

Tan Chong Motor Holdings Berhad

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

Maintain NEUTRAL

Weak Start

KEY INVESTMENT HIGHLIGHTS

- Slipped into losses in 1Q20 given Covid19 pandemic
- Expecting a weaker second quarter before a recovery
- New Almera an important catalyst for earnings improvement going forward, but potential near-term drag from run-out of current generation Almera
- Maintain NEUTRAL at unchanged TP of RM1.15

Slipped into the red. Tan Chong reported a core net loss of RM25m (normalized for RM17m forex gain, RM2m gain on disposal and RM1m write-off of fixed asset) for its 1Q20. This is compared to our net loss expectation of RM42m for FY20F and consensus' FY20F net profit expectation of RM40m. As we expect Tan Chong to register deeper losses in 2Q20 before a recovery in 2H20, we deem the results in-line with our estimates.

Dragged by lockdown measures. Group revenue fell -32%yoy, leading Tan Chong to slip into the red in 1Q20 relative to a net profit of RM10m in the same period last year. This was mainly due to lower sales volume (-47%yoy) for autos (dragged by the MCO which commenced on 18th March) and lower revenues for the hire purchase division given a reduction in loan book size. EBITDA margin for the auto division fell to 3.9% (vs. 6.6% in 1Q19). "Others" division which comprise of the group's investments and properties registered an EBITDA of RM16m vs. an LBITDA of RM2.6m in 1Q19, mainly due to forex gains in 1Q20.

New model boost in 2H20, but near-term drag from run-out. The new N18 Almera (B-segment sedan), launched in Thailand in Nov19, is scheduled to be launched here in 2H20. 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:RM4.30 levels), the current generation Almera would have turned into a barely profitable model. Nonetheless, costing for the new Almera is likely to have been negotiated closer to current forex levels, which should improve margins generated from the model; this is reflected in the sharp earnings improvement in FY21F. Near-term however, run-out of the current generation Almera might drag earnings in the next 1-2 quarters.

Recommendation. Maintain **NEUTRAL** on Tan Chong at unchanged **TP of RM1.15** – our valuation continues to peg Tan Chong at 10x FY21F earnings.

Unchanged Target Price: RM1.15

RETURN STATISTICS

Price @ 19 th June 2020 (RM)	1.10
Expected share price return (%)	+4.5
Expected dividend yield (%)	+3.6
Expected total return (%)	+8.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.8	-1.1
3 months	5.8	-9.4
12 months	-26.7	-18.2

KEY STATISTICS

FBM KLCI	1,583.87
Syariah compliant	No
Issue shares (m)	652.60
Estimated free float (%)	24.90
Market Capitalisation (RM'm)	717.70
52-wk price range	RM0.98 - RM1.51
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	0.00
Monthly volatility (%)	17.97
3-mth average daily volume (m)	0.10
3-mth average daily value (RM'm)	0.11
Top Shareholders (%)	
Tan Chong Consolidated Sdn Bhd	40.44
Employees Provident Fund Board	6.33
DAIWA SECURITIES CO LTD	5.72

Analyst(s)

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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	3,973.6	4,380.8
EBIT (RM'm)	(18.7)	226.8	169.6	4.5	162.0
Pre-tax Profit (RM'm)	(72.8)	178.6	114.3	(59.1)	100.4
Core net profit (RM'm)	(88.6)	99.7	47.4	(42.1)	77.2
FD EPS (sen)	(13.2)	14.8	7.1	(6.3)	11.5
EPS growth (%)	NA	NA	(52.5)	(188.8)	283.5
PER (x)	(8.3)	7.4	15.6	(17.6)	9.6
Net Dividend (sen)	2.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	1.8	3.6	3.6	3.6	3.6

Source: Company, MIDFR

THE NEW NISSAN ALMERA



Source: Various, MIDFR

TAN CHONG MOTOR HOLDINGS BERHAD: 1QFY20 RESULTS SUMMARY

YE Dec (RMmil)	1Q19	4Q19	1Q20	QoQ %	YoY %
Revenue	1,080.6	974.6	734.3	-24.7%	-32.0%
EBITDA	67.0	73.0	42.8	-41.3%	-36.1%
Operating profit	40.0	38.5	12.6	-67.3%	-68.5%
Interest expense	(17.6)	(20.8)	(17.4)	-16.2%	-0.9%
Interest income	6.8	4.7	4.3	-9.1%	-36.7%
Associates	0.5	0.5	0.7	32.7%	55.8%
Pretax profit	29.7	22.9	0.2	-99.1%	-99.3%
Tax expense	(12.5)	(20.4)	(15.0)	-26.7%	19.8%
Minorities	1.2	3.5	(5.5)	-257.1%	-547.2%
Net profit	16.0	(1.0)	(9.3)	815.1%	-158.0%
Core net profit	22.1	13.5	(24.7)	-282.4%	-212.0%
EPS (sen)	3.3	2.0	(3.7)		
Gross DPS (sen)	-	2.00	-		
Operating margin (%)	3.7%	3.9%	1.7%		
Pretax profit margin (%)	2.8%	2.4%	0.0%		
Net profit margin (%)	2.0%	1.4%	-3.4%		
Tax rate (%)	-42.1%	-89.1%	-7531.2%		
Nissan TIV (units)	5,166	5,563	2,747	-50.6%	-46.8%
YE Dec (RMmil)	1Q19	4Q19	1Q20	QoQ %	YoY %
Autos	1,054.9	949.9	709.5	-25.3%	-32.7%
Financial Services	22.4	18.6	19.0	2.1%	-15.1%
Others	3.3	6.1	5.8	-4.8%	76.3%
Total revenue	1,080.6	974.6	734.3	-24.7%	-32.0%
Autos	69.2	85.3	27.8	-67.5%	-59.9%
Financial Services	5.9	6.5	3.8	-41.2%	-35.2%
Others	(2.6)	(12.4)	16.2	-231.4%	-720.7%
Total EBITDA	72.5	79.5	47.8	-39.8%	-34.0%
EBITDA margins	6.7%	8.2%	6.5%		
Autos	6.6%	9.0%	3.9%		
Financial Services	26.5%	35.0%	20.2%		
Others	-79.6%	-203.3%	280.4%		

Source: Company, MIDFR

Income Statement	FY17	FY18	FY19	FY20F	FY21F
Revenue	4,341.2	4,858.2	4,172.4	3,973.6	4,380.8
Operating expenses	(4,359.9)	(4,631.4)	(4,002.9)	(3,969.1)	(4,218.8)
EBIT	(18.7)	226.8	169.6	4.5	162.0
Net interest expense	(57.5)	(49.4)	(57.6)	(66.1)	(65.1)
Associates	3.4	1.2	2.3	2.5	3.5
PBT	(72.8)	178.6	114.3	(59.1)	100.4
Taxation	(23.6)	(76.0)	(67.6)	16.4	(22.2)
Minority Interest	(7.8)	(1.5)	(3.0)	0.6	(1.0)
Net profit	(88.6)	101.0	43.6	(42.1)	77.2
Core net profit	(88.6)	99.7	47.4	(42.1)	77.2
<i>Consensus net profit</i>			62.3	40.1	56.4
<i>MIDF/Consensus</i>			-24%	-205%	37%
Balance Sheet	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	2,933.9	2,823.1	3,188.7	3,203.8	3,219.3
PPE	1,832.6	1,773.1	2,251.0	2,263.7	2,275.6
Investments in associate	40.8	42.3	43.8	46.3	49.8
Others	1,060.5	1,007.7	893.9	893.9	893.9
Current assets	2,466.3	2,651.2	2,641.1	2,474.8	2,545.5
Inventories	1,186.0	1,238.8	1,527.1	1,432.6	1,579.4
Receivables	696.1	634.0	575.0	539.4	594.7
Others	266.2	256.4	131.2	111.6	111.8
Cash & equivalent	318.0	522.1	407.8	391.2	259.5
TOTAL ASSETS	5,400.1	5,474.3	5,829.7	5,678.6	5,764.8
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(14.5)	(12.8)	(11.5)	(12.2)	(11.2)
Reserves	2,459.9	2,511.0	2,685.2	2,608.9	2,653.5
TOTAL EQUITY	2,781.4	2,834.2	3,009.6	2,932.7	2,978.3
Non-current liabilities	985.1	1,017.1	926.8	896.8	866.8
Long-term borrowings	748.1	748.7	499.3	469.3	439.3
Deferred tax liabilities	161.2	159.8	0.7	0.7	0.7
Others	75.8	108.7	426.8	426.8	426.8
Current liabilities	1,633.6	1,623.0	1,893.3	1,847.8	1,918.5
Short-term borrowings	1,029.7	774.5	1,096.9	1,096.9	1,096.9
Payables	592.1	820.3	735.8	690.2	761.0
Others	11.8	28.1	60.7	60.7	60.7
TOTAL LIABILITIES	2,618.8	2,640.1	2,820.1	2,744.6	2,785.3

Cash Flow Statement	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	(111.6)	178.6	114.3	(59.1)	100.4
Depreciation & Amortization	140.4	100.4	137.4	137.3	138.1
Chgs in working capital	283.3	418.2	(183.3)	104.1	(131.6)
Interest expense	(65.1)	(76.2)	(79.8)	(78.3)	(76.8)
Tax paid	13.6	(42.8)	(15.5)	16.4	(22.2)
Others	3.4	(49.3)	62.4	68.5	66.0
CF from Operations	264.0	528.9	35.6	188.9	73.9
Investing activities					
Capex	(110.8)	(89.5)	(296.9)	(150.0)	(150.0)
Others	(120.8)	39.3	138.9	1.4	1.4
CF from Investments	(231.5)	(50.2)	(158.0)	(148.6)	(148.6)
Financing activities					
Dividends paid	(13.1)	(26.9)	(26.9)	(26.9)	(26.9)
Net proceeds in borrowings	79.8	(255.9)	42.5	(30.0)	(30.0)
Others	(0.3)	7.0	(6.1)	0.0	0.0
CF from Financing	66.5	(275.8)	9.6	(56.9)	(56.9)
Net changes in cash	98.9	202.9	(112.8)	(16.6)	(131.7)
Beginning cash	219.8	318.7	521.6	408.8	393.2
Overdrafts & Deposits	0.0	0.0	0.0	1.0	2.0
Ending cash	318.7	521.6	408.8	393.2	263.6
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	-21.2%	11.9%	-14.1%	-4.8%	10.2%
EBIT growth	-200.1%	1312.2%	-25.2%	-97.4%	3519.8%
Core net profit growth	-50.6%	-212.5%	-52.5%	-188.8%	283.5%
PBT margin	-1.7%	3.7%	2.7%	-1.5%	2.3%
Core net profit margin	-2.0%	2.1%	1.1%	-1.1%	1.8%
ROA	-1.6%	1.8%	0.8%	-0.7%	1.3%
ROE	-3.2%	3.5%	1.6%	-1.4%	2.6%
Net gearing (%)	52.5%	35.3%	39.5%	40.1%	42.9%
Book value/share (RM)	4.14	4.22	4.48	4.36	4.43
PBV (x)	0.28	0.28	0.26	0.27	0.26
Interest Cover (x)	1.4	6.7	4.6	2.1	0.0
FCF (RMm)	32.4	478.7	(122.4)	40.3	(74.8)

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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.