Tan Chong Motor Holdings Berhad

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

***Maintain* NEUTRAL**

Remains in the red

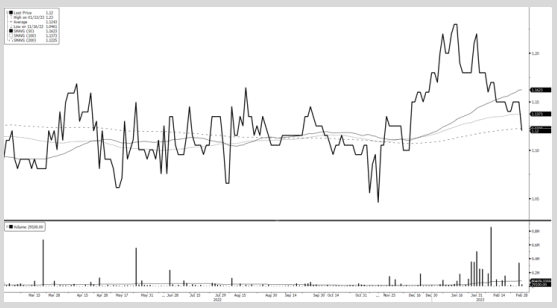
***Unchanged* Target Price: RM1.19**

KEY INVESTMENT HIGHLIGHTS

- **FY22 result slightly ahead of ours but well below consensus**
- **Earnings impacted by large forex loss**
- **New Nissan Leaf scheduled for launch in 1HFY23**
- **Maintain NEUTRAL at unchanged PBV-based TP of RM1.19**

RETURN STATISTICS	
Price @ 28th Feb 2023 (RM)	1.12
Expected share price return (%)	+6.2
Expected dividend yield (%)	+2.7
Expected total return (%)	**+8.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.2	-6.2
3 months	-5.1	0.8
12 months	0.0	9.8

KEY STATISTICS	
FBM KLCI	1454.19
Syariah compliant	No
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	652.19
Estimated free float (%)	19.06
Market Capitalisation (RM'm)	730.37
52-wk price range	RM1.01 - RM1.25
Beta vs FBM KLCI (x)	0.65
Monthly velocity (%)	0.00
Monthly volatility (%)	17.97
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.09
Top Shareholders (%)	
Tan Chong Consolidated Sdn Bhd	40.46
Employees Provident Fund Board	6.45
Nissan Motor Co Ltd	5.72

Narrowly beats ours, but well below consensus. Tan Chong Motor (Tan Chong) reported a core net loss of -RM10m for its 4QFY22 (normalized for -RM45m forex loss). This brings it to a full year core net loss of -RM35m (normalized for -RM17m one-off compensation for litigation in Cambodia and RM1.6m forex gain), which is slightly better than our -RM38m net loss, but well below consensus' -RM9m net loss. No dividends were declared for the quarter.

Key takeaways. Group EBITDA contracted -89%qoq despite higher topline (+1.2%qoq) dragged by a -RM45m forex loss. Excluding this, core earnings contraction would have been narrower (-15%qoq). The auto division recorded a rise in earnings due to higher topline which was supported by launch of the facelift Serena S-Hybrid. In addition, margins improved sequentially, which we believe is partly due to the weaker USD during the period. However, the finance division reported lower earnings (-41%qoq) due to higher operating expenses. For the full year, earnings broadly improved for its Malaysian operations but were dragged by losses at the Indochina operations.

Capitalising on the EV trend. Tan Chong will be launching the new Nissan Leaf EV that will be equipped with a new charging port which allows the use of more public charging facilities, during 1HFY23. Additionally, it aims to offer customers a more affordable access to EVs via its subscription service. We think this is a good introductory strategy given elevated pricing of EVs currently, eliminating the high upfront capital and long-term financial commitment by consumers for a typical car purchase. At this juncture, BEV sales make up only a small proportion of overall TIV however.

Recommendation. We keep our **Neutral** call on Tan Chong at unchanged **TP** of **RM1.19**, still pegged to historical mean PBV of 0.3x. Tan Chong is well positioned to leverage off the local EV incentives given strong EV products from its principal. However, we remain cautious of the drag from its Indochina operations in the near-term.

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INVESTMENT STATISTICS

FYE Dec	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	2,959.6	2,537.3	3,052.2	3,217.5	3,210.1
EBIT (RM'm)	(115.5)	62.8	26.3	118.8	86.9
Pre-tax Profit (RM'm)	(161.3)	18.1	(14.2)	54.6	22.5
Core net profit (RM'm)	(77.8)	(15.4)	(35.0)	38.3	16.1
FD EPS (sen)	(11.6)	(2.3)	(5.2)	5.7	2.4
EPS growth (%)	(303.5)	80.2	(127.1)	209.5	(57.8)
PER (x)	(9.7)	(48.9)	(21.5)	19.7	46.6
Net Dividend (sen)	1.5	1.5	3.0	3.0	3.0
Net Dividend Yield (%)	1.3	1.3	2.7	2.7	2.7

Source: Company, MIDFR

TAN CHONG MOTOR HOLDINGS BERHAD: FY22 RESULT SUMMARY

YE Dec (RMmil)	4Q21	3Q22	4Q22	QoQ %	YoY %	FY21	FY22	YTD %
Revenue	**866.9**	**729.9**	**738.8**	**1.2%**	**-14.8%**	**2537.3**	**3052.2**	**20.3%**
EBITDA	**104.5**	**66.3**	**11.7**	**-82.4%**	**-88.8%**	**211.6**	**190.2**	**-10.1%**
Operating profit	69.1	26.7	(28.6)	-206.9%	-141.4%	63.9	26.3	-58.8%
Interest expense	(13.9)	(13.4)	(15.0)	11.9%	8.2%	(54.2)	(51.7)	-4.6%
Interest income	2.5	2.9	5.2	79.1%	104.4%	11.0	12.0	9.1%
Associates	0.2	(0.5)	0.5	-193.7%	120.8%	(1.5)	(0.7)	-51.0%
Pretax profit	**58.0**	**15.7**	**(38.0)**	-341.3%	-165.4%	**19.1**	**(14.2)**	-174.0%
Tax expense	(12.0)	(10.4)	(5.2)	-49.5%	-56.2%	(39.4)	(40.7)	3.4%
Minorities	2.8	(1.5)	1.5	-200.2%	-45.2%	(4.8)	(3.8)	-21.8%
Net profit	43.3	6.9	(44.7)	-750.1%	-203.4%	(15.4)	(51.1)	231.5%
Core net profit	**43.1**	**(11.2)**	**(10.4)**	**-7.9%**	**-124.0%**	**(44.3)**	**(35.0)**	-21.0%
EPS (sen)	6.4	(1.67)	(1.54)			(6.6)	(5.20)	
Gross DPS (sen)	-	1.50	-			1.50	3.00	
				ppts	***ppts***			***ppts***
Operating margin (%)	8.0%	3.7%	-3.9%	*-7.5%*	*-11.8%*	2.5%	0.9%	*-1.7%*
EBITDA margin	12.1%	9.1%	1.6%	*-7.5%*	*-10.5%*	8.3%	6.2%	*-2.1%*
Pretax profit margin (%)	6.7%	2.2%	-5.1%	*-7.3%*	*-11.8%*	0.8%	-0.5%	*-1.2%*
Net profit margin (%)	5.0%	-1.5%	-1.4%	*0.1%*	*-6.4%*	-1.7%	-1.1%	*0.6%*
Effective tax rate (%)	-20.6%	-65.9%	13.8%	*79.7%*	*34.4%*	-205.7%	287.3%	*493.0%*

Source: Company, MIDFR

TAN CHONG MOTOR HOLDINGS BERHAD: FY22 RESULT BREAKDOWN

YE Dec (RMmil)	4Q21	3Q22	4Q22	QoQ %	YoY %	FY21	FY22	YTD %
Autos	844.9	710.0	718.2	1.2%	-15.0%	2,456.2	2,972.2	21%
Financial Services	18.4	16.3	16.7	2.3%	-9.7%	69.6	66.4	-5%
Others	3.6	3.6	4.0	9.0%	10.1%	11.5	13.7	19%
Total revenue	**866.9**	**729.9**	**738.8**	**1.2%**	**-14.8%**	**2,537.3**	**3,052.2**	20%
Autos	62.8	25.6	56.2	119.7%	-10.6%	128.6	132.9	3%
Financial Services	17.4	4.6	2.7	-41.3%	-84.4%	31.9	27.5	-14%
Others	24.3	36.1	(47.2)	-230.7%	-294.6%	51.1	29.8	-42%
Total EBITDA	**104.5**	**66.3**	**11.7**	**-82.4%**	**-88.8%**	**211.6**	**190.2**	-10%
EBITDA margins	**12.1%**	**9.1%**	**1.6%**			**8.3%**	**6.2%**	
Autos	7.4%	3.6%	7.8%			5.2%	4.5%	
Financial Services	94.4%	28.4%	16.3%			45.8%	41.4%	
Others	675.3%	994.9%	-1193.6%			445.6%	218.3%	
BY COUNTRY:								
Malaysia	761.4	652.3	613.4	-6.0%	-19.4%	2,143.4	2,601.8	21%
Vietnam	67.3	55.5	104.0	87.4%	54.6%	261.2	320.0	23%
Others	38.2	22.1	21.3	-3.3%	-44.2%	132.7	130.3	-2%
Total Revenue	**866.9**	**729.9**	**738.8**	**1.2%**	**-14.8%**	**2,537.3**	**3,052.2**	20%
Malaysia	100.0	79.5	13.7	-82.8%	-86.3%	220.6	227.3	3%
Vietnam	2.5	(9.7)	2.4	125.0%	-3.3%	(2.8)	(8.4)	-200%
Others	1.9	(3.4)	(4.5)	30.1%	-333.1%	(6.2)	(28.7)	-366%
Total EBITDA	**104.5**	**66.3**	**11.7**	**-82.4%**	**-88.8%**	**211.6**	**190.2**	-10%
Malaysia	13.1%	12.2%	2.2%			10.3%	8.7%	
Vietnam	3.7%	-17.6%	2.3%			-1.1%	-2.6%	
Others	5.0%	-15.6%	-20.9%			-4.6%	-22.0%	
EBITDA margin	**12.1%**	**9.1%**	**1.6%**			**8.3%**	**6.2%**	

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology