

# Equity Beat

12 March 2010

## Company Update

## TAN CHONG MOTOR

Enter Cambodia

Maintain BUY

Unchanged Target Price: RM3.50

- The group announced that it has entered into a Distribution Agreement with Nissan Motor Co. for the sole and exclusive rights to distribute CBU Nissan vehicles in Cambodia.
- The exclusive rights not only applicable to distribution of Nissan cars but also will include the rights to appoint dealers and after-sales service.
- No material impact to earnings for FY10 with negligible margin but a slightly better numbers for FY11 can be expected.
- Maintain BUY with an unchanged target price of RM3.50 pegged against 12x FY10EPS.


## STOCK INFO

Price ( 11 Mar 10)	RM3.31	KLCI	1,321.43
Issued shares (mil)	672.0	Bursa / Bloomberg	4405 / TCM MK
Par Value (RM)	0.50	Board / Sector	Main
Market cap. (RM'm)	2,224.3	Syariah Compliant	No
Price over NTA	1.11		
52-wk price Range	RM1.17/ RM3.61	Major Shareholders	
Beta (against KLCI)	1.13	Tan Chong Consl	45.3
3-mth Avg Daily Vol	1.1	EPF	5.8
3-mth Avg Daily Value	RM3.6m	Nissan Motor Co.	5.6

**The Cambodia deal.** The group announced that it has entered into a Distribution Agreement with Nissan Motor Co. for the sole and exclusive rights to distribute CBU Nissan vehicles in Cambodia. The agreement is for 2 years and will be automatically extended for further periods of 1 year each. The deal is not only applicable to distribution of Nissan cars but also will include the rights to appoint dealers and after-sales service.

**Upside from burgeoning middle class.** Cambodia's car market is comparatively small compared to other Asean countries with demand for new vehicles estimated around 3,000 units per annum (various sources). Market leader is Toyota with estimate sales of 800 units this year. Cambodia's per capita income is at US\$1,900 with a population of 14.5m (2009 est.) with a car population of 10 for every 1,000 people, suggesting ample upside backed by a burgeoning middle class populace. Similar to other Asean countries, automotive consumers in Cambodia are price sensitive with purchasing decision influenced greatly by product and price.

**Near term impact to earnings is neutral.** The group is targeting a sale of 200 units for 2010 with an investment cost of USD5.0m for the first five years. We expect marginal contribution, at best, from Cambodia this year with profits to be undermined by very thin margins. No material changes in our forecast for FY10 but there is a minimal increment for FY11 of about 1%.

**Maintain BUY and target price.** We maintain our call on Tan Chong with an unchanged target price of RM3.50 based on auto sector average PER of 12x FY10 earnings. Going forward, we can expect more announcements on the group's overseas expansion program that would include Indonesia and Laos after receiving the green light to operate in Vietnam late last year. 

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	3,195.8	2,856.9	3,021.3	3,311.6
EBIT (RM'm)	317.0	182.3	256.9	299.0
Pretax Profit (RM'm)	307.2	176.8	243.4	276.8
Net Profit (RM'm)	245.8	152.3	194.9	231.7
EPS (sen)	36.9	23.3	29.0	34.5
EPS growth (%)	147.7	-36.9	24.4	19.0
PER(x)	9.0	14.2	11.4	9.6
Net Dividend (sen)	7.3	8.3	11.1	11.1
Net Dividend Yield (%)	2.2	2.5	3.4	3.4

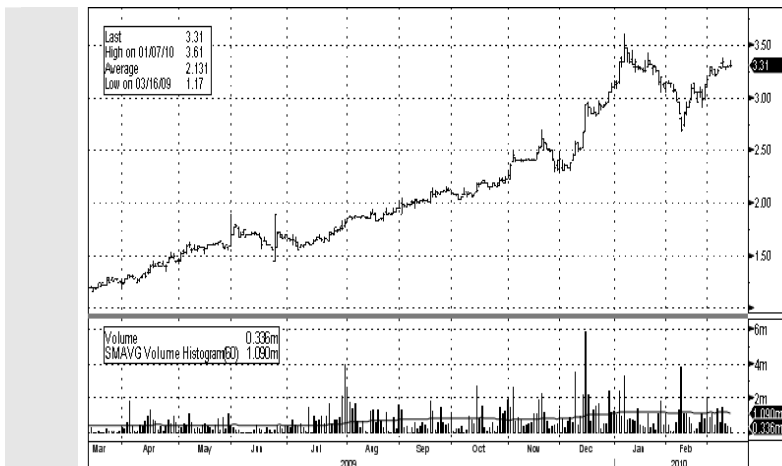
Source: Company, Forecasts by MIDFR



A country that is jam packed with motorcycles. According to various reports, there are about 1,000 motorcycles for every car in Cambodia. It is a tricky market to sell cars but have the potential from improving middle class population.

*Pic source: Hupy & Abraham*

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.