

28 May 2024

Tan Chong Motor

New “e-Power” Models no Saviour

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The all-new CBU models of hybrid “e-Power” vehicles slated for launching from 2HFY24 will be no saviour to TCHONG, given a sea of competing new models in the market especially Chinese EVs with low entry-level price points. Its operations in Vietnam will continue to be loss-making due to low utilisation. We maintain our forecasts, TP of RM0.74 and UNDERPERFORM call.

Our cautious stance on TCHONG stays following its 1QFY24 results briefing yesterday. The key takeaways are as follows:

1. TCHONG will launch all-new CBU models of “e-Power” hybrid vehicles starting 2HFY24, while local production will depend on the market demand. The first two models will be: (i) B-segment SUV, Nissan Kicks e-Power (new to Malaysian market, but considered old globally), and (ii) all-new C28 Serena MPV e-Power. They will have to compete with new models rivals have flooded the market, especially Chinese EVs with low entry-level price points. Recall, the lack of new models had resulted in its local Nissan vehicle sales plunging by 8% to only 2,301 units in 1QFY24 despite a booming car market locally.
2. TCHONG has started to produce TQ-Wuling Light Truck N300P at its idle Danang plant since Nov 2023. It hopes to boost utilisation at its plant in Vietnam to between 20% and 30% during the first year, vs less than 5% at present. It will endeavour to make the best of its exclusive rights to distribute King Long buses (CBU), GAC vehicles (will start with CBU of GAC GS3 Emzoom on the 2HFY24) and to produce other brands in the next few years. Nonetheless, without a concrete CKD agreement to fill the capacity of its Danang plant, we expect TCHONG to continue to record losses in Vietnam. Recall, in 1QFY24, it recorded marginal sales of only RM2.2m (-95%) and a higher loss of RM12.1m (from loss of RM4.2m in 1QFY23) after losing the MG vehicles distribution right last year.
3. Its 51%-owned unit TC Sunergy Sdn Bhd, owner and operator of a 2MW large-scale solar photovoltaic plant (LSSPV) in Serendah, Selangor, on a 25-year power purchase agreement (PPA), commenced operation in Jan 2024. While the plant requires minimal costs to run, its depreciation charges could be significant.

Forecasts. Maintained.

Valuations. We maintained our TP of RM0.74 based on 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 mid-market 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 4).

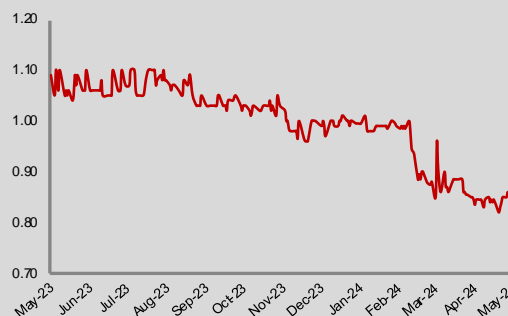
Investment case. We continue to stay cautious on TCHONG due to: (i) its insignificant 1% share of the total industry volume, (ii) its lack of new launches while its competitors have successfully launched all-new models, and (iii) its inability to raise prices to pass on rising production cost, especially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

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.

UNDERPERFORM ↔

Price : RM0.86
Target Price : RM0.74 ↔

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	-11.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM'm)	557.2
Shares Outstanding	651.7
52-week range (H)	1.10
52-week range (L)	0.82
3-mth avg. daily vol.	94,291
Free Float	21%
Beta	0.7

Major Shareholders

Tan Chong Consolidated SB	40.5%
Employees Provident Fund	6.0%
Nissan Motor Co Ltd	5.7%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	2,532.7	2,066.4	2,438.9
EBIT	-78.1	-26.4	-11.7
PBT	-121.1	-70.9	-57.3
NP/ NL	-128.7	-78.8	-66.1
CNP / CNL	-129.3	-78.8	-66.1
Consensus (NP)	-	-74.1	-29.7
Earnings Revision	-	-	-
Core EPS (sen)	-19.8	-12.1	-10.1
Core EPS (%)	243.5	-39.1	-16.1
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	4.20	4.07	3.96
PER (x)	-	-	-
PBV (x)	0.2	0.2	0.2
Net Gearing (x)	0.4	0.3	0.4
Net Div. Yield (%)	1.2	1.2	1.2

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	2,537.3	3,052.2	2,532.7	2,066.4	2,438.9	Growth					
Operating Profit	63.9	26.3	-78.1	-26.4	-11.7	Turnover	-14.3%	20.3%	-17.0%	-18.4%	18.0%
Depreciation	-142.3	-148.2	-142.3	-139.8	-143.0	EBITDA	859.9%	-15.4%	-63.2%	76.7%	15.9%
Interest Inc/(Exp)	-43.2	-39.7	-42.5	-43.8	-44.9	Op. Profit	-155.3%	-58.8%	-396.8%	-66.2%	-55.8%
Associate	-1.5	-0.7	-0.5	-0.7	-0.7	PBT/LBT	-111.9%	-174.0%	755.2%	-41.5%	-19.2%
Profit Before Tax	19.1	-14.2	-121.1	-70.9	-57.3	CNP/CNL	-86.7%	106.4%	243.5%	-39.1%	-16.1%
Taxation	-38.3	-40.7	-12.7	-12.7	-12.7	Profitability (%)					
Minority Interest	-4.8	-3.8	-5.1	-4.8	-3.9	Op. Margin	2.5%	0.9%	N.M	N.M	N.M
Core Net Profit	-18.2	-37.6	-129.3	-78.8	-66.1	PBT Margin	0.8%	N.M	N.M	N.M	N.M
						CNP margin	N.M	N.M	N.M	N.M	N.M
						ROA	N.M	N.M	N.M	N.M	N.M
						ROE	N.M	N.M	N.M	N.M	N.M
						DuPont Analysis					
						Net Margin (%)	N.M	N.M	N.M	N.M	N.M
						Assets T/O (x)	0.5	0.6	0.5	0.4	0.5
						Lev. Factor(x)	1.8	1.7	1.9	1.9	1.9
						ROE (%)	-0.5	-1.8	-4.5	-2.9	-2.5
						Leverage					
						Debt/Asset (x)	0.3	0.2	0.3	0.3	0.3
						Debt/Equity(x)	0.5	0.4	0.6	0.6	0.6
						N.(Cash)/Debt	821.3	715.9	1,031.0	808.3	949.4
						N.Debt/Eqty (x)	0.3	0.2	0.4	0.3	0.4
						Valuations					
						C. EPS (sen)	(2.8)	(5.8)	(19.8)	(12.1)	(10.1)
						NDPS (sen)	1.5	3.0	1.0	1.0	1.0
						BV/share (RM)	4.3	4.5	4.2	4.1	4.0
						PER (x)	N.M	N.M	N.M	N.M	N.M
						Div. Yield (%)	1.8	3.5	1.2	1.2	1.2
						PBV (x)	0.3	0.2	0.2	0.2	0.2
						EV/EBITDA(x)	4.1	5.5	10.3	(0.1)	(1.8)

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.				
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.48	2.30	-7.3%	2,879.3	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.5	10.9	3.5	37.9%	20.1	8.1%
DRB-HICOM BHD	MP	1.35	1.40	3.7%	2,609.6	Y	12/2024	15.9	18.6	14.2%	17.0%	8.5	7.3	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	1.15	0.940	-18.3%	381.7	Y	12/2024	13.6	14.3	11.9%	4.6%	8.4	8.1	0.8	9.7%	2.0	1.7%
HONG LEONG INDUSTRIES BHD	OP	12.00	12.60	5.0%	3,934.8	Y	06/2024	98.3	105.3	10.9%	7.2%	12.2	11.4	2.0	16.0%	107.0	8.9%
MBM RESOURCES BHD	OP	5.05	5.80	14.9%	1,974.0	Y	12/2024	72.5	73.3	-7.2%	1.1%	7.0	6.9	0.9	12.9%	40.0	7.9%
SIME DARBY BHD	MP	2.83	2.80	-1.1%	19,246.8	Y	06/2024	17.7	19.3	4.4%	9.1%	16.0	14.6	1.2	7.4%	12.0	4.2%
TAN CHONG MOTOR HOLD.BHD	UP	0.855	0.740	-13.5%	574.6	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.2%
SECTOR AGGREGATE					31,600.8					6.9%	6.9%	13.2	12.4	0.9	6.7%		4.8%

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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