

22 August 2019

Tan Chong Motor

Gradually Paring Losses in Indochina

By Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my

We maintain our cautious view after attending its 1H19 results briefing, which was presented by Mr. Daniel Ho (CFO) and well-attended by c.20 analysts and fund managers. Indochina operation is gradually paring losses, but the impact from plant renovation may slow-down near-term sales (up to 6 months of stock is ready). The home operation, which faced with declining sales volume and market share, is shifting towards high-margin models to sustain profitability. Maintain MP with a TP of RM1.40.

Driving into 1H19 results. YoY, 1H19 revenue increased marginally by 1% with a favourable sales mix skewed toward high-margin models; with Indochina operation at 5,348 units (+67%), and home operation at 11,153 units (-12%). Taking a detailed look at the Malaysian operation by marques, Nissan declined to 10,383 units (-13%), from the shift in focus to high-margin models, UD Trucks declined to 177 units (-46%), from the out-going models, Renault surged to 589 units (+42%), from its all-new Renault Captur, and Infiniti plunged to 4 units (-69%). Whereas, for its Indochina region, Vietnam increased to 3,933 units (+75%), Laos surged to 383 units (+31%), Cambodia surged to 346 units (+59%) and Myanmar surged to 686 units (+57%). Indochina's stronger unit sales performance was attributed to the better reception of Nissan Sunny and Navara, and the introduction of all-new Nissan Terra in Vietnam in 4Q18. Automotive's EBITDA margin expanded 1.1ppt to 7.7% from 6.6% in 1H18, and coupled with a lower effective tax rate of 48.6% (1H18: 68.8%), propelled its core PATAMI higher by 75%. Note that, the high effective tax rate was mainly from the loss-making Vietnam operation which not eligible for tax claim as well as repayment of lower tax provision during the loss-making year.

Indochina gradually paring losses. Overall Indochina operation is gradually paring losses, with the higher sales (+67%), largely from Vietnam operation, which registered lower losses of RM9.4m in 1H19 from losses of RM12.9m in 1H18. Overall losses came from heavy discounting activities and underutilised Vietnam Danang plant (currently running at less than 50% capacity solely on Nissan models). TCHONG is still in negotiation with SAIC Motor International Co., Ltd for partnership to utilize its Danang CKD plant as well as for CBU market. SAIC currently sells MAXUS, MG, Roewe, and Yuejin, controlling 24.1% of the China market. In 2018, SAIC MOTOR sales volume was 7.05m (1.75% YoY). On the other hand, TCHONG has been ramping up inventory level to RM1.5b (from the average of RM1b last year) to stock up CKD units (up to 6 months) before closing down its Danang plant for renovation and improvement activities as well as relocation of its Myanmar plant to a better location. CAPEX allocation for the renovation/relocation is at c.US\$50m.

Outlook. TCHONG has re-strategized from volume-play to margin-play by focusing more on a product mix skewed towards higher-margin models. For 2019, TCHONG has launched the face-lifted Nissan X-Trail (18th April 2019) and the all-new Nissan Leaf (EV) (23rd July 2019). Tentatively, depending on market demand, other upcoming all-new models will be N18 Nissan Almera (B-segment sedan, slated for 2020), Nissan Kicks (B-segment crossover), and all-new Nissan Sylphy.

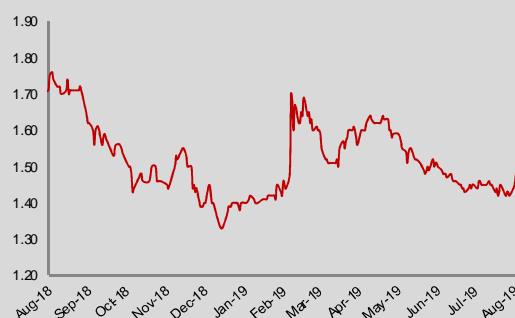
Maintain MARKET PERFORM with Target Price of RM1.40 based on 10x FY20E EPS (at -2.0SD of its 5-year historical mean PER).

Risks to our call include: (i) lower-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price : **RM1.48**
Target Price : **RM1.40** ↔

Share Price Performance



KLCI	1,594.59
YTD KLCI chg	-5.7%
YTD stock price chg	9.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TCM MK Equity
Market Cap (RM'm)	965.9
Shares Outstanding	652.7
52-week range (H)	1.77
52-week range (L)	1.33
3-mth avg daily vol:	76,954
Free Float	48%
Beta	0.6

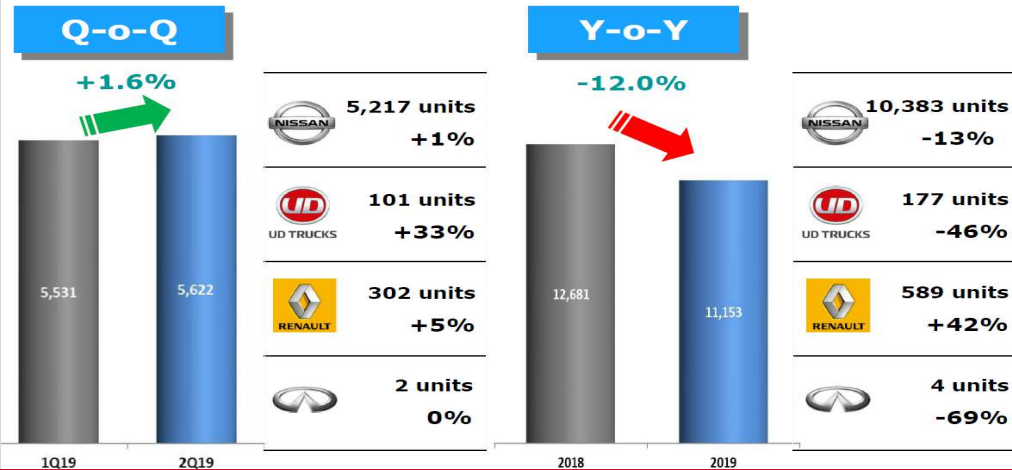
Major Shareholders

Tan Chong Consolidated SB	40.4%
Employees Provident Fund	6.0%
Nissan Motor Co Ltd	5.7%

Summary Earnings Table

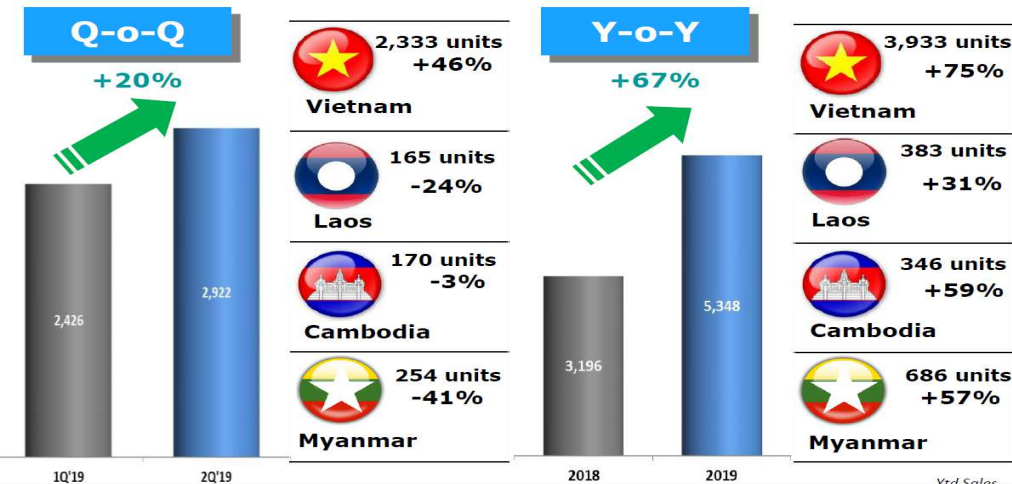
FY Dec (RM'm)	2018A	2019E	2020E
Turnover	4,858.2	4,220.3	4,263.2
EBIT	226.8	204.3	201.0
PBT	178.6	163.4	168.1
PATAMI (NP)	105.9	80.0	90.8
Core PATAMI (CNP)	108.3	80.0	90.8
Consensus (NP)	-	88.5	102.3
Earnings Revision	-	-	-
Core EPS (sen)	16.6	12.3	13.9
Core EPS growth	-215.9%	-26.1%	13.4%
NDPS (sen)	4.0	4.0	4.0
BVPS (RM)	4.35	4.43	4.53
PER (x)	8.9	12.1	10.6
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.3	0.1	0.1
Net Div. Yield	2.7%	2.7%	2.7%

Malaysian Sales Operation



Source: Company, Kenanga Research

Indochina Sales Operation



Source: Company, Kenanga Research

Geographical Breakdown

In RM'000	1H18	1H19	Change (%)
Sales			
Malaysia	1,787,042	1,618,516	-9.4%
Vietnam	225,588	342,679	51.9%
Others	110,304	186,084	68.7%
	2,122,934	2,147,279	1.1%
EBITDA			
Malaysia	128,462	159,791	24.4%
Vietnam	(12,986)	(9,445)	-27.3%
Others	7,626	14,866	94.9%
	123,102	165,212	34.2%
EBITDA margin			
Malaysia	7.2%	9.9%	
Vietnam	-5.8%	-2.8%	
Others	6.9%	8.0%	
	5.8%	7.7%	

Source: Company, Kenanga Research

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New Model Launches

2018 Nissan Serena S-Hybrid (CKD) (RM133k-143k)



2018 Nissan Terra (CBU) Vietnam (VNĐ0.9m-1.2m)



Nissan X-Trail facelift (RM134-160k), launched 18th April 2019



Nissan Leaf -EV (CBU, RM189k) – 23rd July 2019



N18 Nissan Almera (B-segment sedan)-slated for 2020 onwards

Nissan Kicks (B-segment crossover) - slated for 2020 onwards



4th generation Nissan Sylphy- slated for 2020 onwards

Nissan Grand Livina (7-seater MPV) - Tentatively based on market demand

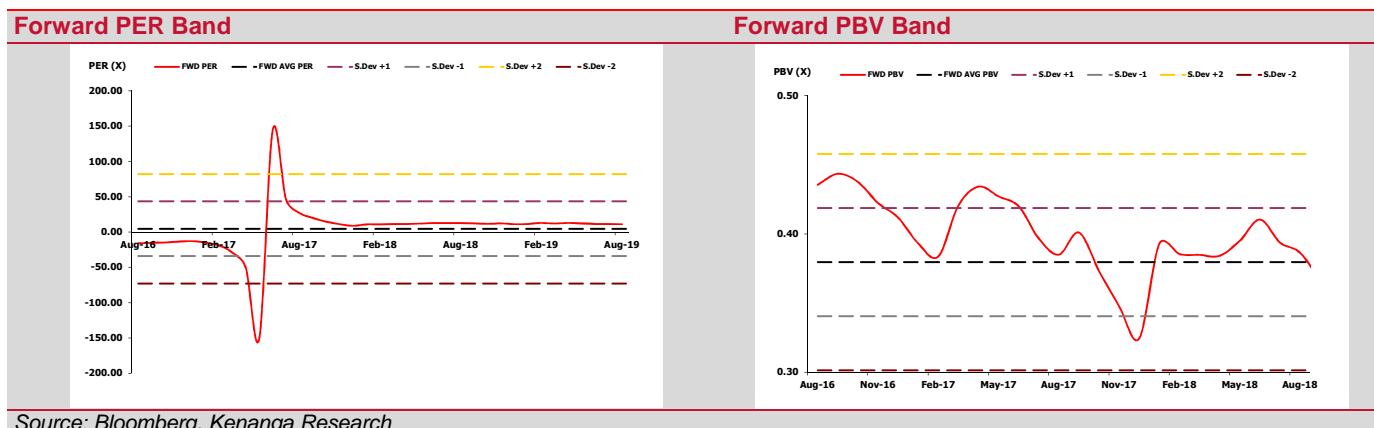


Source: Various Sources, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FYDec(RMm)	2016A	2017A	2018A	2019E	2020E
Revenue	5,460.8	4,341.2	4,858.2	4,220.3	4,263.2	Growth (%)					
Operating Profit	18.7	-18.7	226.8	204.3	201.0	Turnover	-4.5	-20.5	11.9	-13.1	1.0
Depreciation	-124.1	-114.3	-100.3	-96.7	-103.0	EBITDA	-4.5	-20.5	11.9	-13.1	1.0
Interest Inc/(Exp)	-65.0	-57.5	-49.4	-44.5	-36.5	Op. Profit	-88.9	-200.1	-1312.2	-9.9	-1.6
Associate	3.2	3.4	1.2	3.6	3.6	PBT/LBT	-137.4	69.0	-345.3	-8.5	2.9
Profit Before Tax	-43.1	-72.8	178.6	163.4	168.1	CNP/CNL	-237.7	55.3	-216.9	-26.1	13.4
Taxation	-16.0	-23.6	-76.0	-81.7	-75.7	Profitability (%)					
Minority Interest	-4.1	-7.8	-3.4	1.6	1.7	Op. Margin	0.3	-0.4	4.7	4.8	4.7
Core Net Profit	-59.6	-92.6	108.3	80.0	90.8	PBT Margin	-0.8	-1.7	3.7	3.9	3.9
						CNP margin	-1.1	-2.1	2.2	1.9	2.1
						ROA	-1.0	-1.6	1.9	1.4	1.6
						ROE	-1.9	-3.1	3.8	2.8	3.1
						DuPont Analysis					
						Net Margin(%)	-1.1	-2.1	2.2	1.9	2.1
						Assets T/O (x)	1.0	0.8	0.9	0.7	0.7
						Lev. Factor(x)	1.9	1.9	1.9	2.0	2.0
						ROE (%)	-1.9	-3.1	3.8	2.8	3.1
						Leverage					
						Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
						Debt/Equity(x)	0.6	0.6	0.5	0.5	0.5
						N.(Cash)/Debt	1,579.8	1,459.9	992.1	428.0	345.4
						N.Debt/Eqty(x)	0.5	0.5	0.3	0.1	0.1
						Valuations					
						Core					
						EPS(sen)	(9.2)	(14.3)	16.6	12.3	13.9
						NDPS (sen)	2.0	2.0	4.0	4.0	4.0
						BV/sh (RM)	4.4	4.3	4.3	4.4	4.5
						PER (x)	(17.4)	(10.8)	9.1	12.1	10.6
						Div. Yield (%)	1.4	1.4	2.7	2.7	2.7
						PBV (x)	0.3	0.3	0.3	0.3	0.3
						EV/EBITDA(x)	0.6	2.1	2.1	2.2	2.8

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
BERMAZ AUTO BHD	2.45	2,845.9	Y	04/2020	2.9%	0.5%	0.7%	2.0%	10.7	10.7	10.4	5.0	4.6	45.1%	8.0%	3.00	OP
DRB-HICOM BHD	2.90	5,606.4	Y	12/2019	4.6%	4.0%	68.0%	14.2%	30.7	18.3	16.0	0.8	0.8	4.5%	2.1%	2.20	MP
MBM RESOURCES BERHAD	4.00	1,563.6	Y	12/2019	-3.7%	0.3%	13.0%	2.5%	9.4	8.4	8.2	1.0	0.9	11.4%	3.0%	4.40	OP
SIME DARBY BERHAD	2.09	14,213.8	Y	06/2019	2.8%	3.0%	-1.5%	1.9%	16.6	16.8	16.5	1.0	1.0	5.8%	3.6%	2.20	MP
TAN CHONG MOTOR HOLDINGS BHD	1.48	965.9	Y	12/2019	-13.1%	1.0%	-26.1%	13.4%	9.2	12.4	11.0	0.4	0.3	2.8%	2.7%	1.40	MP
UMW HOLDINGS BHD	5.24	6,121.9	Y	12/2019	6.0%	7.0%	-1.3%	21.5%	16.1	16.3	13.5	1.8	1.7	10.8%	1.4%	5.45	MP
Simple Average					-1.3%	1.8%	10.8%	6.8%	15.3	13.3	12.4	1.6	1.5	13.9%	3.9%		
CONSENSUS NUMBERS																	
APM AUTOMOTIVE HOLDINGS BHD	2.42	473.2	Y	12/2019	-0.8%	3.8%	-1.0%	4.5%	12.3	12.4	11.9	0.4	0.4	3.0	0.1	2.63	SELL
PECCA GROUP BHD	1.25	229.2	Y	06/2019	13.2%	5.5%	77.6%	5.7%	22.4	12.6	11.9	1.3	1.4	11.1	0.1	1.40	SELL

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

