

28 November 2018 | 3QFY18 Results Review

Tan Chong Motor

Strong 3Q18 underpins turnaround thesis

- **Strong 9M18 outperformed our expectation**
- **Earnings strengthened further in 3Q18 after 2-years of losses, underpins our thesis of an earnings turnaround**
- **Expect volumes to normalise from 4Q18**
- **Re-affirm our contrarian BUY at a unchanged TP of RM2.10**

Solid 3Q18 results. Tan Chong reported 3Q18 core net profit of RM19.7m (excluding RM13m forex gain), which brought 9M18 core earnings to RM37m. This is ahead our but consensus expectations (89% and 66% of FY18F). (Outperformance against our forecast) was partly due to exceptionally strong volumes in 3Q18 driven by the tax-holiday period. We expect some TIV normalisation in 4Q18.

Benefitted from tax-holiday hype. Nissan TIV rose some 22%yoy in 3Q18 (+33%qoq) reflecting exceptional demand strength during the tax-holiday period. EBITDA margins (auto division) improved to 5.8% from 5% last quarter given better scale and better margins from the new Serena Hybrid.

New launches negotiated around latest rates. Inventories reduced further to <RM1b (See Exhibit 4). Rundown of old, expensive inventories of the Almera in the past 2 years (and reached a tail end towards end-FY17) contributed to the improved results this year, on top of new launches (Serena Hybrid and Urvan) where kit pricing is negotiated based on current RM:USD rates (vs. Almera which was negotiated when the USD was at RM3.2:USD levels back in FY12). Tan Chong's net debt reduced to RM1.1b in 3Q18 while free cash flows improved significantly in 9M18 post inventory pare down.

To focus more on profitability. Instead of embarking on a volume driven strategy as in the past e.g. Almera B-segment, Tan Chong is now shifting focus on profitability, specifically looking at segments that are less crowded e.g. the Urvan model. The group is comfortable with its 4%-5% market share and intends to grow in line with TIV – MAA's forecast +1.5% FY18F.

Re-affirm contrarian BUY. Our projections are under review with upward bias pending a briefing this morning. Re-affirm our contrarian BUY at unchanged TP of RM2.10. Our valuations conservatively peg Tan Chong to trough PBV of 0.5x. Having seen share price fall some 40% in the past 24 months, Tan Chong now trades at just 0.4x FY18F PBV (which is lower than even its historical trough PBV of 0.5x) amid a turnaround in earnings from FY18F onwards. Key catalysts: (1) Resumption of new model launch from FY18F (2) Sustained Ringgit strength (3) A narrowing in losses from Indochina operations (4) A bottoming in market share.

Maintain BUY

Unchanged Target Price: RM2.10

RETURN STATS	
Price (27 Nov 2018)	RM1.50
Target Price	RM2.10
Expected Share Price Return	+40.0%
Expected Dividend Yield	+2.0%
Expected Total Return	+42.0%

STOCK INFO	
KLCI	1684.97
Bursa / Bloomberg	4405 / TCM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	652.66
Market cap. (RM'm)	978.99
Price over NA	0.40
52-wk price Range	RM1.29-1.91
Beta (against KLCI)	0.59x
3-mth Avg Daily Vol	0.03m
3-mth Avg Daily Value	RM0.05m
Major Shareholders (%)	
Tan Chong Consolidated	40.4
EPF	6.0
Nissan Motor	5.7

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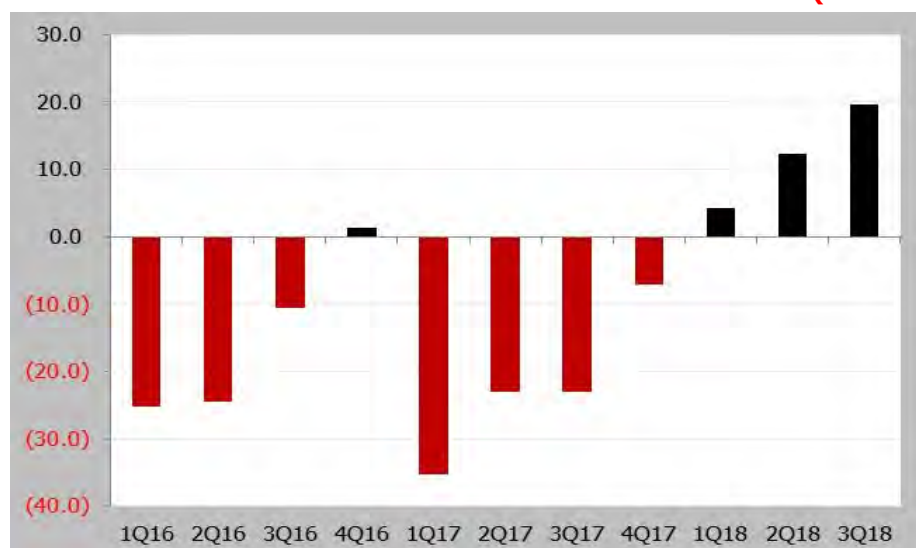
Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	5,716.7	5,510.7	4,341.2	4,809.1	4,916.3
EBIT (RM'm)	169.0	18.7	(18.7)	97.8	153.0
Pre-tax Profit (RM'm)	115.3	(43.1)	(72.8)	55.1	110.5
Core net profit (RM'm)	59.9	(58.8)	(88.6)	41.1	82.2
FD EPS (sen)	8.9	(8.8)	(13.2)	6.1	12.2
EPS growth (%)	(20.9)	NA	NA	NA	99.8
PER (x)	16.8	(17.1)	(11.4)	24.5	12.3
Net Dividend (sen)	5.0	2.0	2.0	3.0	3.0
Net Dividend Yield (%)	3.3	1.3	1.3	2.0	2.0

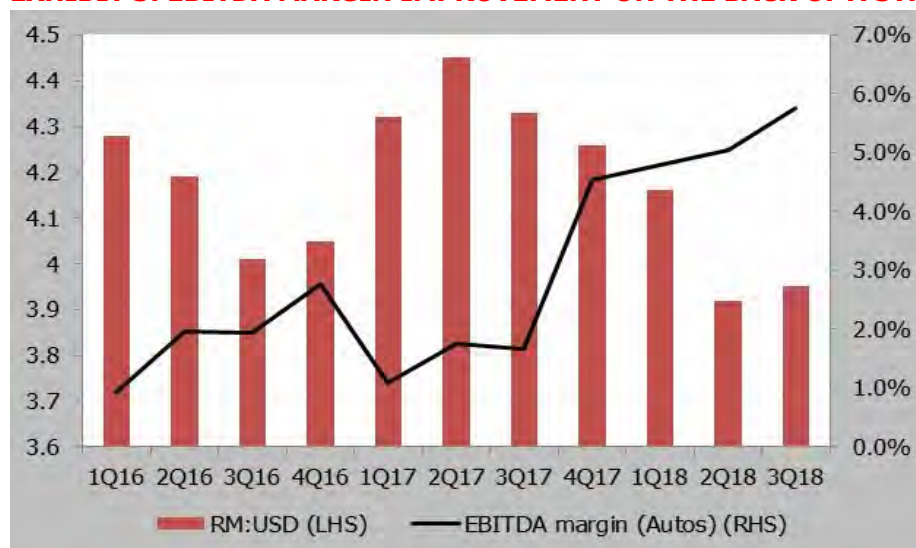
Source: Company, MIDF

EXHIBIT 1: SUSTAINED EARNINGS TURNAROUND IN 9M18 (RM MIL)



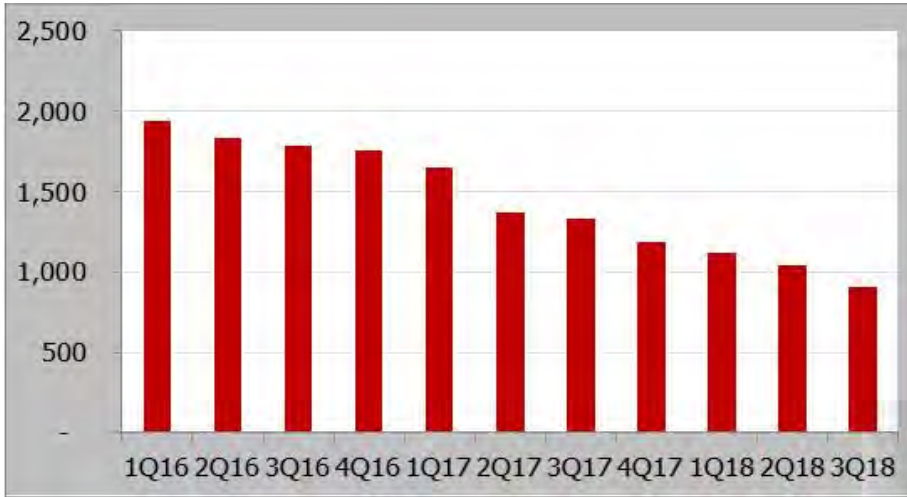
Source: Company, MIDF

EXHIBIT 3: EBITDA MARGIN IMPROVEMENT ON THE BACK OF A STRONGER RM



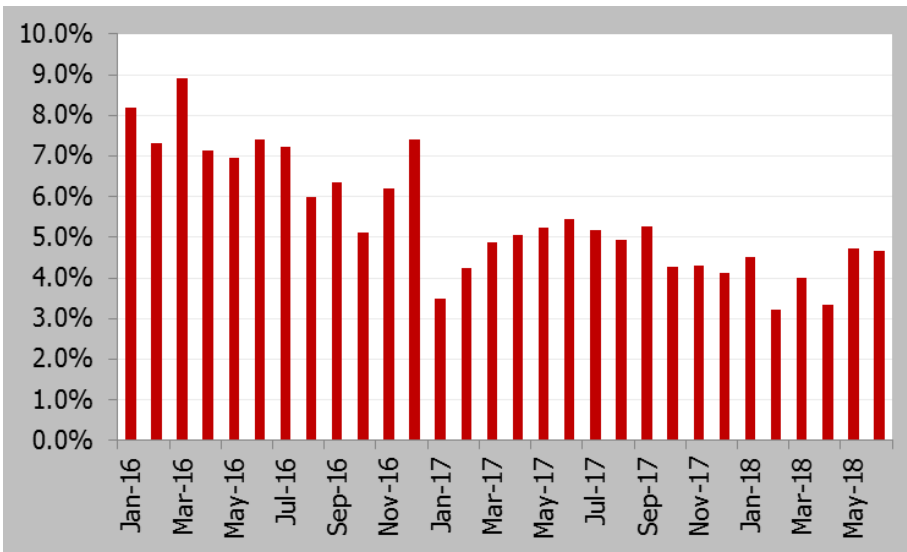
Source: Company, Bloomberg, MIDF

EXHIBIT 4: INVENTORIES SUCCESSFULLY REDUCED IN PAST 2 YEARS (RM MIL)



Source: Company, MIDF

EXHIBIT 5: NISSAN MARKET SHARE LOOKS TO HAVE BOTTOMED



Source: MAA, MIDF

EXHIBIT 6: TAN CHONG 3Q18 RESULT SUMMARY

YE Dec (RMmil)	3Q17	2Q18	3Q18	QoQ %	YoY %	9M17	9M18	YTD %
Revenue	1,073.3	1,088.3	1,568.4	44.1%	46.1%	3264.3	3691.4	13.1%
Operating profit	(12.6)	39.7	67.5	70.2%	-634%	(45.8)	130.8	NA
Interest expense	(19.4)	(20.0)	(17.1)	-14.5%	-12.0%	(53.5)	(53.2)	NA
Interest income	4.5	4.9	6.0	23.0%	33.3%	11.6	15.1	29.7%
Associates	0.4	0.3	0.2	-28.6%	-52.1%	2.3	2.2	-2.8%
Pretax profit	(27.1)	24.8	56.6	128.1%	-308.5%	(85.4)	94.9	NA
Tax expense	0.4	(14.9)	(18.9)	26.6%	NA	(4.8)	(45.2)	NA
Minorities	(3.6)	(2.5)	4.8	NA	NA	(8.7)	0.2	NA
Net profit	(23.1)	12.4	32.9	165.8%	-242.3%	(81.4)	49.5	NA
Core net profit	(23.1)	12.4	19.7	59.0%	NA	(81.4)	36.5	NA
EPS (sen)	(3.4)	1.8	2.9			(12.1)	5.4	
Gross DPS (sen)	0.00	2.00	0.00			1.00	2.00	
Operating margin (%)	-1.2%	3.6%	4.3%			-1.4%	3.5%	
Pretax profit margin (%)	-2.5%	2.3%	3.6%			-2.6%	2.6%	
Net profit margin (%)	-2.2%	1.1%	1.3%			-2.5%	1.0%	
Tax rate (%)	-1.6%	-60.2%	-33.4%			5.6%	-47.7%	
Nissan TIV (units)	7,222	6,616	8,807	33.1%	21.9%	13,537	20,733	53.2%
RM:USD (Spot, delayed by 3-month)	4.33	3.92	3.95	0.8%	-8.8%	4.36	4.01	-8.0%
Revenue/vehicle (RM000)	145.2	160.6	174.9	8.9%	20.5%	236.5	174.1	-26.4%

Source: Company, MIDF

EXHIBIT 7: TAN CHONG 3Q18 RESULT SUMMARY (BREAKDOWNS)

YE Dec (RMmil)	3Q17	2Q18	3Q18	QoQ %	YoY %	9M17	9M18	QoQ
Autos	1,048.5	1,062.7	1,540.6	45%	47%	3,201.9	3,610.4	13%
Financial Services	23.0	22.6	22.2	-2%	-3%	57.3	69.6	21%
Others	1.7	3.0	5.6	89%	224%	6.0	11.3	88%
Total revenue	1,073.3	1,088.3	1,568.4	44%	46%	3,265.3	3,691.4	13%
Autos	17.4	53.6	88.6	65%	410%	48.7	190.5	291%
Financial Services	5.1	4.5	5.2	16%	2%	15.4	17.6	14%
Others	(2.9)	12.4	0.2	-98%	NA	-1.3	10.5	NA
Total EBITDA	19.6	70.5	94.0	33%	379%	62.7	218.5	248%
EBITDA margins	1.8%	6.5%	6.0%			1.9%	5.9%	
Autos	1.7%	5.0%	5.8%			1.5%	5.3%	
Financial Services	22.2%	19.8%	23.3%			26.8%	25.2%	
Others	-164%	415.0%	3.6%			-21.9%	92.3%	

Source: Company, MIDF

Income Statement	FY15	FY16	FY17	FY18F	FY19F
Revenue	5,716.7	5,510.7	4,341.2	4,809.1	4,916.3
Operating expenses	(5,547.6)	(5,492.0)	(4,359.9)	(4,711.3)	(4,763.3)
EBIT	169.0	18.7	(18.7)	97.8	153.0
Net interest expense	(56.1)	(65.0)	(57.5)	(44.2)	(44.0)
Associates	2.4	3.2	3.4	1.5	1.5
PBT	115.3	(43.1)	(72.8)	55.1	110.5
Taxation	(45.4)	(16.0)	(23.6)	(13.4)	(27.3)
Minority Interest	(5.0)	4.1	(7.8)	(0.5)	(1.1)
Net profit	74.9	(54.9)	(88.6)	41.1	82.2
Core net profit	59.9	(58.8)	(88.6)	41.1	82.2
Consensus net profit	74.9	(49.0)	(93.7)	(1.6)	47.6
Balance Sheet	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	2,406.6	2,684.7	2,933.9	2,548.4	2,558.1
PPE	1,704.2	1,863.0	1,832.6	1,841.5	1,849.7
Investments in associate	37.8	42.9	40.8	42.3	43.8
Others	664.7	778.8	1,060.5	664.7	664.7
Current assets	2,762.3	2,881.8	2,466.3	2,732.5	2,969.6
Inventories	1,645.2	1,762.8	1,186.0	1,058.0	1,229.1
Receivables	818.8	774.8	696.1	721.4	737.5
Others	132.4	121.7	266.2	204.8	207.9
Cash & equivalent	165.9	222.5	318.0	524.9	571.7
TOTAL ASSETS	5,169.0	5,566.5	5,400.1	5,280.9	5,527.7
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(1.6)	(1.8)	(2.9)	(2.4)	(1.3)
Reserves	2,457.6	2,530.1	2,448.3	2,431.6	2,481.3
TOTAL EQUITY	2,792.0	2,864.3	2,781.4	2,765.2	2,816.0
Non-current liabilities	1,013.7	974.2	985.1	923.7	893.7
Long-term borrowings	818.7	747.6	748.1	728.7	698.7
Deferred tax liabilities	144.0	168.2	161.2	144.0	144.0
Others	51.1	58.3	75.8	51.1	51.1
Current liabilities	1,363.2	1,728.1	1,633.6	1,592.2	1,805.1
Short-term borrowings	670.8	1,059.7	1,029.7	1,000.0	1,200.0
Payables	677.6	652.4	592.1	577.4	590.3
Others	14.9	16.0	11.8	14.9	14.9
TOTAL LIABILITIES	2,376.9	2,702.2	2,618.8	2,516.0	2,698.9

Cash Flow Statement	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	115.3	(15.1)	(111.6)	55.1	110.5
Depreciation & Amortization	133.3	131.2	140.4	141.1	141.8
Chgs in working capital	(424.6)	(95.9)	283.3	324.8	(177.5)
Interest expense	(52.8)	(66.1)	(65.1)	(60.5)	(66.5)
Tax paid	(54.4)	(6.1)	13.6	(13.4)	(27.3)
Others	65.7	(92.5)	3.4	57.9	64.4
CF from Operations	(217.5)	(144.5)	264.0	505.0	45.5
Investing activities					
Capex	(119.2)	(250.0)	(110.8)	(150.0)	(150.0)
Others	158.0	173.7	(120.8)	1.4	1.4
CF from Investments	38.8	(76.3)	(231.5)	(148.6)	(148.6)
Financing activities					
Dividends paid	(32.6)	(26.4)	(13.1)	(20.2)	(20.2)
Net proceeds in borrowings	25.7	301.2	79.8	(130.0)	170.0
Others	(0.6)	(0.0)	(0.3)	-	-
CF from Financing	(7.6)	274.8	66.5	(150.2)	149.8
Net changes in cash	(186.3)	54.0	98.9	206.2	46.7
Beginning cash	341.5	165.9	219.8	318.7	524.9
Overdrafts & Deposits	10.6	-	-	-	-
Ending cash	165.9	219.8	318.7	524.9	571.7
Ratios	FY15	FY16	FY17	FY18F	FY19F
Revenue growth	20.1%	-3.6%	-21.2%	10.8%	2.2%
EBIT growth	-19.4%	-88.9%	-200.1%	-622.8%	56.5%
Core net profit growth	-20.9%	NA	NA	NA	99.8%
PBT margin	2.0%	NA	NA	NA	2.2%
Core net profit margin	1.0%	-1.1%	-2.0%	0.9%	1.7%
ROE	1.2%	-1.1%	-1.6%	0.8%	1.5%
ROA	2.1%	-2.1%	-3.2%	1.5%	2.9%
Net gearing (%)	47.4%	55.3%	52.5%	35.5%	39.2%
Book value/share (RM)	4.15	4.26	4.14	4.11	4.19
PBV (x)	0.41	0.40	0.41	0.41	0.40
Interest Cover (x)	4.4	2.7	1.4	5.4	6.7
FCF (RMm)	(178.7)	(220.8)	32.4	356.4	(103.1)

DAILY PRICE CHART



Source: Bloomberg, 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 <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.