Tan Chong Motor Holdings Berhad

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

Another Disappointing Quarter

Maintain **NEUTRAL**

Revised **Target Price: RM0.96**

(previously RM1.19)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 disappointed expectations**
- **Sales volume impacted by stiff competition but compensated by better sales mix**
- **Indochina operations remain in the red**
- **FY23F/24F revised to net losses**
- **Maintain NEUTRAL at lower TP of RM0.96**

Another disappointing quarter. Tan Chong Motor (TCM) reported a net loss of -RM5m for its 1QFY23. This was below both our and consensus expectations, mainly given lower than expected revenue and exceptionally higher effective tax rate. An interim dividend of 1sen/share was declared, circa -33% lower compared to last year.

Key takeaways. Revenue fell -19%yoy given lower sales volume (Nissan Malaysia TIV: -34%yoy) from stiff competition and supply chain issues. Although this was compensated by better EBITDA margins for the Malaysian auto division from better sales mix and lower operating expenses, core net loss widened to -RM5m (1QFY22: -RM2.1m) due to exceptionally higher effective tax rates in the quarter.

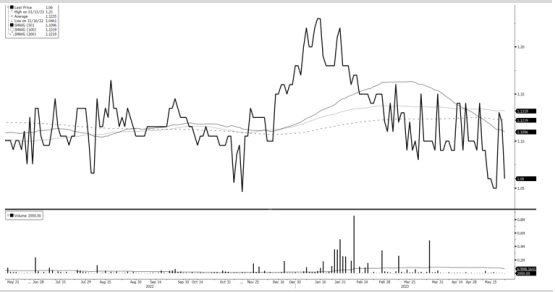
Indochina operations in the red. Vietnam operations dipped into an LBITDA of -RM4m while other Indochina operations remained in the red at an LBITDA of -RM1.2m, albeit narrower than last year's losses. These were offset by stronger earnings from the Malaysian operations. The group recently announced the termination of its exclusive distributorship of CBU MG vehicles in Vietnam (effective June 2023) by SAIC Motor given the latter's 'global strategic adjustments'. This is rather disappointing since sales in Vietnam is just beginning to show momentum. The group had been banking on the new MG franchise to counter the loss of its Nissan franchise in Vietnam several years ago. We had also expected the MG franchise to eventually lead to CKDs, driving up utilization at the group's Danang plant.

Earnings estimates. We revise down FY23F/24F to net losses of -RM7m/-RM12m from marginal net profit forecasts previously. This is to factor in sustained losses for the Indochina operations and more conservative sales volume over our forecast horizon. Despite this, expectations of a stronger Ringgit (vs. USD) in 2HFY23 could drive some earnings improvement against the weak 1QFY23.

Maintain NEUTRAL. We revise down our TP to **RM0.96** from RM1.19 previously**.** Our valuation now pegs TCM at 0.23x FY23F PBV multiple, at -1SD below historical mean given weak outlook in the near-term from stiff competition while recovery for the group's Indochina operations might be extended out further given the loss of its MG distributorship. Dividend yield of 2.8% is decent, but nothing exciting.

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	1.06
Expected share price return (%)	-9.90
Expected dividend yield (%)	2.83
Expected total return (%)	**-7.07**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-7.0	-6.0
3 months	-7.8	-4.7
12 months	-6.2	2.2

INVESTMENT STATISTICS

FYE Dec	2022A	2023F	2024F
Revenue	3,052.2	3,017.7	3,008.0
Operating Profit	26.3	33.7	27.7
Profit Before Tax	(14.2)	(11.2)	(17.6)
Core PATAMI	(35.0)	(7.1)	(11.5)
Core EPS	(5.2)	(1.1)	(1.7)
DPS	3.0	3.0	3.0
Dividend Yield	2.8	2.8	2.8

KEY STATISTICS	
FBM KLCI	1409.62
Issue shares (m)	652.12
Estimated free float (%)	19.16
Market Capitalisation (RM'm)	691.09
52-wk price range	RM1.02-RM1.25
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.03
Top Shareholders (%)	
Tan Chong Consolidated	40.5
Employees Provident Fund Board	6.5
Daiwa Securities Group Inc	5.7

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Table 1: Tan Chong Motor 1QFY23 Result Summary

YE Dec (RMmil)	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Revenue	**769.3**	**738.8**	**619.9**	**-16.1%**	**-19.4%**
EBITDA	**35.9**	**11.7**	**51.2**	**339.6%**	**42.8%**
Operating profit	(5.5)	(28.6)	13.3	146.4%	339.7%
Interest expense	(9.3)	(15.0)	(15.2)	1.1%	-62.5%
Interest income	1.4	5.2	5.0	-2.2%	249.6%
Associates	0.1	0.5	(0.6)	-226.2%	-708.1%
Pretax profit	**(13.3)**	**(38.0)**	**2.5**	106.7%	119.1%
Tax expense	(8.1)	(5.2)	(8.3)	58.3%	
Minority Interest	(1.9)	1.5	(0.7)	-144.7%	64.6%
Net profit	(19.5)	(44.7)	(5.1)	88.7%	74.1%
Core net profit	**(2.1)**	**(10.4)**	**(5.1)**	**51.1%**	**-137.7%**
EPS (sen)	(0.32)	(1.54)	(0.75)	51.1%	-137.7%
Gross DPS (sen)	1.50	0.00	1.00	NA	-33.3%
				ppts	***ppts***
Operating margin (%)	-0.7%	-3.9%	2.1%	*6.0%*	*2.9%*
EBITDA margin	4.7%	1.6%	8.3%	*6.7%*	*3.6%*
Pretax profit margin (%)	-1.7%	-5.1%	0.4%	*5.5%*	*2.1%*
Net profit margin (%)	-0.3%	-1.4%	-0.8%	*0.6%*	*-0.5%*
Effective tax rate (%)	61.0%	13.8%	-325.4%		
Nissan TIV (units)	3,766	2,802	2,500	*-10.8%*	*-33.6%*
USD:RM (Spot, delayed by 3-month)	4.19	4.48	4.57	*2.0%*	*9.2%*

Source: Company, MIDFR

Table 2: Tan Chong Motor 1QFY23 Result Breakdown

YE Dec (RMmil)	1QFY22	4QFY22	1QFY23	QoQ %	YoY %
Autos	749.7	718.2	599.1	-16.6%	-20.1%
Financial Services	16.9	16.7	17.4	4.4%	2.8%
Others	2.7	4.0	3.4	-14.4%	25.6%
Total revenue	**769.3**	**738.8**	**619.9**	**-16.1%**	**-19.4%**
Autos	16.3	56.2	42.8	-23.8%	162.1%
Financial Services	8.3	2.7	6.7	147.8%	-19.4%
Others	11.2	(47.2)	1.7	-103.6%	-84.8%
Total EBITDA	**35.9**	**11.7**	**51.2**	**339.6%**	**42.8%**
EBITDA margins	**4.7%**	**1.6%**	**8.3%**	***6.7***	***3.6***
Autos	2.2%	7.8%	7.1%	*-0.7*	*5.0*
Financial Services	49.3%	16.3%	38.7%	*22.4*	*-10.7*
Others	415.2%	-1193.6%	50.1%	*1243.7*	*-365.1*
BY COUNTRY:					
Malaysia	650.0	613.4	556.9	-9.2%	-14.3%
Vietnam	65.7	104.0	39.9	-61.7%	-39.3%
Others	53.7	21.3	23.1	8.2%	-57.0%
Total Revenue	**769.3**	**738.8**	**619.9**	**-16.1%**	**-19.4%**
Malaysia	52.9	13.7	56.6	313.4%	6.9%
Vietnam	(0.7)	2.4	(4.2)	-270.2%	473.3%
Others	(16.3)	(4.5)	(1.2)	-73.7%	-92.8%
Total EBITDA	**35.9**	**11.7**	**51.2**	**339.6%**	**42.8%**
Malaysia	8.1%	2.2%	10.2%	*7.9*	*2.0*
Vietnam	-1.1%	2.3%	-10.4%	*-12.8*	*-9.3*
Others	-30.5%	-20.9%	-5.1%	*15.8*	*25.4*
EBITDA margin	**4.7%**	**1.6%**	**8.3%**	***6.7***	***3.6***

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (FYE Dec)	FY20A	FY21A	FY22A	FY23F	FY24F
Revenue	**2,959.6**	**2,537.3**	**3,052.2**	**3,017.7**	**3,008.0**
Operating expenses	(3,075.1)	(2,474.5)	(3,025.9)	(2,984.0)	(2,980.3)
EBIT	**(115.5)**	**62.8**	**26.3**	**33.7**	**27.7**
Net interest expense	(46.8)	(43.2)	(39.7)	(47.0)	(47.3)
Associates	0.9	(1.5)	(0.7)	2.0	2.0
PBT	**(161.3)**	**18.1**	**(14.2)**	**(11.2)**	**(17.6)**
Taxation	(15.5)	(38.3)	(40.7)	4.0	5.9
Minority Interest	11.2	4.8	3.8	0.1	0.2
Net profit	(165.6)	(15.4)	(51.1)	(7.1)	(11.5)
Core net profit	**(77.8)**	**(15.4)**	**(35.0)**	**(7.1)**	**(11.5)**
Balance Sheet	**FY20A**	**FY21A**	**FY22A**	**FY23F**	**FY24F**
PPE	2,311.7	2,317.9	2,414.5	2,421.4	2,428.0
Investments in associate	63.3	72.4	70.5	72.5	74.5
Others	854.2	758.0	704.4	704.4	704.4
Non-current assets	**3,229.1**	**3,148.3**	**3,189.4**	**3,198.3**	**3,206.9**
Inventories	772.7	778.0	748.4	717.9	715.6
Receivables	424.9	325.7	295.5	283.5	282.5
Others	311.8	229.4	246.9	247.3	247.8
Cash & equivalent	582.0	514.5	558.2	547.0	508.1
Current assets	**2,091.4**	**1,847.6**	**1,849.0**	**1,795.7**	**1,754.0**
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(17.0)	(21.9)	(22.6)	(22.7)	(22.9)
Reserves	2,505.7	2,455.5	2,536.3	2,509.0	2,477.3
TOTAL EQUITY	**2,824.7**	**2,769.7**	**2,849.7**	**2,822.2**	**2,790.4**
Long-term borrowings	-	-	300.0	300.0	300.0
Others	432.4	417.0	442.8	442.8	442.8
Non-current liabilities	**432.4**	**417.0**	**742.8**	**742.8**	**742.8**
Short-term borrowings	1,501.5	1,268.2	974.0	974.0	974.0
Payables	510.5	492.8	415.1	398.2	396.9
Others	51.4	48.3	56.7	56.7	56.7
Current liabilities	**2,063.4**	**1,809.3**	**1,445.9**	**1,429.0**	**1,427.7**
Cash Flow Statement	**FY20A**	**FY21A**	**FY22A**	**FY23F**	**FY24F**
PBT	(161.3)	18.1	(14.2)	(11.2)	(17.6)
Depreciation & Amortization	136.9	141.4	146.6	141.0	140.4
Chgs in working capital	676.5	68.2	(21.7)	25.2	1.5
CF from Operations	**572.3**	**123.2**	**102.4**	**157.0**	**128.3**
Capex	(150.0)	(150.0)	(149.0)	(148.0)	(147.0)
CF from Investments	**(270.7)**	**79.9**	**(30.2)**	**(148.0)**	**(147.0)**
Dividends paid	(26.9)	(9.8)	(19.6)	(20.2)	(20.2)
Net movement in borrowings	(108.2)	(233.3)	(294.2)	0.0	0.0
CF from Financing	**(135.0)**	**(280.7)**	**(35.1)**	**(20.2)**	**(20.2)**
Net changes in cash	**166.6**	**(77.6)**	**37.0**	**(11.2)**	**(38.9)**
Beginning cash	407.8	582.0	514.5	558.2	547.0
Overdrafts & Deposits	7.5	10.1	6.6	0.0	0.0
Ending cash	582.0	514.5	558.2	547.0	508.1

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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