

23 November 2022

Tan Chong Motor

Lacking Exciting New Models

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TCHONG's 9MFY22 results met expectations. Its 3QFY22 sales suffered post-SST exemption amidst a torrent of attractive all-new models from its competitors. TCHONG may have to resort to price discounting to stay in the game. We expect its subsequent quarter to remain muted on weak sales and depressed margins. We maintain our forecasts, TP of RM0.85 and UNDERPERFORM call.

Within expectations. We deem its 9MFY22 results within expectations with a core net loss of RM12.2m (adjusted for RM5.8m impairment) vs. our full-year loss forecast of RM24.1m and the full-year consensus net profit estimate of RM1.7m. We expect its subsequent quarter to remain muted on weak sales and depressed margins.

YoY, 9MFY22 revenue rose 38% driven only by the strong local Nissan vehicles sales of 10,983 units (+45%) as the economy reopened. This was partially offset by the weaker financial services (-3%) which we believe was due to consumers looking for more favourable hire purchase rates at other financial institutions. Its others segment's higher contribution was mainly due to higher net foreign exchange gain and lower operating expenses arising from cost rationalisation exercise.

In term of regional breakdown, the local market (90% of group revenue) showed equally strong sales (+32%) and profit (+25%) driven by popular models of Nissan Almera Turbo, Serena and Navara. Vietnam operation (10% of group revenue) recorded lower sales (-20%) but at a lower loss of RM1.1m (from loss of RM3.5m) from higher-margin sales of popular models MG ZS. Whereas, its other markets (Cambodia, Laos and Myanmar) recorded better sales (+15%), but at a higher loss of RM24.2m (from core loss of RM8.0m) due to challenging operating environment.

Consequently, it recorded lower core net loss of RM12.2m compared to lockdown period last year at core net loss of RM47.6m.

QoQ, 3QFY22 revenue fell 10% dragged by weak demand for its local Nissan vehicles sales at 3,208 units (-20%) with the expiration of SST exemption sales in a highly competitive environment as other automakers vigorously launched fresh all-new models that received overwhelming response from the market. Its pre-tax profit fell on larger magnitude of 26% due to poor cost absorption and unfavourable sales mix. Core profit, however, rose more than double mainly from lower effective tax rate at 66% (2QFY22 at 79%).

Forecasts. No change to our assumptions.

We are cautious on TCHONG for: (i) its insignificant 1% share of the total industry volume, (ii) its lack of new launches while its competitors have aggressively put all-new models into the market and most of them are well-received by car buyers, and (iii) its inability to raise prices to pass on rising cost of production especially with the weakening of MYR against USD.

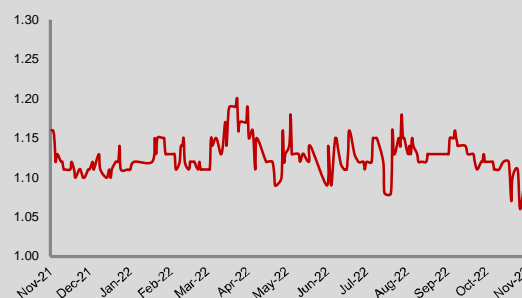
Maintain UNDERPERFORM with a TP of RM0.85 based on PBV of 0.2x on FY23F BVPS which is at a discount to the auto sector's average forward PBV of 0.9x to reflect the weak demand for its vehicles amidst the highly competitive new models launch race. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) consumers splurging on discretionary spending (particularly big-ticket items like new cars) as high inflation eases, (ii) supply chain disruptions ease, and (iii) TCHONG monetising its strategic land bank.

UNDERPERFORM ↔

Price: RM1.12
Target Price: RM0.85 ↔

Share Price Performance



KLCI	1,441.29
YTD KLCI chg	-8.1%
YTD stock price chg	0.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM m)	730.4
Shares Outstanding	652.1
52-week range (H)	1.21
52-week range (L)	1.01
3-mth avg daily vol:	10,022
Free Float	19%
Beta	0.6

Major Shareholders

Tan Chong Consolidated	40.5%
Employees Provident Fund	6.5%
Nissan Motor Co. Ltd.	5.7%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	2,537.3	2,993.7	3,173.3
EBIT	62.8	70.1	87.2
PBT	18.1	39.0	42.7
NP/ NL	-15.4	-24.2	-6.8
CNP / CNL	-18.2	-24.2	-6.8
Consensus (NP)	-	1.7	20.2
Earnings Revision	-	-	-
Core EPS (sen)	-2.8	-3.7	-1.0
Core EPS (%)	-86.7	32.7	-71.7
NDPS (sen)	1.5	3.0	3.0
BVPS (RM)	4.28	4.21	4.17
PER (x)	N.M	N.M	N.M
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.4	0.4
Net Div. Yield (%)	1.3	2.7	2.7

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Result Highlight

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	729.9	814.3	-10%	439.3	66%	2,313.5	1,670.4	38%
EBIT	26.7	33.7	-21%	(30.9)	>100%	54.9	(5.2)	<100%
Associate	(0.5)	(0.8)	37%	(0.8)	37%	(1.2)	(1.7)	29%
PBT/(LBT)	15.7	21.4	-26%	(42.7)	137%	23.8	(38.9)	161%
Taxation	(10.4)	(17.0)	39%	(4.0)	-156%	(35.5)	(27.4)	-29%
PATAMI/(LATAMI)	6.9	6.2	10%	(44.2)	116%	(6.4)	(58.7)	89%
Core PATAMI/(LATAMI)	3.3	1.0	239%	(37.0)	109%	(12.2)	(47.6)	74%
EPS (sen)	1.0	0.9	10%	(6.6)	116%	(1.0)	(8.7)	89%
Core EPS (sen)	0.5	0.1	239%	(5.5)	109%	(1.8)	(7.1)	74%
DPS (sen)	1.5	-		-		3.0	1.5	
EBIT margin	3.7%	4.1%		N.M		2.4%	N.M	
Pretax margin	2.2%	2.6%		N.M		1.0%	N.M	
PATAMI margin	0.9%	0.8%		N.M		N.M	N.M	
Core PATAMI margin	1.1%	0.1%		N.M		N.M	N.M	
Effective tax rate	65.9%	79.4%		N.M		N.M	N.M	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	729.9	814.3	-10%	439.3	66%	2,313.5	1,670.4	38%
Automotive	710.0	794.4	-11%	420.8	69%	2,254.0	1,611.4	40%
Financial services	16.3	16.5	-1%	15.9	3%	49.7	51.1	-3%
Others	3.6	3.4	8%	2.6	39%	9.7	7.9	23%
Segment EBITDA	66.3	76.3	-13%	6.3	946%	178.5	107.1	67%
Automotive	25.6	34.8	-27%	16.0	60%	76.7	65.8	17%
Financial services	4.6	11.8	-61%	(1.1)	>100%	24.8	14.4	72%
Others	36.1	29.7	22%	(8.6)	>100%	77.0	26.9	187%
Segment EBITDA margin	9.1%	9.4%		1.4%		7.7%	6.4%	
Automotive	3.6%	4.4%		3.8%		3.4%	4.1%	
Financial services	28.4%	71.6%		N.M		49.9%	28.2%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	OP	1.91	2.30	20.42%	2,241.9	Y	04/2023	14.1	16.1	5.1%	14.4%	13.6	11.9	3.2	24.4%	9.9	5.2%
DRB-HICOM BHD	MP	1.31	1.55	18.32%	2,551.9	Y	12/2022	4.8	8.3	-55.8%	73.1%	27.3	15.7	0.3	1.0%	2.0	1.5%
MBM RESOURCES BHD	OP	3.27	4.45	36.09%	1,266.5	Y	12/2022	58.7	63.8	36.7%	8.6%	5.6	5.1	0.5	10.2%	22.0	6.7%
SIME DARBY BHD	OP	2.20	2.60	18.18%	15,049.9	Y	06/2023	17.7	19.5	0.5%	10.6%	12.5	11.3	0.9	7.4%	12.0	5.5%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.12	0.850	-24.11%	736.9	Y	12/2022	(3.6)	(1.0)	-233.0%	-128.1%	N.A.	N.A.	0.3	-0.9%	3.0	2.7%
UMW HOLDINGS BHD	OP	3.39	4.80	41.59%	3,890.4	Y	12/2022	36.9	37.2	93.3%	0.9%	9.2	9.1	0.5	5.9%	6.0	1.8%
Simple Average								21.4	24.0	-25.5%	-3.4%	13.6	10.6	0.9	8.0%		3.9%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	☆		
	Corporate Social Responsibility	★	★	☆	
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★		
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★		
SPECIFIC	Electric Vehicles Initiatives	★	★	★	
	Energy Efficient Vehicles Initiatives	★	★	★	
	Renewable Energy	★	★	★	
	Occupational Health and Safety	★	★	★	★
	Waste Management /Recycling	★	★	★	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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