

18 December 2018 | Corporate Update

Tan Chong Motor

Anything between the lines?

- **Nissan Vietnam Ltd only involved in CBUs, possible impairment**
- **Termination possibly a reaction to non-tariff barriers**
- **Lower consolidated loss and possible focus on CKD**
- **Re-affirm our contrarian BUY at a unchanged TP of RM2.10**

NVL termination. Tan Chong held a briefing yesterday in relation to Nissan Motor Ltd's (NML) termination of its 74%(Tan Chong):26% (NML) JV in Vietnam. The JV company, Nissan Vietnam Limited (NVL) is only involved in the import and distribution of CBU Nissan models. Assembly and distribution of Nissan CKD models (Nissan Sunny assembly) fall under a separate agreement and is run by 100%-owned TCIE Vietnam (TCIEV). No reason has been given yet by NML on the termination.

Reaction to non-tariff barriers? NVL termination is effective 10th Sept 2019, for the meantime it is business as usual. It is worth noting that CBU imports into Vietnam had been impacted by non-tariff barriers such as the recent Decree 116 – involves strict technical requirements and inspection process. It is also uncertain if there was actually friction with the previous shareholder when Tan Chong took over the 74% stake in NVL from Danish group, Kjaer. Notably, the termination of the NVL agreement came hot on the heels of the management crisis at NML.

Lower operational losses. Tan Chong's overall Vietnam operations have been loss making since existence and registered a RM36m LBITDA in FY17. NVL specifically, registered a RM25m/RM11m net loss in FY16/17. The silver lining here is the termination of NVL will lower the consolidated loss at Tan Chong level. Volumes are equally split between CBU and CKD (i.e. between NVL and TCIEV). In the short-term however, there is the possibility of impairment of Tan Chong's 74% stake in NVL, which carries a value of USD7.4m (RM31m, or 43% of our FY19F earnings). Nonetheless, this should be a one-off, if any.

Anything between the lines? Whilst we are taken aback by the announcement, we find several peculiarities: (1) NML is still launching new CBU models e.g. Nissan Terra despite the termination (2) CBUs account for half of Nissan TIV in Vietnam and is huge loss if there is no counter measure (3) CBU operations are a lot more straightforward than CKD as it is essentially just a trading operation (not involved in retailing). Whether this is Nissan's move to focus on CKD models in-line with the Vietnam Government's direction, remains to be seen. Notably, in Malaysia too, NML does not have direct operations other than via Tan Chong. Following Decree 116, other carmakers have proposed to expand CKD operations e.g. Toyota Vietnam is expanding local CKD production capacity from 50K to 90K/annum by 2023.

Maintain BUY
Unchanged Target Price: RM2.10

RETURN STATS	
Price (17 Dec 2018)	RM1.39
Target Price	RM2.10
Expected Share Price Return	+51.1%
Expected Dividend Yield	+2.2%
Expected Total Return	+53.3%

STOCK INFO	
KLCI	1641.62
Bursa / Bloomberg	4405 / TCM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	652.66
Market cap. (RM'm)	907.20
Price over NA	0.32
52-wk price Range	RM1.29-1.91
Beta (against KLCI)	0.59x
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM0.03m
Major Shareholders (%)	
Tan Chong Consolidated	40.4
EPF	6.0
Nissan Motor	5.7

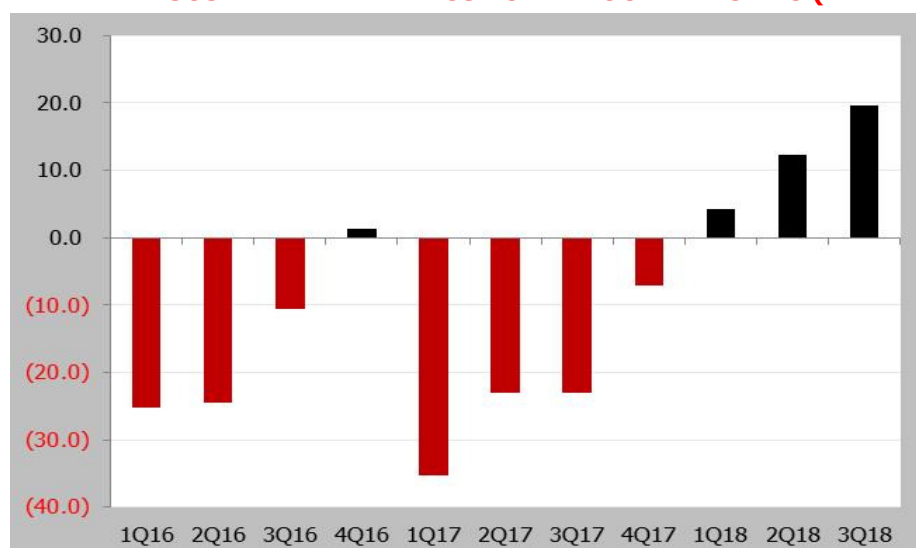
INVESTMENT STATISTICS

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)	150.4	139.9
Pre-tax Profit (RM'm)	115.3	(43.1)	(72.8)	91.7	95.9
Core net profit (RM'm)	59.9	(58.8)	(88.6)	68.2	71.4
FD EPS (sen)	8.9	(8.8)	(13.2)	10.2	10.6
EPS growth (%)	(20.9)	NA	NA	NA	4.6
PER (x)	15.6	(15.9)	(10.5)	13.7	13.1
Net Dividend (sen)	5.0	2.0	2.0	3.0	3.0
Net Dividend Yield (%)	3.6	1.4	1.4	2.2	2.2

Source: Company, MIDF

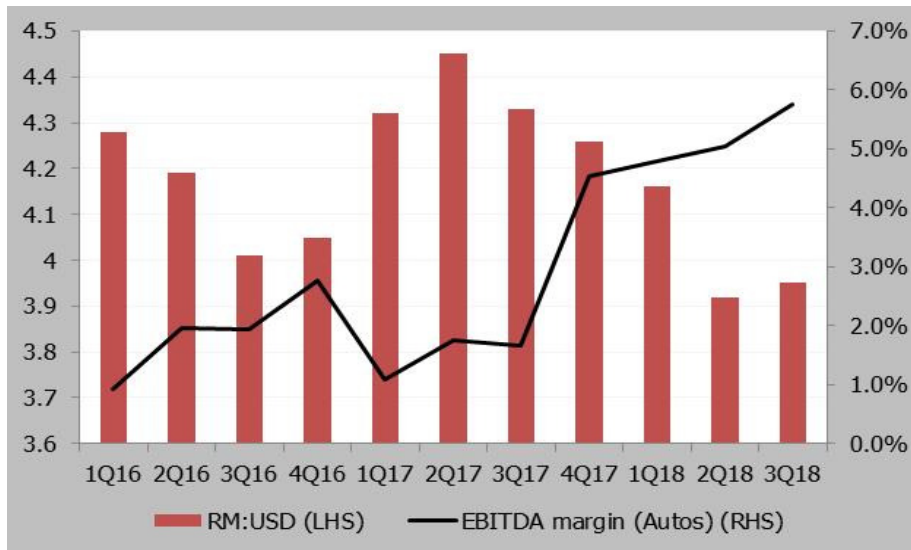
Maintain contrarian BUY. Earnings turnaround driven mainly by the Malaysian operations remains intact, while operational losses will reduce from the elimination of NVL losses. Maintain our contrarian BUY at unchanged TP of RM2.10. Our valuations conservatively peg Tan Chong to trough PBV of 0.5x. Having seen depressed share price performance 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. Key catalysts: (1) Resumption of new model launches from FY18F (2) A narrowing in losses from Indochina operations (3) A bottoming in market share. Risk to our call is if the termination of the 74%-owned JV in NVL eventually impacts TCIEV's franchise agreement with NML (where Tan Chong has invested some USD82m).

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



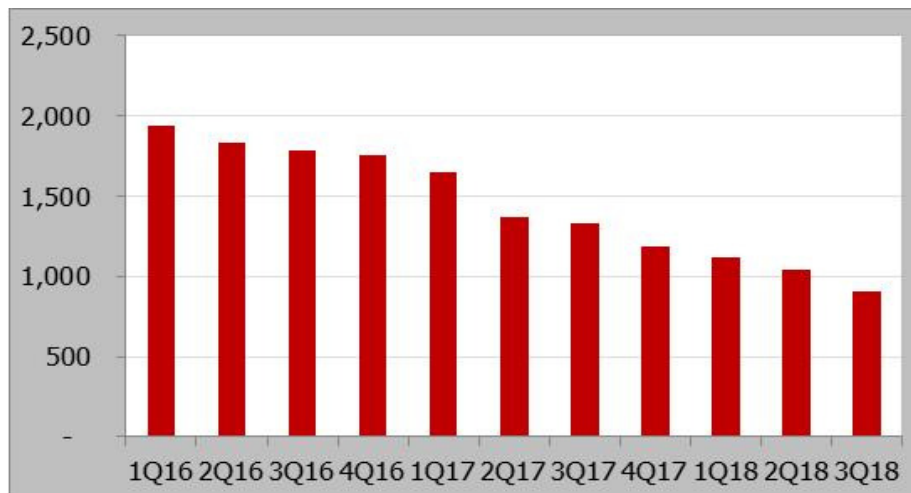
Source: Company, MIDF

EXHIBIT 2: EBITDA MARGIN IMPROVEMENT



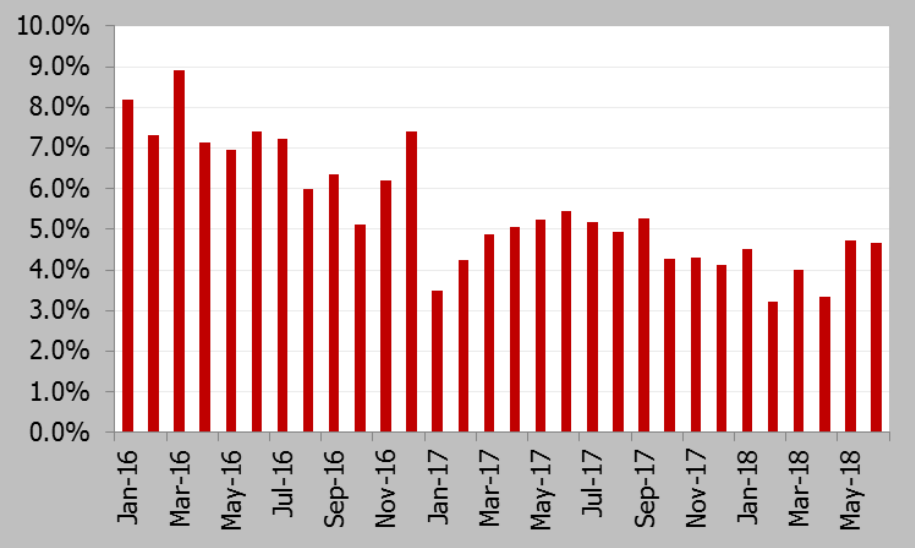
Source: Company, Bloomberg, MIDF

EXHIBIT 3: INVENTORIES SUCCESSFULLY REDUCED IN PAST 2 YEARS (RM MIL)



Source: Company, MIDF

EXHIBIT 4: NISSAN MARKET SHARE (MALAYSIA) LOOKS TO HAVE BOTTOMED



Source: MAA, 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)	(4,658.7)	(4,776.4)
EBIT	169.0	18.7	(18.7)	150.4	139.9
Net interest expense	(56.1)	(65.0)	(57.5)	(60.2)	(45.5)
Associates	2.4	3.2	3.4	1.5	1.5
PBT	115.3	(43.1)	(72.8)	91.7	95.9
Taxation	(45.4)	(16.0)	(23.6)	(22.5)	(23.6)
Minority Interest	(5.0)	4.1	(7.8)	(0.9)	(0.9)
Net profit	74.9	(54.9)	(88.6)	68.2	71.4
Core net profit	59.9	(58.8)	(88.6)	68.2	71.4
Consensus net profit	74.9	(49.0)	(93.7)	55.1	80.8
				24%	-12%
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	2,560.0	2,286.1
Inventories	1,645.2	1,762.8	1,186.0	1,058.0	737.5
Receivables	818.8	774.8	696.1	721.4	737.5
Others	132.4	121.7	266.2	299.0	207.9
Cash & equivalent	165.9	222.5	318.0	481.6	603.2
TOTAL ASSETS	5,169.0	5,566.5	5,400.1	5,108.4	4,844.2
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(1.6)	(1.8)	(2.9)	(2.0)	(1.1)
Reserves	2,457.6	2,530.1	2,448.3	2,459.1	2,497.8
TOTAL EQUITY	2,792.0	2,864.3	2,781.4	2,793.1	2,832.7
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	1,392.2	1,105.1
Short-term borrowings	670.8	1,059.7	1,029.7	800.0	500.0
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	2,316.0	1,998.9

Cash Flow Statement	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	115.3	(15.1)	(111.6)	91.7	95.9
Depreciation & Amortization	133.3	131.2	140.4	141.1	141.8
Chgs in working capital	(424.6)	(95.9)	283.3	230.6	408.4
Interest expense	(52.8)	(66.1)	(65.1)	(76.4)	(59.9)
Tax paid	(54.4)	(6.1)	13.6	(22.5)	(23.6)
Others	65.7	(92.5)	3.4	73.8	57.9
CF from Operations	(217.5)	(144.5)	264.0	438.2	620.4
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	(330.0)	(330.0)
Others	(0.6)	(0.0)	(0.3)	0.0	0.0
CF from Financing	(7.6)	274.8	66.5	(350.2)	(350.2)
Net changes in cash	(186.3)	54.0	98.9	(60.5)	121.6
Beginning cash	341.5	165.9	219.8	318.7	258.2
Overdrafts & Deposits	10.6	0.0	0.0	0.0	0.0
Ending cash	165.9	219.8	318.7	258.2	379.8
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%	-903.6%	-6.9%
Core net profit growth	-20.9%	-198.2%	50.6%	-177.0%	4.6%
PBT margin	2.0%	-0.8%	-1.7%	1.9%	2.0%
Core net profit margin	1.0%	-1.1%	-2.0%	1.4%	1.5%
ROA	1.2%	-1.1%	-1.6%	1.3%	1.5%
ROE	2.1%	-2.1%	-3.2%	2.4%	2.5%
Net gearing (%)	47.4%	55.3%	52.5%	37.5%	21.0%
Book value/share (RM)	4.15	4.26	4.14	4.16	4.22
PBV (x)	0.33	0.33	0.34	0.33	0.33
Interest Cover (x)	4.4	2.7	1.4	4.8	6.2
FCF (RMm)	(178.7)	(220.8)	32.4	289.6	471.8

DAILY PRICE CHART



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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.