

Tan Chong Motor Holdings Berhad

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

Upgrade to BUY

(from NEUTRAL)

Unchanged Target Price: RM1.30

Reaching an Inflection Point

KEY INVESTMENT HIGHLIGHTS

- **New Almera scheduled for launch in 2H20; could mark an inflection point in Nissan TIV after multi-year erosion**
- **Margins slated to improve as new models are negotiated at latest forex rates**
- **We forecast FY20F earnings growth of >50% off a weak base in FY19 coupled with boost from new launch cycle**
- **Share price has retraced significantly in past 12 months; upgrade to BUY (TP: RM1.30) as Tan Chong approaches its earnings inflection point**

New Almera launch in 2H20. At its briefing yesterday, Tan Chong revealed its plans to launch the new Nissan Almera in 2HFY20. The model is long overdue for replacement having been in the market for 8 years (initial launch in Oct-12). Details on spec and pricing is not forthcoming yet, but the current generation Almera is priced at RM69,888 to RM79,888. At its launch back in 2012, management was targeting monthly volumes of 1K-2K units/month, though actual volumes registered in the initial months of launch were much better at >2K.

Slated to improve margins. It should be noted that the current generation Almera was launched in 2012 – we presume negotiations and kit pricing would have taken place during the 2011-2012 period, when the Ringgit was at around USD:RM3.20 levels. Given significant depreciation of the Ringgit now (which is at ~USD:RM4.18 levels), the current generation Almera would have turned into a barely profitable model. However, costing for the new Almera is likely to have been negotiated closer to current forex levels, which should improve the yields generated from the model, though we would not rule out some increase in end-pricing.

Forecasting double-digit EPS growth. Our forecast factors in a +56%yoy growth in FY20F to be driven by launch of the new Almera, which should be accompanied by improved margins. We forecast an 8%yoy Nissan TIV growth off the weak base of 21,239 units in FY19. Other possible new models include the Nissan Kicks (B-segment SUV) and the new Sylphy (C-segment sedan), but these have yet to be factored into our projections. The former in particular, fills an important gap in Tan Chong's model mix.

Recommendation. Share price have retraced significantly yet again, after the group's weak 4Q19 results. In the past 12 months, Tan Chong's share price has corrected by 30%. We think that the selling is overdone, notwithstanding possibly another weak quarter in 1Q20 (shorter quarter given festivities and short month in Feb). We upgrade Tan Chong to BUY (from HOLD) as we see value emerging. Our TP is unchanged at RM1.30. Tan Chong is now trading at depressed FY20F PBV of 0.3x.



RETURN STATISTICS

Price @ 4 th Mar 2020 (RM)	1.14
Expected share price return (%)	+14.0
Expected dividend yield (%)	+3.5
Expected total return (%)	+17.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-11.6	-8.8
3 months	-14.3	-8.0
12 months	-29.6	-20.4

KEY STATISTICS

FBM KLCI	1,489.95
Syariah compliant	No
Issue shares (m)	652.45
Estimated free float (%)	39.74
Market Capitalisation (RM'm)	743.79
52-wk price range	RM1.13 - RM1.69
Beta vs FBM KLCI (x)	0.58
Monthly velocity (%)	0.01
Monthly volatility (%)	17.97
3-mth average daily volume (m)	0.07
3-mth average daily value (RM'm)	0.10
Top Shareholders (%)	
Tan Chong Consolidated Sdn Bhd	40.44
Employees Provident Fund Board	6.03
Nissan Motor Co Ltd	5.72

Analyst(s)

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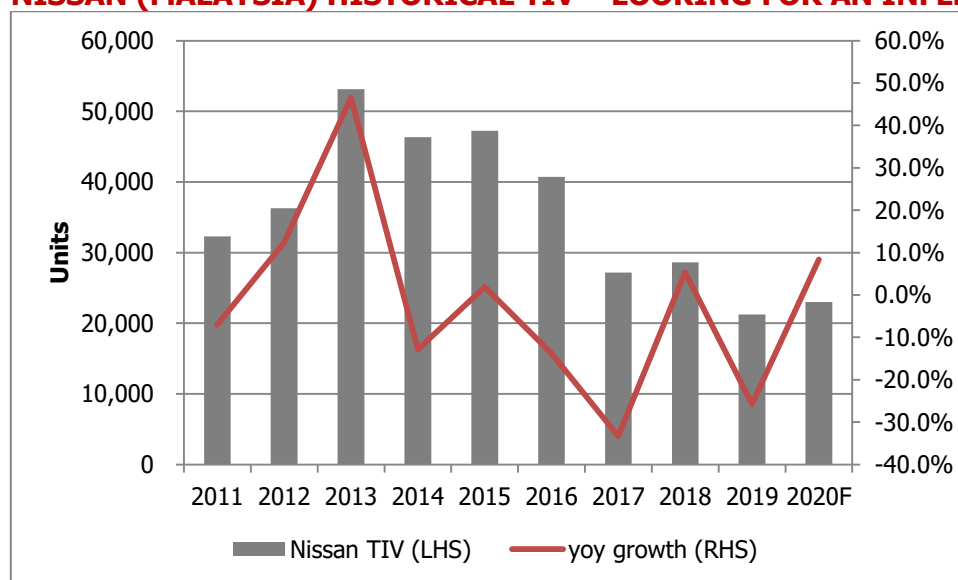
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INVESTMENT STATISTICS

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)	(8.6)	7.7	16.2	10.4	9.6
Net Dividend (sen)	2.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	1.8	3.5	3.5	3.5	3.5

Source: Company, MIDFR

NISSAN (MALAYSIA) HISTORICAL TIV – LOOKING FOR AN INFLECTION POINT IN FY20F



Source: MAA, MIDFR

THE NEW NISSAN ALMERA



Source: Various, MIDFR

TAN CHONG MOTOR HOLDINGS BERHAD: 4QFY19 RESULTS SUMMARY

YE Dec (RMmil)	4Q18	3Q19	4Q19	QoQ %	YoY %	FY18	FY19	YTD %
Revenue	1,166.8	1,050.6	974.6	-7.2%	-16.5%	4858.2	4172.4	-14.1%
EBITDA	120.9	78.8	73.0	-7.4%	-39.7%	327.2	307.0	-6.2%
Operating profit	96.0	36.3	38.5	6.0%	-59.9%	226.8	169.6	-25.2%
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%
Pretax profit	83.7	20.8	22.9	10.0%	-72.6%	178.6	114.3	-36.0%
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%
Core net profit	69.6	1.9	10.2	427.2%	-85.4%	99.7	47.4	-52.5%
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%	
<i>Core operating margin (%)</i>	<i>9.5%</i>	<i>4.9%</i>	<i>5.5%</i>			<i>3.5%</i>	<i>2.7%</i>	
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%
Total revenue	1,166.8	1,050.6	974.6	-7.2%	-16.5%	4,858.2	4,172.4	-14%
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%
Total EBITDA	127.1	83.8	79.5	-5.2%	-37.4%	349.1	328.6	-6%
EBITDA margins	10.9%	8.0%	8.2%			7.2%	7.9%	
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%	
BY COUNTRY:								
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%
Total Revenue	1,166.8	1,050.6	974.6	-7.2%	-16.5%	4,858.2	4,172.4	-14%
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%
Total EBITDA	127.1	83.8	79.5	-5.2%	-37.4%	349.1	328.6	-6%
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%	
EBITDA margin	10.9%	8.0%	8.2%			7.2%	7.9%	

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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