Tan Chong Motor

Sub-Capacity Operation

UNDERPERFORM ↔

Price : **RM0.64**
Target Price : **RM0.30** ↔

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

TCHONG indicated that sustained losses would persist for the next two years due to an expected undercapacity utilization rate at both of its Malaysian plants as well as at its Danang, Vietnam plant. Furthermore, the recent EV assembly intent with Perodua is expected to have minimal impact to its capacity utilization (pending agreement) as Perodua only intend to do some parts of the assembly (not full assembly). Meanwhile, various new launches slated for 2026 may not live up to expectations, in our view, given a sea of competing new models in the market. We maintain our forecasts, TP of RM0.30 and UNDERPERFORM call.

Our cautious stance on TCHONG stays, following its 3QFY25 results briefing yesterday. The key takeaways are as follows:

1. TCHONG indicated guidance for sustained losses over the next two years due to an undercapacity utilisation rate (not disclosed, but based on our estimate, the current rate on 65k units translate to 13% utilisation). This involves both its Segambut plant (capacity of 20k units/ year for TQ Wuling light trucks, GAC vehicles and TQ Wuling Bingo EV) and its Serendah plant (capacity of 45k units/year for all Nissan models and rental assembly for all-new Perodua EV).

   For the all-new Perodua EV, initial impression is that TCHONG will provide painting shop and some parts of the assembly (not full assembly) while all the assembly equipment (being proprietary by Perodua) will be provided by Perodua. Thus, TCHONG's capex will be small for the tie-ups. On other hand, TQ Wuling Bingo EV will be launched in December 2025 and it indicated that the pre-booking responses were quite "surprising or good".

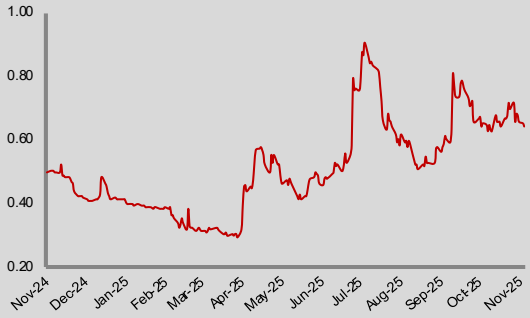
2. TCHONG has been producing TQ-Wuling Light Truck N300P at its Danang plant since Nov 2023 (has started exporting to Myanmar at c.90 units and be scaled thereafter) and has plans to produce GAC vehicles there by 2026 (but could be further delayed assuming weak local demand). At present, 4% of its 9MFY25 revenue stemmed from Vietnam, and it hopes to boost utilisation at its plant in Vietnam to between 20% and 30% eventually, vs. less than 14% at present (based on our estimate). It will endeavour to make the best of its exclusive rights to distribute King Long buses (CBU models of Euro 5 bus), GAC vehicles (GS8 SUV and M8 MPV which are imported from Malaysia). Nonetheless, without a concrete CKD agreement to fill the capacity at its Danang plant, we expect TCHONG to continue to record losses in Vietnam due to plant undercapacity.

3. It recently launched the new Nissan Kicks e-Power Impul Edition, the new Nissan Navara X-Tremer, the UD Kuzer light truck in Malaysia, and the new Nissan Magnite in Cambodia & Laos. It also launched GAC Emkoo and GAC M8 Phev in Malaysia (under its dealerships business). It will launch TQ Wuling Bingo EV in December 2025, and two all-new Nissan models in 2026 which will be based on e-POWER generation for the Malaysian market. While we welcome the launch of new models to keep up with more dynamic peers, TCHONG will have to compete with a flood of rivals' new models.

Forecasts. Maintained.

Valuations. We maintain our TP at RM0.30 based on PBV of 0.1x FY26F BVPS, which is at an 86% discount to the auto sector's average forward PBV of 0.7x to reflect its less popular *Nissan* brand vs. other mid-market foreign brands in the market.

Share Price Performance



KLCI	1,611.74
YTD KLCI chg	-1.9%
YTD stock price chg	56.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TCM MK EQUITY
Market Cap (RM'm)	417.0
Shares Outstanding	651.6
52-week range (H)	0.97
52-week range (L)	0.28
3-mth avg. daily vol.	4,709,326
Free Float	17%
Beta	1.4

Major Shareholders

Tan Chong Consolidated SB	47.5%
Daiwa Securities Group	5.7%
Nissan Motor Co Ltd	5.7%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Revenue	2,082.7	2,043.6	2,332.4
EBIT	-157.6	-141.4	-112.5
PBT	-214.3	-192.0	-169.3
NP/ -NL	**-214.2**	**-185.5**	**-164.3**
CNP / -CNL	**-232.5**	**-185.5**	**-164.3**
Consensus (NP)	-	-161.0	-137.3
Earnings Revision	-	-	-
Core EPS (sen)	-35.6	-28.4	-25.2
Core EPS (%)	79.8	-20.2	-11.4
NDPS (sen)	1.0	1.0	1.0
BVPS (RM)	3.85	3.55	3.29
PER (x)	-	-	-
PBV (x)	0.2	0.2	0.2
Net Gearing (x)	0.5	0.5	0.7
Net Div. Yield (%)	1.6	1.6	1.6

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.

It has signed a strategic collaboration agreement with SAIC GM Wuling Automobile to locally assemble the Tan Chong-branded TQ Wuling Bingo EV, an affordable entry-level compact EV targeting value driven and urban commuters which is expected to be priced below RM100k as it will be assembled as Semi-Knocked Down (SKD). Additionally, it has received letter of intent (LOI) from Perodua to rent its assembly lines for a short-term as Perodua's newly-built EV plant is likely unable to absorb the expected overwhelming booking (if we compared with its closest competitor, Proton e.Mas 5 which amassed over 10,000 bookings in a short period of time). However, production of Perodua EV is expected at only 500 units per month for the 1st phase of production and be scaled thereafter based on demand, which we believe is insufficient to turn around its under-utilised plant (based on our estimate, the current rate based on 65k units translate to 13%). 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.

Income Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	3,052.2	2,532.7	2,082.7	2,043.6	2,332.4
Operating Profit	**26.3**	**-78.1**	**-157.6**	**-141.4**	**-112.5**
Depreciation	-148.2	-142.3	-139.0	-140.3	-143.8
Interest Inc/(Exp)	-39.7	-42.5	-54.7	-49.9	-56.1
Associate	-0.7	-0.5	-2.0	-0.7	-0.7
Profit Before Tax	**-14.2**	**-121.1**	**-214.3**	**-192.0**	**-169.3**
Taxation	-40.7	-12.7	-6.5	-6.5	-6.5
Minority Interest	-3.8	-5.1	-6.6	-13.1	-11.5
Core Net Profit	**-37.6**	**-129.3**	**-232.5**	**-185.5**	**-164.3**

Balance Sheet

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
F.Assets	2,471.8	2,371.2	2,317.1	2,277.7	2,211.3
Int. Assets	13.0	95.5	54.9	54.9	54.9
Other F.Assets	404.2	391.8	424.6	424.6	424.6
Inventories	748.4	822.1	842.1	498.3	568.7
Receivables	388.3	384.7	403.9	251.9	287.6
Hp Receivables	464.2	452.0	425.8	655.0	608.1
Other C.Assets	49.3	81.3	250.0	250.0	250.0
Cash	558.2	511.6	372.0	512.1	299.5
Total Assets	**5,097.5**	**5,110.1**	**5,090.5**	**4,924.7**	**4,704.8**
Payables	415.1	319.2	313.8	280.5	231.5
S.T Borrowings	974.0	1,092.6	1,406.4	1,406.4	1,406.4
Other S.T Liability	56.7	57.2	90.0	90.0	90.0
L.T Borrowings	300.0	450.0	309.8	309.8	309.8
Other L.T Liability	451.2	449.3	454.7	454.7	454.7
Net Assets	**2,900.4**	**2,741.8**	**2,515.7**	**2,323.7**	**2,152.9**
S.Equity	2,923.0	2,740.1	2,511.2	2,319.1	2,148.3
MI	-22.6	1.7	4.6	4.6	4.6
Total Equity	**2,900.4**	**2,741.8**	**2,515.7**	**2,323.7**	**2,152.9**

Cashflow Statement

FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	130.9	-131.9	30.3	238.6	-71.8
Investing CF	-58.8	-186.3	-314.9	-42.1	-78.1
Financing CF	-35.1	266.4	154.5	-56.4	-62.6
Change In Cash	37.0	-51.7	-130.1	140.1	-212.6
Free CF	130.9	-131.9	24.9	197.2	-149.2

Financial Data & Ratios

FY Dec	2022A	2023A	2024A	2025F	2026F
Growth					
Turnover	20.3%	-17.0%	-17.8%	-1.9%	14.1%
EBITDA	-15.4%	-63.2%	-129.0%	-93.7%	-2770%
Op. Profit	-58.8%	-396.8%	101.8%	-10.3%	-20.5%
PBT/LBT	-174.0%	755.2%	76.9%	-10.4%	-11.8%
CNP/CNL	106.4%	243.5%	79.8%	-20.2%	-11.4%
Profitability (%)					
Op. Margin	N.M	N.M	N.M	N.M	N.M
PBT Margin	N.M	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)	0.6	0.5	0.4	0.4	0.5
Lev. Factor(x)	1.7	1.9	2.0	2.1	2.2
ROE (%)	-1.8	-4.5	-8.2	-7.7	-7.4
Leverage					
Debt/Asset (x)	0.2	0.3	0.3	0.3	0.4
Debt/Equity(x)	0.4	0.6	0.7	0.7	0.8
N.(Cash)/Debt	715.9	1,031.0	1,344.2	1,204.1	1,416.7
N.Debt/Eqty (x)	0.2	0.4	0.5	0.5	0.7
Valuations					
C. EPS (sen)	(5.8)	(19.8)	(35.6)	(28.4)	(25.2)
NDPS (sen)	3.0	1.0	1.0	1.0	1.0
BV/share (RM)	4.5	4.2	3.8	3.6	3.3
PER (x)	-	-	-	-	-
Div. Yield (%)	4.7%	1.6%	1.6%	1.6%	1.6%
PBV (x)	0.1	0.2	0.2	0.2	0.2
EV/EBITDA(x)	5.5	10.3	(18.9)	220.3	(17.7)

Source: Kenanga Research

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	MP	0.510	0.600	17.6%	782.7	Y	04/2026	6.2	9.4	-53.6%	51.1%	8.2	5.4	0.8	9.8%	5.0	9.8%
DRB-HICOM BHD	UP	1.30	0.700	-46.2%	1,913.9	Y	12/2025	6.2	8.1	101.5%	31.1%	20.9	16.0	0.2	1.2%	3.0	2.3%
HIL INDUSTRIES BHD	MP	0.690	0.800	15.9%	249.0	Y	12/2025	9.6	9.6	-24.6%	0.3%	7.2	7.2	0.5	6.5%	2.0	2.9%
HONG LEONG INDUSTRIES BHD	OP	14.34	18.90	31.8%	4,472.6	Y	06/2026	157.4	160.6	2.7%	2.0%	9.1	8.9	1.9	21.4%	90.0	6.3%
MBM RESOURCES BHD	OP	5.37	7.00	30.4%	2,040.4	Y	12/2025	86.5	87.6	1.5%	1.3%	6.2	6.1	0.8	12.9%	51.0	9.5%
SIME DARBY BHD	MP	1.94	1.90	-2.1%	14,789.8	Y	06/2026	18.6	20.0	8.3%	7.8%	10.4	9.7	0.7	6.5%	14.0	7.2%
TAN CHONG MOTOR HOLD.BHD	UP	0.640	0.300	-53.1%	381.2	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.2	-7.7%	1.0	1.6%
SECTOR AGGREGATE					**24,629.6**					**6.4%**	**9.7%**	**11.4**	**10.4**	**0.6**	**5.6%**		**5.7%**

Source: Kenanga Research

The rest of this page is intentionally left blank

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.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
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