

24 November 2021

# Tan Chong Motor

## 9MFY21 Within Our Expectation

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9MFY21 core losses narrowed to RM47.6m compared to core losses of RM71.6m in 9MFY20, and our/consensus core loss expectations of RM45.9m/RM28.8m. We deemed the results as within our expectation as we expect better sales in 4QFY21 following the re-opening of sales outlets and production as well as inter-state travel. Its overall outlook, however, remains unexciting with only one popular new model to drive volume. Maintain UP and TP of RM1.00.

**9MFY21 within our expectation.** 9MFY21 core losses narrowed to RM47.6m compared to core losses of RM71.6m in 9MFY20, and our/consensus core loss expectations of RM45.9m/RM28.8m. We deemed the results as within our expectation as we expect better sales in 4QFY21 following the re-opening of sales outlets and production as well as inter-state travel. No dividend was declared for the quarter, bringing 9MFY21 to 1.5 sen (9MFY20: 1.5sen)

**YoY, 9MFY21** core losses narrowed to RM47.6m compared to core losses of RM71.6m in 9MFY20 mainly due to better sales mix, lower operating expenses, and unrealised forex gain with most of the improvement in car sales margin coming from the introduction of the all-new Almera Turbo. This was despite 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 (-25% YoY), and local Nissan vehicles sales recorded at 7,672 units (-16% YoY), as per MAA statistics, relying only on one popular model to drive volume to counter the competition (volume-driven lower price tag All-New Nissan Almera compared to last year higher price all-new Nissan Serena).

**QoQ, 3QFY21** recorded significant losses of RM37.0m, compared to core losses of RM18.1m in 2QFY21 concurrently with lower sales (-31%) and lower units sold at 1,917 (-37%) due to pandemic induced lockdown in Malaysia and IndoChina markets. Its automotive business only show higher profit due to lower operating expenses amid the lockdown and favourable sales mix skewed toward the higher margin Almera.

**Outlook.** Despite the launching of all-new Nissan Almera in November last year, overall sales is still weak, and with only one model to drive the group. It is still uncertain at the moment whether this will prove to be the fresh catalyst needed for TCHONG to return to profitability, and to offset the negative impact from its under-utilised Danang plant in Vietnam and the expiration of both CBU and CKD agreements there with its principal on 30 September 2020 and 19 September 2020, respectively.

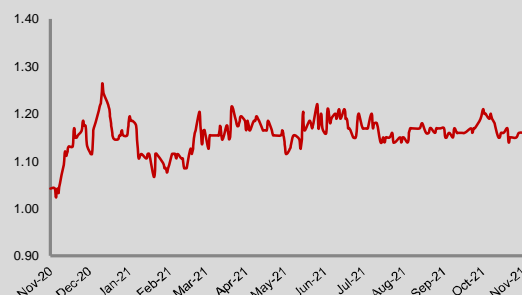
**Maintain UNDERPERFORM with Target Price of RM1.00** based on 0.24x FY22E BVPS (at -1.0SD to 5-year historical mean PBV).

**Key risks to our call include:** (i) favorable sales mix, and (ii) better-than-expected car sales margin.

# UNDERPERFORM ↔

**Price:** RM1.16  
**Target Price:** RM1.00 ↔

### Share Price Performance



KLCI 1,522.88  
YTD KLCI chg -6.4%  
YTD stock price chg -7.9%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM m)	756.5
Shares Outstanding	652.2
52-week range (H)	1.29
52-week range (L)	1.05
3-mth avg daily vol:	16,161
Free Float	19%
Beta	0.7

### Major Shareholders

Tan Chong Consolidated	40.5%
Employees Provident Fund	6.5%
CIMB Group Holdings	5.9%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,959.6	2,208.0	2,911.9
EBIT	-115.5	-59.6	55.3
PBT	-161.3	-97.7	26.5
<b>NP/ NL</b>	<b>-165.6</b>	<b>-45.9</b>	<b>12.5</b>
<b>CNP / CNL</b>	<b>-137.2</b>	<b>-45.9</b>	<b>12.5</b>
Consensus (NP)	-	-28.8	26.6
Earnings Revision	-	-	-
Core EPS (sen)	-21.0	-7.0	1.9
Core EPS growth	>100%	-66.5%	-127.1%
NDPS (sen)	1.5	1.5	1.5
BVPS (RM)	4.35	4.27	4.27
PER (x)	N.M	N.M	60.8
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.2	0.2
Net Div. Yield (%)	1.3	1.3	1.3

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## Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Turnover</b>	<b>439.3</b>	<b>638.0</b>	<b>-31.2%</b>	<b>964.5</b>	<b>-54.5%</b>	<b>1,670.4</b>	<b>2,211.7</b>	<b>-24.5%</b>
EBIT	(30.9)	(6.6)	>100%	10.5	>100%	(5.2)	(49.4)	89.4%
Associate	(0.8)	(0.8)	1.1%	0.9	>100%	(1.7)	1.4	>100%
PBT/(LBT)	(42.7)	(18.3)	>100%	1.7	>100%	(38.9)	(84.4)	54.0%
Taxation	(4.0)	(6.6)	39.1%	(11.7)	65.5%	(27.4)	(24.9)	-10.0%
<b>PATAMI/(LATAMI)</b>	<b>(44.2)</b>	<b>(22.2)</b>	<b>-99.0%</b>	<b>(7.3)</b>	<b>&gt;100%</b>	<b>(58.7)</b>	<b>(96.0)</b>	<b>38.8%</b>
<b>Core PATAMI/(LATAMI)</b>	<b>(37.0)</b>	<b>(18.1)</b>	<b>&gt;100%</b>	<b>(9.7)</b>	<b>&gt;100%</b>	<b>(47.6)</b>	<b>(71.6)</b>	<b>33.5%</b>
EPS (sen)	(6.6)	(3.3)	-99.0%	(1.1)	>100%	(8.7)	(14.3)	38.8%
Core EPS (sen)	(5.5)	(2.7)	>100%	(1.4)	>100%	(7.1)	(10.7)	33.5%
DPS (sen)	-	-		1.5		1.5	1.5	
EBIT margin	N.M.	N.M.		N.M.		N.M.	N.M.	
Pretax margin	N.M.	N.M.		N.M.		N.M.	N.M.	
PATAMI margin	N.M.	N.M.		N.M.		N.M.	N.M.	
Core PATAMI margin	N.M.	N.M.		N.M.		N.M.	N.M.	
Effective tax rate	N.M.	N.M.		N.M.		N.M.	N.M.	

Source: Company, Kenanga Research

## Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Revenue</b>	<b>439.3</b>	<b>638.0</b>	<b>-31.2%</b>	<b>964.5</b>	<b>-54.5%</b>	<b>1,670.4</b>	<b>2,211.7</b>	<b>-24.5%</b>
Automotive	420.8	618.8	-32.0%	940.3	-55.3%	1,611.4	2,142.5	-24.8%
Financial services	15.9	16.5	-3.4%	18.5	-14.0%	51.1	53.0	-3.5%
Others	2.6	2.8	-5.0%	5.8	-54.8%	7.9	16.3	-51.5%
<b>Segment EBITDA</b>	<b>6.3</b>	<b>29.2</b>	<b>-78.3%</b>	<b>60.7</b>	<b>-89.6%</b>	<b>107.1</b>	<b>74.9</b>	<b>42.9%</b>
Automotive	16.0	10.9	46.6%	55.4	-71.1%	65.8	65.7	0.1%
Financial services	(1.1)	3.2	>100%	14.3	>100%	14.4	1.3	>100%
Others	(8.6)	15.0	>100%	(9.0)	4.5%	26.9	7.9	>100%
<b>Segment EBITDA margin</b>	<b>1.4%</b>	<b>4.6%</b>		<b>6.3%</b>		<b>6.4%</b>	<b>3.4%</b>	
Automotive	3.8%	1.8%		5.9%		4.1%	3.1%	
Financial services	-7.0%	19.6%		77.3%		28.2%	2.5%	
Others	N.M	545.2%		N.M		340.8%	48.5%	

Source: Company, Kenanga Research

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## 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.				
<b>STOCKS UNDER COVERAGE</b>																		
BERMAZ AUTO BHD	1.65	1,917.6	Y	04/2022	-8.0%	10.6%	-11.5%	12.3%	14.3	16.2	14.4	3.1	2.2	16.1%	3.6%	1.65	MP	
DRB-HICOM BHD	1.58	3,054.5	Y	12/2021	-14.3%	39.1%	-310.8%	-52.6%	N.A.	N.A.	15.8	0.3	0.3	-4.3%	1.3%	1.80	MP	
MBM RESOURCES BERHAD	3.22	1,258.7	Y	12/2021	-7.9%	15.8%	-1.9%	20.3%	7.6	7.7	6.4	0.6	0.6	7.6%	4.7%	3.50	OP	
SIME DARBY BERHAD	2.20	14,965.6	Y	06/2022	4.6%	5.0%	15.2%	5.8%	12.0	10.4	9.8	0.9	0.9	8.8%	5.0%	2.60	OP	
TAN CHONG MOTOR HOLDINGS BHD	1.16	756.5	N	12/2021	-25.4%	31.9%	-133.5%	-72.8%	N.A.	N.A.	62.4	0.3	0.3	-1.6%	1.3%	1.00	UP	
UMW HOLDINGS BHD	3.30	3,855.4	Y	12/2021	-4.9%	19.5%	-25.7%	69.6%	16.8	22.6	13.3	0.6	0.5	3.5%	1.8%	3.20	MP	
<b>Simple Average</b>					<b>-9.3%</b>	<b>20.3%</b>	<b>-78.0%</b>	<b>-2.9%</b>	<b>12.7</b>	<b>14.2</b>	<b>20.4</b>	<b>1.0</b>	<b>0.8</b>	<b>5.0%</b>	<b>2.9%</b>			

Source: Bloomberg, Kenanga Research

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**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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

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