY20 core profit of RM48.7m/RM31.4m respectively, due to lower-than-expected sales and higher-than-expected effective tax rate. No dividend was declared for the quarter, as expected.

Results' highlights. 1QFY20 plunged into the red with core losses of RM10.5m suffering from a highly competitive environment in the domestic and overseas markets as well as weaker consumer sentiment caused by the Covid-19 pandemic, which weakened its sales (-32% YoY, -25% QoQ). The local Nissan vehicles sales was at 2,747 units (-47% YoY, -51% QoQ), as per MAA statistics - lacking new launches to drive volume to counter the competition. This was further impacted by the high effective tax rate arising mainly from its loss-making Vietnam operation which is not eligible for tax claim and higher tax provision this year. Furthermore, its EBIT margin contracted to 1.7% (1QFY19: 3.7%, 4QFY19: 3.9%) in tandem with the lower sales and unfavourable forex rate.

Outlook. Intense competition and insufficient new large volume launches have cost TCHONG its market share which is further dampened by losses from heavy discounting activities and an under-utilised Vietnam Danang plant. Note that, the Vietnam CBU agreement with its principal will expire on 30th September 2020, but could be cushioned by the recent overseas Distribution Agreement (ODA) with SAIC Motor International Co., Ltd (SMIL) as the sole and exclusive importer and distributor for the sale of CBU MG brand vehicles and after-sales spare parts, and after-sales services in Vietnam. On the other hand, TCHONG will be launching the new Nissan Almera, slated for 2HCY20/2021 (B-segment sedan), and depending on market demand, the Nissan Kicks (B-segment crossover), and all-new Nissan Sylphy.

Cut FY20E earnings to core losses of RM15.3m from core profit of RM48.7m, and reduce FY21E CNP by -44%, to reflect the lower sales and higher effective tax rate assumptions.

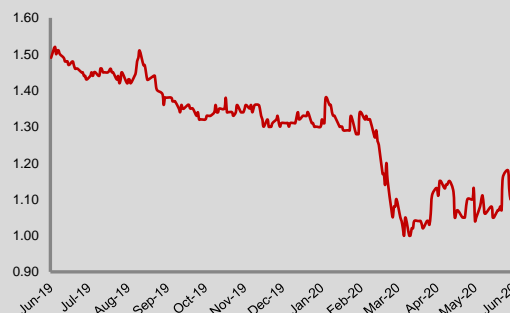
Maintain UNDERPERFORM with a lower Target Price of RM0.700 (from RM0.750) based on revised 14x FY21E EPS at -1.0SD of its 5-year historical mean PER (from 10x FY20 EPS at -2.0SD of its 5-year historical mean PER). We expect a better FY21 on some degree of pent-up purchases after holding back in FY20 and the expected introduction of the all-new Nissan Almera. Despite new launches ahead, we expect TCHONG's efforts to gain market share to continue being challenged by competitors especially from the national car segment.

Key risks to our call include: (i) higher-than-expected car sales, (ii) favourable forex and (iii) higher-than-expected margin.

UNDERPERFORM ↔

Price: **RM1.10**
Target Price: **RM0.700** ↓

Share Price Performance



KLCI	1,507.26
YTD KLCI chg	-5.1%
YTD stock price chg	-17.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM m)	717.7
Shares Outstanding	652.5
52-week range (H)	1.51
52-week range (L)	0.98
3-mth avg daily vol:	98,498
Free Float	25%
Beta	0.7

Major Shareholders

Tan Chong Consolidated	40.4%
Employees Provident Fund	6.3%
Daiwa Securities Co	5.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	4,172.4	2,898.6	3,412.0
EBIT	169.6	64.9	94.6
PBT	46.7	14.9	69.5
NP/ NL	43.6	-15.3	32.6
CNP / CNL	46.8	-15.3	32.6
Consensus (NP)	-	31.4	59.6
Earnings Revision	-	>100%	-43.6%
Core EPS (sen)	7.2	-2.3	5.0
Core EPS growth (%)	-63.8%	>100%	>100%
NDPS (sen)	4.0	2.0	4.0
BVPS (RM)	4.63	4.59	4.60
PER (x)	15.3	N.M	22.0
PBV (x)	0.2	0.2	0.2
Net Gearing (x)	0.4	0.1	0.1
Net Div. Yield (%)	3.6	1.8	3.6

22 June 2020

Result Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	734.3	974.6	-24.7%	1,080.6	-32.0%	734.3	1,080.6	-32.0%
EBIT	12.6	38.5	-67.3%	40.0	-68.5%	12.6	40.0	-68.5%
Associate	0.7	0.5	32.7%	0.5	55.8%	0.7	0.5	55.8%
PBT/(LBT)	0.2	22.9	-99.1%	29.7	-99.3%	0.2	29.7	-99.3%
Taxation	(15.0)	(20.4)	26.7%	(12.5)	-19.8%	(15.0)	(12.5)	-19.8%
PATAMI/(LATAMI)	(9.3)	(1.0)	>100%	16.0	>100%	(9.3)	16.0	>100%
Core PATAMI/(LATAMI)*	(10.5)	6.6	>100%	15.1	>100%	(10.5)	15.1	>100%
EPS (sen)	(1.4)	(0.2)	>100%	2.4	>100%	(1.4)	2.4	>100%
Core EPS (sen)	(1.6)	1.0	>100%	2.2	>100%	(1.6)	2.2	>100%
DPS (sen)	-	2.0		-		-	-	
EBIT margin	1.7%	3.9%		3.7%		1.7%	3.7%	
Pretax margin	0.0%	2.4%		2.8%		0.0%	2.8%	
PATAMI margin	N.M	N.M		1.5%		N.M	1.5%	
Core PATAMI margin	N.M	0.7%		1.4%		N.M	1.4%	
Effective tax rate	N.M	89.1%		42.1%		N.M	42.1%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	734.3	974.6	-24.7%	1,080.6	-32.0%	734.3	1,080.6	-32.0%
Automotive	709.5	949.9	-25.3%	1,054.9	-32.7%	709.5	1,054.9	-32.7%
Financial services	19.0	18.6	2.1%	22.4	-15.1%	19.0	22.4	-15.1%
Others	5.8	6.1	-4.8%	3.3	76.3%	5.8	3.3	76.3%
Segment EBITDA	47.8	79.5	-39.8%	72.5	-34.0%	47.8	72.5	-34.0%
Automotive	27.8	85.3	-67.5%	69.2	-59.9%	27.8	69.2	-59.9%
Financial services	3.8	6.5	-41.2%	5.9	-35.2%	3.8	5.9	-35.2%
Others	16.2	(12.4)	231.4%	(2.6)	720.7%	16.2	(2.6)	720.7%
Segment EBITDA margin	6.5%	8.2%		6.7%		6.5%	6.7%	
Automotive	3.9%	9.0%		6.6%		3.9%	6.6%	
Financial services	20.2%	35.0%		26.5%		20.2%	26.5%	
Others	280.4%	-203.3%		-79.6%		280.4%	-79.6%	

Source: Company, Kenanga Research

22 June 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliance	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%) 1-Yr. Fwd.	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
STOCKS UNDER COVERAGE																		
BERMAZ AUTO BHD	1.53	1,778.1	Y	04/2021	36.6%	8.8%	17.0%	42.6%	17.7	15.1	10.6	3.4	2.8	20.4%	5.6%	1.30	UP	
DRB-HICOM BHD	1.76	3,402.5	Y	12/2019	-12.5%	7.7%	-32.2%	32.9%	20.6	30.4	22.9	0.5	0.5	4.3%	1.7%	1.40	MP	
MBM RESOURCES BERHAD	3.24	1,266.5	Y	12/2020	-8.1%	1.2%	-30.5%	16.1%	6.6	9.5	8.2	0.6	0.6	6.5%	1.9%	2.40	UP	
SIME DARBY BERHAD	2.14	14,555.1	Y	06/2020	-0.7%	2.0%	2.0%	2.0%	15.3	15.0	14.7	1.0	1.0	6.5%	4.7%	1.75	UP	
TAN CHONG MOTOR HOLDINGS BHD	1.10	717.7	N	12/2020	-30.5%	17.7%	-132.6%	114.0%	15.8	N.A.	22.6	0.2	0.2	-0.5%	1.8%	0.700	UP	
UMW HOLDINGS BHD	2.70	3,154.4	Y	12/2020	-22.8%	27.2%	-48.8%	13.6%	12.4	24.2	21.3	0.6	0.5	2.1%	2.2%	1.80	UP	
Simple Average					-6.3%	10.8%	-37.5%	36.9%	14.7	18.8	16.7	1.1	0.9	6.5%	3.0%			

Source: Bloomberg, Kenanga Research

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22 June 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

