

29 May 2023

Tan Chong Motor

When It Rains, It Pours

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TCHONG continues to face an uphill battle locally as its rivals flood the market with attractive new models. Its manufacturing business has been dragged down by chip shortages at its principal in Japan. In addition, in Vietnam, it will lose its right to import and distribute Morris Garages (MG) CBU cars and parts from June 2023. We maintain our forecasts, TP of RM0.80 and UNDERPERFORM call.

Our cautious stance on TCHONG stays following its 1QFY23 results briefing last Friday. The key takeaways are as follows:

1. TCHONG's operating environment remains challenging. In Malaysia, it continues to face an uphill battle as its rivals flood the market with attractive new models. To add salt to the wound, its manufacturing business has been dragged down by chip shortages at its principal in Japan. Recall, TCHONG basically sat out the auto sales boom locally with its local Nissan vehicle sales plunging by more than third to 2,500 units in 1QFY23.
2. Meanwhile, its misfortunes in Vietnam did not stop at losing both completely-built-up (CBU) and knocked-down (CKD) Nissan distributorships in 2020. It will lose its right to import and distribute MG CBU cars and parts from June 2023. To make up for the losses, its will endeavour to make the best out of its exclusive rights to distribute King Long buses (CBU) and planning to localise production of Wuling Truck at its idle Danang plant. TCHONG has sold all of its 60 CBU units of King Long Euro 4 engine buses and will start distribution of next generation Euro 5 engine buses in 2HCY23. Nonetheless, without a concrete CKD agreement to utilise its idle Danang plant, we expect TCHONG to continue recording losses at its Vietnam operation. Recall, in 1QFY23, it recorded a higher loss of RM4.2m for Vietnam (from loss of RM0.7m in 1QFY22) with 568 units of MG cars sold (-43% YoY).
3. TCHONG's ESG initiatives including recent launch of all-new Nissan Leaf (new universal charging port), and facelifted Renault Zoe. Secondly, under 51%-owned TC Sunergy Sdn Bhd, TCHONG's large-scale solar photovoltaic plant (LSSPV) of 20MW is scheduled to meet the commissioning date at end-December 2023. Once completed, the solar plant is expected to supply 883k MWh of green electricity and contributing to a reduction of 725k tonnes of CO2 emissions to the environment (or equivalent to reducing 158k units of cars on the roads / planting 32.9m trees).

Forecasts. Maintained based on FY23-24F unit sales assumptions of 13k and 14.3k for Nissan and 530 and 690 for Renault.

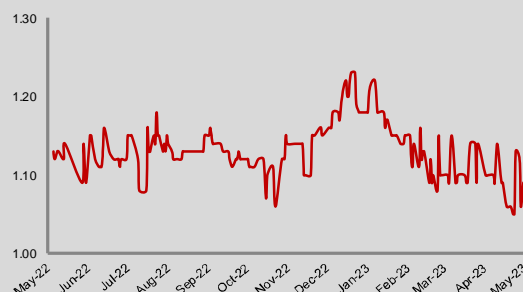
Consequently, we also maintain our TP of RM0.80 based PBV of 0.18x on FY24F BVPS which is at an 80% discount to the auto sector's average forward PBV of 0.9x to reflect its less popular Nissan brand vs. other foreign brands in the market. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We continue to stay cautious on TCHONG for: (i) its insignificant 1% share of the total industry volume, (ii) its lack of new launches while its competitors have successfully launched all-new models, and (iii) its inability to raise prices to pass on rising production cost, especially with the weakening of MYR against USD. Reiterate **UNDERPERFORM**.

UNDERPERFORM ↔

Price : RM1.09
Target Price : RM0.80 ↔

Share Price Performance



KLCI 1,402.98
YTD KLCI chg -6.2%
YTD stock price chg -7.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM'm)	710.6
Shares Outstanding	652.0
52-week range (H)	1.25
52-week range (L)	1.02
3-mth avg daily vol:	27,587
Free Float	19%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	3,052.2	2,786.9	3,176.4
EBIT	26.3	12.9	27.6
PBT	-14.2	-31.5	-12.6
NP/ NL	-51.1	-49.7	-32.1
CNP / CNL	-37.6	-49.7	-32.1
Consensus (NP)	-	-31.1	-13.9
Earnings Revision	-	-	-
Core EPS (sen)	-5.8	-7.6	-4.9
Core EPS (%)	106.4	32.0	-35.5
NDPS (sen)	3.0	2.0	2.0
BVPS (RM)	4.48	4.38	4.31
PER (x)	N.M	N.M	N.M
PBV (x)	0.2	0.2	0.3
Net Gearing (x)	0.2	0.2	0.3
Net Div. Yield (%)	2.8	1.8	1.8



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Risks to our call include: (i) consumers splurging more on discretionary spending (particularly big-ticket items like new cars as high inflation eases, (ii) more attractive new models for TCHONG that appeal to car buyers, and (iii) TCHONG monetising its strategic land bank or being privatised at a premium over the market price.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec (%)	2020A	2021A	2022A	2023F	2024F
Revenue	2,959.6	2,537.3	3,052.2	2,786.9	3,176.4	Growth					
Operating Profit	-115.5	63.9	26.3	12.9	27.6	Turnover	-29.1	-14.3	20.3	-8.7	14.0
Depreciation	-136.9	-142.3	-148.2	-139.8	-143.0	EBITDA	-93.0	859.9	-15.4	-12.5	11.7
Interest Inc/(Exp)	-46.8	-43.2	-39.7	-43.7	-39.5	Op. Profit	-168.1	-155.3	-58.8	-50.9	113.7
Associate	0.9	-1.5	-0.7	-0.7	-0.7	PBT/LBT	-445.5	-111.9	-174.0	122.3	-60.1
Profit Before Tax	-161.3	19.1	-14.2	-31.5	-12.6	CNP/CNL	-392.8	-86.7	106.4	32.0	-35.5
Taxation	-15.5	-38.3	-40.7	-20.3	-20.3	Profitability (%)					
Minority Interest	-11.2	-4.8	-3.8	-2.1	-0.9	Op. Margin	N.M	2.5	0.9	0.5	0.9
Core Net Profit	-137.2	-18.2	-37.6	-49.7	-32.1	PBT Margin	N.M	0.8	N.M	N.M	N.M
						CNP margin	N.M	N.M	N.M	N.M	N.M
Balance Sheet						ROA	N.M	N.M	N.M	N.M	N.M
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	ROE	N.M	N.M	N.M	N.M	N.M
F.Assets	2,865.2	2,865.2	2,471.8	2,368.0	2,297.0	DuPont Analysis					
Int. Assets	0.8	14.5	13.0	13.0	13.0	Net Margin (%)	N.M	N.M	N.M	N.M	N.M
Other F.Assets	-126.7	-133.5	404.2	404.2	404.2	Assets T/O (x)	0.6	0.5	0.6	0.6	0.7
Inventories	772.7	774.5	748.4	679.6	774.5	Lev. Factor(x)	1.9	1.8	1.7	1.7	1.7
Receivables	424.9	436.9	388.3	343.6	391.6	ROE (%)	-5.6%	-0.5%	-1.8%	-1.7%	-1.1%
Hp Receivables	582.9	504.4	464.2	510.1	446.8	Leverage					
Other C.Assets	218.8	38.1	49.3	49.3	49.3	Debt/Asset (x)	0.3	0.3	0.2	0.3	0.3
Cash	582.0	517.3	558.2	608.6	488.7	Debt/Equity(x)	0.6	0.5	0.4	0.4	0.5
Total Assets	5,320.5	5,017.4	5,097.5	4,976.5	4,865.2	N.(Cash)/Debt	994.4	821.3	715.9	665.5	785.4
Payables	510.5	508.8	415.1	356.9	290.7	N.Debt/Equity(x)	0.3	0.3	0.2	0.2	0.3
S.T Borrowings	1,501.5	1,268.2	974.0	974.0	974.0	Valuations					
Other S.T Liability	51.4	58.5	56.7	56.7	56.7	C. EPS (sen)	(21.0)	(2.8)	(5.8)	(7.6)	(4.9)
L.T Borrowings	74.9	70.5	300.0	300.0	300.0	NDPS (sen)	3.0	1.5	3.0	2.0	2.0
Other L.T Liability	357.5	341.8	451.2	451.2	451.2	BV/sh (RM)	4.4	4.3	4.5	4.4	4.3
Net Assets	2,824.7	2,769.7	2,900.4	2,837.7	2,792.5	PER (x)	N.M	N.M	N.M	N.M	N.M
S.Equity	2,841.7	2,791.5	2,923.0	2,860.3	2,815.1	Div. Yield (%)	2.8	1.4	2.8	1.8	1.8
MI	-17.0	-21.9	-22.6	-22.6	-22.6	PBV (x)	0.3	0.3	0.3	0.2	0.2
Total Equity	2,824.7	2,769.7	2,900.4	2,837.7	2,792.5	EV/EBITDA(x)	31.6	4.1	5.5	3.2	0.5
Cashflow Statement											
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	572.3	141.6	130.9	143.9	5.3						
Investing CF	-270.7	68.3	-58.8	-36.7	-72.7						
Financing CF	-135.0	-284.7	-35.1	-56.8	-52.5						
Change In Cash	166.6	-74.8	37.0	50.4	-119.9						
Free CF	511.6	141.6	130.9	107.9	-66.7						

Source: 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. (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	2.14	2.90	35.51%	2,542.6	Y	04/2023	21.6	22.8	61.1%	5.6%	9.9	9.4	3.5	37.2%	15.1	7.1%
DRB-HICOM BHD	MP	1.35	1.45	7.41%	2,609.6	Y	12/2023	16.5	17.7	4.9%	7.2%	8.2	7.6	0.3	3.6%	2.0	1.5%
MBM RESOURCES BHD	OP	3.45	4.70	36.23%	1,379.9	Y	12/2023	65.6	67.7	14.5%	3.2%	5.3	5.1	0.6	12.0%	26.0	7.5%
SIME DARBY BHD	OP	2.06	2.40	16.50%	14,418.1	Y	06/2023	15.0	17.2	-14.6%	14.9%	13.7	11.9	0.9	6.3%	12.0	5.8%
TAN CHONG MOTOR HOLDINGS BHD	UP	1.09	0.800	-26.61%	759.4	N	12/2023	(7.4)	(4.8)	-232.2%	-164.6%	N.A.	N.A.	0.3	-1.8%	2.0	1.8%
UMW HOLDINGS BHD	OP	3.66	4.80	31.15%	4,416.2	Y	12/2023	35.5	37.9	5.3%	6.7%	10.3	9.7	0.9	9.3%	15.0	4.1%
SECTOR AGGREGATE					26,125.7					-1.0%	11.0%	11.8	10.6	0.7	6.1%		4.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Electric & Hybrid Vehicles Availability	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy Efficiency	★	★	★		
	Effluent & Water Management	★	★	★	★	
	Training & Education	★	★	★		
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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Published by:

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