

# Tan Chong Motor Holdings Berhad

(4405 | TCM MK) Consumer Products & Services | Automotive

**Maintain NEUTRAL**

## Betting on a slew of new launches

**Revised Target Price: RM1.30**

(Previously RM1.40)

### KEY INVESTMENT HIGHLIGHTS

- **FY19 missed expectations**
- **Core earnings halved on weaker volumes and margin contraction**
- **FY20F/21F earnings revised down by 6.3%/6.7%**
- **Notwithstanding the revision, we still forecast a double-digit growth in FY20F from expected launch of the N18 Almera**
- **Maintain NEUTRAL at lower TP of RM1.30**


**FY19F earnings disappointed.** Tan Chong reported core net profit of just RM10m for its 4Q19, bringing FY19 core earnings to RM47m. This is weaker than expected, accounting for 93% and 76% of our and consensus estimates respectively. A key deviation was lower than expected sales volume for Malaysia and higher than expected tax rate.

Group core earnings fell by 85%yoy driven by a 17%yoy contraction in revenue and much lower margins (operating margins were down 4.3pp year-on-year). The drag came mainly from the group's auto division and forex losses incurred from financing overseas units (vs. a gain in 4Q18).

**Double whammy.** Tan Chong's 4Q19 auto division revenue fell 17%yoy on the back of a 29% decline in Nissan TIV. On top of this, margins were impacted by a weaker Ringgit in 4Q19 (estimated USD:RM4.15 vs, USD:RM4.09 in 4Q18). EBITDA for the auto division fell by 26%yoy. Nissan (Malaysia) saw market share deteriorate to 3.5% in FY19 from 4.8% in FY18.

**New launches.** Despite the drag surrounding Tan Chong's FY19, the group is looking at several new launches from FY20F onwards, which should provide a boost to earnings going forward. The new N18 Almera (B-segment sedan), launched in Thailand in Nov19, is likely to see a launch here in the near future. Other than Almera, other possible new models include the Kicks (B-segment SUV) and the new Sylphy.

**Earnings revision.** Given the weaker than expected results, we trim our FY20F/21F by 6.3%/6.7%. Despite the cut, we still expect Tan Chong to register strong double-digit earnings growth in FY20F driven by new model launches, which more importantly, is based on costing which is pegged to the latest foreign exchange rates. Risk to our forecasts however, is weaker than expected volumes from deteriorating consumer sentiment and stiff competition given model replacement cycle of a major competitor.

**Recommendation.** Maintain NEUTRAL on Tan Chong at a lower TP of RM1.30 (from RM1.40 previously) following the downward earnings revision in this report. FY20F PE of 11x and dividend yield of 3.2% is not exactly attractive, but Tan Chong is trading at depressed FY20F PBV of 0.3x. 

### RETURN STATISTICS

Price @ 28 <sup>th</sup> Feb 2020 (RM)	1.25
Expected share price return (%)	+5.5
Expected dividend yield (%)	+3.2
<b>Expected total return (%)</b>	<b>+8.7</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-1.3
3 months	-0.7	-9.6
12 months	-6.3	-0.1

### KEY STATISTICS

FBM KLCI	1482.64
Syariah compliant	Yes
Issue shares (m)	652.66
Estimated free float (%)	19.84
Market Capitalisation (RM'm)	815.83
52-wk price range	RM1.31 - RM1.75
Beta vs FBM KLCI (x)	0.57
Monthly velocity (%)	0.01
Monthly volatility (%)	17.97
3-mth average daily volume (m)	0.06
3-mth average daily value (RM'm)	0.08
Top Shareholders (%)	
Tan Chong Consolidated Sdn Bhd	40.42
Employees Provident Fund Board	6.01
Nissan Motor Co Ltd	5.72

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## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	4,341.2	4,858.2	4,172.4	4,415.0	4,488.5
EBIT (RM'm)	(18.7)	226.8	169.6	161.1	166.1
Pre-tax Profit (RM'm)	(72.8)	178.6	114.3	97.6	103.7
Core net profit (RM'm)	(88.6)	99.7	47.4	73.8	79.7
FD EPS (sen)	(13.2)	14.8	7.1	11.0	11.9
EPS growth (%)	NA	NA	(52.5)	55.9	7.9
PER (x)	(9.5)	8.4	17.7	11.4	10.5
Net Dividend (sen)	2.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	1.6	3.2	3.2	3.2	3.2

Source: Company, MIDFR

## TAN CHONG MOTOR HOLDINGS BERHAD: 4QFY19 RESULTS SUMMARY

YE Dec (RMmil)	4Q18	3Q19	4Q19	QoQ %	YoY %	FY18	FY19	YTD %
<b>Revenue</b>	<b>1,166.8</b>	<b>1,050.6</b>	<b>974.6</b>	<b>-7.2%</b>	<b>-16.5%</b>	<b>4858.2</b>	<b>4172.4</b>	<b>-14.1%</b>
EBITDA	120.9	78.8	73.0	-7.4%	-39.7%	327.2	307.0	-6.2%
<b>Operating profit</b>	<b>96.0</b>	<b>36.3</b>	<b>38.5</b>	<b>6.0%</b>	<b>-59.9%</b>	<b>226.8</b>	<b>169.6</b>	<b>-25.2%</b>
Interest expense	(18.4)	(20.3)	(20.8)	2.6%	13.0%	(71.6)	(78.8)	10.0%
Interest income	7.1	4.6	4.7	2.6%	-33.6%	22.2	21.2	-4.4%
Associates	(1.0)	0.2	0.5	172.5%	-153.5%	1.2	2.3	96.0%
<b>Pretax profit</b>	<b>83.7</b>	<b>20.8</b>	<b>22.9</b>	<b>10.0%</b>	<b>-72.6%</b>	<b>178.6</b>	<b>114.3</b>	<b>-36.0%</b>
Tax expense	(30.8)	(12.9)	(20.4)	58.0%	-33.7%	(76.0)	(67.6)	-11.1%
Minorities	1.3	(1.3)	3.5	NA	162.8%	1.5	3.0	102.7%
Net profit	51.6	9.2	(1.0)	NA	NA	101.0	43.6	-56.8%
<b>Core net profit</b>	<b>69.6</b>	<b>1.9</b>	<b>10.2</b>	<b>427.2%</b>	<b>-85.4%</b>	<b>99.7</b>	<b>47.4</b>	<b>-52.5%</b>
EPS (sen)	10.4	0.3	1.5			14.8	7.1	
Gross DPS (sen)	2.00	0.00	2.00			4.00	4.00	
Operating margin (%)	8.2%	3.5%	3.9%			4.7%	4.1%	
Core operating margin (%)	9.5%	4.9%	5.5%			3.5%	2.7%	
Pretax profit margin (%)	7.2%	2.0%	2.4%			3.7%	2.7%	
Net profit margin (%)	6.0%	0.2%	1.0%			2.1%	1.1%	
Tax rate (%)	-36.8%	-62.0%	-89.1%			-42.6%	-59.2%	
Nissan TIV (units)	7,877	5,293	5,563	5.1%	-29.4%	28,610	21,239	-25.8%
USD:RM	4.09	4.15	4.16	0.4%	1.8%	4.03	4.15	3.0%

Source: Company, MIDFR

**TAN CHONG MOTOR HOLDINGS BERHAD: 4QFY19 RESULTS BREAKDOWN**

YE Dec (RMmil)	4Q18	3Q19	4Q19	QoQ %	YoY %	FY18	FY19	YTD %
Autos	1,140.7	1,027.1	949.9	-7.5%	-16.7%	4,751.1	4,073.7	-14%
Financial Services	22.3	18.9	18.6	-1.5%	-16.4%	91.9	80.9	-12%
Others	3.8	4.5	6.1	34.7%	58.5%	15.2	17.9	18%
<b>Total revenue</b>	<b>1,166.8</b>	<b>1,050.6</b>	<b>974.6</b>	<b>-7.2%</b>	<b>-16.5%</b>	<b>4,858.2</b>	<b>4,172.4</b>	<b>-14%</b>
Autos	114.6	66.1	85.3	29.2%	-25.5%	308.5	301.0	-2%
Financial Services	5.7	7.1	6.5	-7.5%	14.2%	23.3	26.4	13%
Others	6.8	10.7	(12.4)	NA	NA	17.3	1.2	-93%
<b>Total EBITDA</b>	<b>127.1</b>	<b>83.8</b>	<b>79.5</b>	<b>-5.2%</b>	<b>-37.4%</b>	<b>349.1</b>	<b>328.6</b>	<b>-6%</b>
<b>EBITDA margins</b>	<b>10.9%</b>	<b>8.0%</b>	<b>8.2%</b>			<b>7.2%</b>	<b>7.9%</b>	
Autos	10.0%	6.4%	9.0%			6.5%	7.4%	
Financial Services	25.6%	37.3%	35.0%			25.3%	32.6%	
Others	177.1%	237.4%	-203.3%			114.1%	6.6%	
<b>BY COUNTRY:</b>								
Malaysia	867.3	847.8	795.6	-6.2%	-8.3%	3,954.6	3,261.8	-18%
Vietnam	219.8	113.1	105.1	-7.1%	-52.2%	654.5	560.9	-14%
Others	79.7	89.7	74.0	-17.5%	-7.2%	249.1	349.7	40%
<b>Total Revenue</b>	<b>1,166.8</b>	<b>1,050.6</b>	<b>974.6</b>	<b>-7.2%</b>	<b>-16.5%</b>	<b>4,858.2</b>	<b>4,172.4</b>	<b>-14%</b>
Malaysia	114.5	86.8	72.0	-17.1%	-37.1%	324.6	318.6	-2%
Vietnam	8.9	(8.5)	5.7	NA	-36.0%	12.4	(12.3)	NA
Others	3.8	5.5	1.8	-66.7%	-51.4%	12.0	22.2	84%
<b>Total EBITDA</b>	<b>127.1</b>	<b>83.8</b>	<b>79.5</b>	<b>-5.2%</b>	<b>-37.4%</b>	<b>349.1</b>	<b>328.6</b>	<b>-6%</b>
Malaysia	13.2%	10.2%	9.1%			8.2%	9.8%	
Vietnam	4.0%	-7.5%	5.4%			1.9%	-2.2%	
Others	4.7%	6.1%	2.5%			4.8%	6.3%	
<b>EBITDA margin</b>	<b>10.9%</b>	<b>8.0%</b>	<b>8.2%</b>			<b>7.2%</b>	<b>7.9%</b>	

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.