

# Tan Chong Motor Holdings Berhad

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

## Deeper in the Red

### KEY INVESTMENT HIGHLIGHTS

- **1HFY23 results disappointed**
- **Impacted by weak Ringgit, stiff competition and supply chain disruption**
- **Indochina operations remain in the red**
- **FY23F/24F revised down to deeper net loss of -RM58m/-RM47m**
- **Maintain NEUTRAL at unchanged PBV-based TP of RM0.94**

**Another disappointing quarter.** Tan Chong Motor (TCM) reported a net loss of -RM18m for its 2QFY23, which brought 1HFY23 net loss to -RM23m. This was weaker than both our and consensus expectations. The shortfall against our forecast is due to worse than expected USD:RM performance and weaker than expected sales.

**Key takeaways.** Group 2QFY23 revenue was down -24%yoy on lower contribution from autos mainly, which was dragged by lower sales as a result of prolonged supply chain disruption and stiffer competition in both domestic and overseas markets. EBITDA fell -27%yoy given the weaker sales, a weaker Ringgit and higher operating expenses. Meanwhile, the financial services division was negatively impacted by provisions for impairment loss on hire purchase receivables in the quarter (vs. a reversal in 2QFY22).

**Indochina operations in the red.** Indochina operations remained in the red in 2QFY23 with Vietnam registering deeper LBITDA of -RM10m (2QFY22 LBITDA: -RM0.4m) on the back of a halving in revenue. Termination of the group's exclusive distributorship of CBU MG vehicles in Vietnam effective June 2023 could further drag the Vietnam unit's near-term performance. On a positive note however, TCM is targeting to introduce a rebadged version of SGMW's N300P light truck for the Vietnam market in 4QFY23. The model will be assembled at TCM's Danang plant which could improve the plant's utilisation rate, though there is no clarity yet on prospective volumes at this juncture. As a yardstick, the commercial vehicle segment (comprising mainly pick-ups, small trucks & light trucks) made up 24% (35,284 units) of Vietnam's Jan-Jul23' auto sales, based on data from Vietnam Automobile Manufacturers' Association.

**Earnings estimates.** We revise down FY23F/24F to deeper net loss of -RM58.1m/-RM46.9m from -RM20.3m/-RM38.1m previously to reflect weaker sales volume and higher operating cost.

**Maintain NEUTRAL** at unchanged **TP** of **RM0.94**. Our valuation continues to peg TCM at 0.23x FY24F 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.

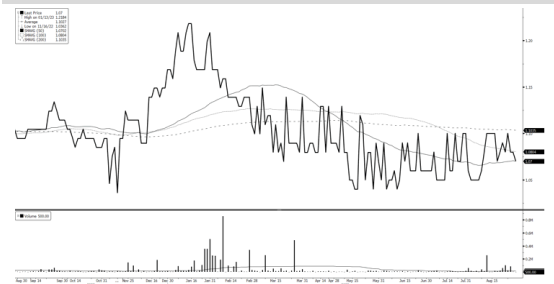
**Maintain NEUTRAL**

**Unchanged Target Price: RM0.94**

### RETURN STATISTICS

Price @ 28 <sup>th</sup> August 2023 (RM)	1.07
Expected share price return (%)	-12.0
Expected dividend yield (%)	2.8
Expected total return (%)	-9.2

### 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	3,044.5	3,037.3
Operating Profit	26.3	14.4	11.6
Profit Before Tax	(14.2)	(29.8)	(30.8)
Core PATAMI	(35.0)	(58.1)	(46.9)
Core EPS	(5.2)	(8.6)	(7.0)
DPS	3.0	3.0	3.0
Dividend Yield	2.8	2.8	2.8

### KEY STATISTICS

FBM KLCI	1444.06
Issue shares (m)	652.12
Estimated free float (%)	19.16
Market Capitalisation (RM'm)	697.77
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

**Analyst**

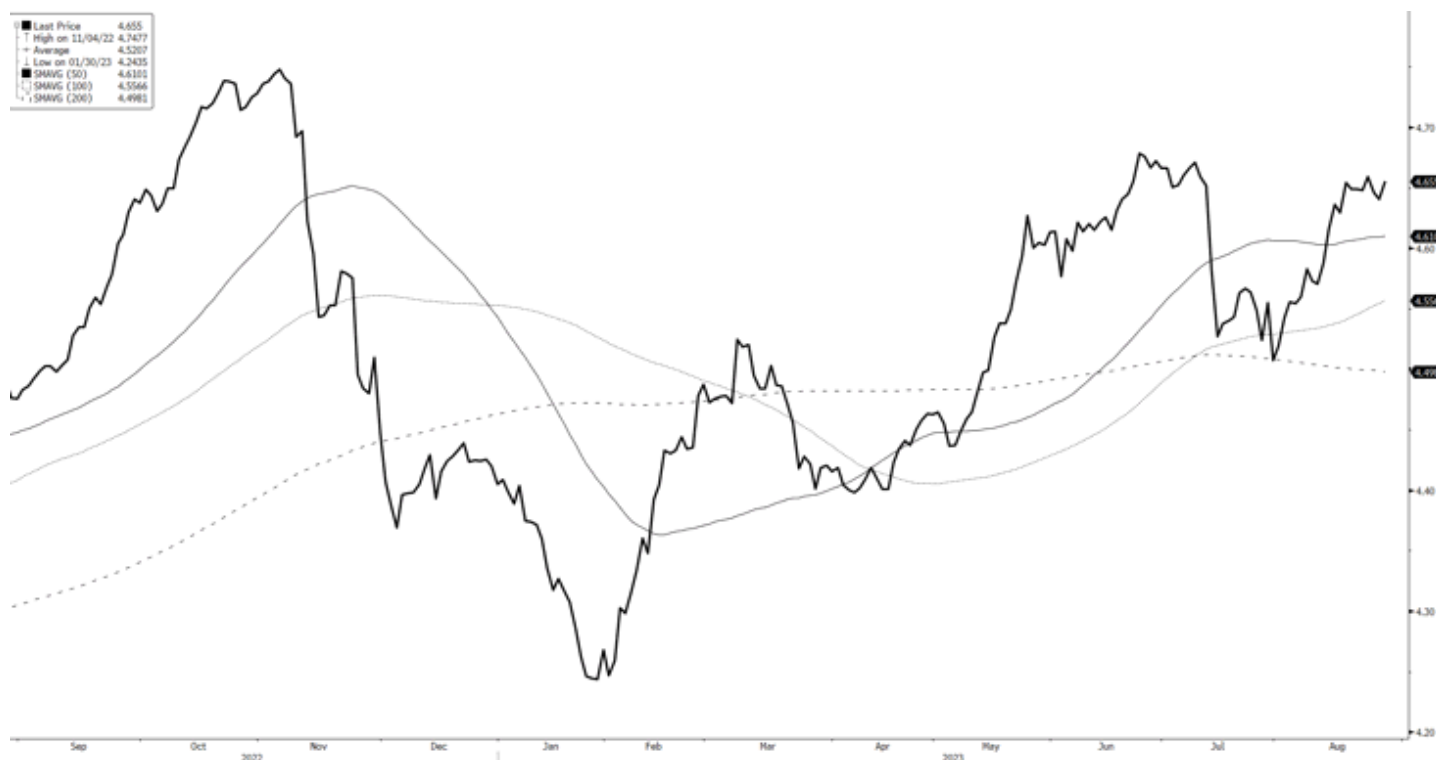
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**Table 1: Tan Chong Motor 2QFY23 Result Summary**

YE Dec (RMmil)	2Q22	1Q23	2Q23	QoQ %	YoY %	1H22	1H23	YTD %
<b>Revenue</b>	<b>814.3</b>	<b>619.9</b>	<b>619.2</b>	<b>-0.1%</b>	<b>-24.0%</b>	<b>1583.6</b>	<b>1239.1</b>	<b>-21.8%</b>
<b>EBITDA</b>	<b>76.3</b>	<b>51.2</b>	<b>55.8</b>	<b>8.8%</b>	<b>-26.9%</b>	<b>112.2</b>	<b>107.0</b>	<b>-4.6%</b>
Operating profit	33.7	13.3	2.8	-79.1%	-91.8%	28.2	16.0	-43.1%
Interest expense	(14.0)	(15.2)	(14.8)	-2.3%	5.7%	(23.3)	(30.0)	28.4%
Interest income	2.5	5.0	4.1	-17.8%	66.1%	3.9	9.2	133.3%
Associates	(0.8)	(0.6)	(0.2)	-71.8%	-78.9%	(0.7)	(0.8)	9.2%
<b>Pretax profit</b>	<b>21.4</b>	<b>2.5</b>	<b>(8.0)</b>	<b>-415.8%</b>	<b>-137.7%</b>	<b>8.1</b>	<b>(5.5)</b>	<b>-168.2%</b>
Tax expense	(17.0)	(8.3)	(12.0)	44.3%	-29.5%	(25.1)	(20.3)	-19.2%
Minority Interest	(1.8)	(0.7)	(1.9)	176.9%	2.7%	(3.8)	(2.6)	-31.7%
Net profit	6.2	(5.1)	(18.1)	258.0%	-390.4%	(13.3)	(23.2)	74.7%
<b>Core net profit</b>	<b>(7.6)</b>	<b>(5.1)</b>	<b>(18.1)</b>	<b>258.0%</b>	<b>139.1%</b>	<b>4.1</b>	<b>(23.2)</b>	<b>-664.0%</b>
EPS (sen)	(1.13)	(0.75)	(2.70)	258.0%	139.1%	0.61	(3.45)	-664.0%
Gross DPS (sen)	0.00	1.00	0.00			1.50	1.00	
				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Operating margin (%)	4.1%	2.1%	0.4%	-1.7%	-3.7%	1.8%	1.3%	-0.5%
EBITDA margin	9.4%	8.3%	9.0%	0.7%	-0.4%	7.1%	8.6%	1.6%
Pretax profit margin (%)	2.6%	0.4%	-1.3%	-1.7%	-3.9%	0.5%	-0.4%	-1.0%
Net profit margin (%)	-0.9%	-0.8%	-2.9%	-2.1%	-2.0%	0.3%	-1.9%	-2.1%
Effective tax rate (%)	-79.4%	-325.4%	148.7%	474.1%	228.1%	-311.3%	368.4%	679.7%
Nissan TIV (units)	4,009	2,500	2,534	1.4%	-36.8%	7,775	5,034	-35.3%

Source: Company, MIDFR

**Chart 1: USD:RM trend**

Source: Bloomberg, MIDFR

Table 2: Tan Chong Motor 2QFY23 Result Breakdown

YE Dec (RMmil)	2Q22	1Q23	2Q23	QoQ %	YoY %	1H22	1H23	YTD %
Autos	794.4	599.1	595.6	-0.6%	-25.0%	1,544.1	1,194.7	-23%
Financial Services	16.5	17.4	15.9	-8.9%	-3.9%	33.4	33.3	0%
Others	3.4	3.4	7.8	129.7%	130.3%	6.1	11.2	84%
<b>Total revenue</b>	<b>814.3</b>	<b>619.9</b>	<b>619.2</b>	<b>-0.1%</b>	<b>-24.0%</b>	<b>1,583.6</b>	<b>1,239.1</b>	<b>-22%</b>
Autos	34.8	42.8	18.2	-57.6%	-47.8%	51.2	61.0	19%
Financial Services	11.8	6.7	4.2	-38.2%	-64.8%	20.2	10.9	-46%
Others	29.7	1.7	33.4	1872.1%	12.5%	40.9	35.1	-14%
<b>Total EBITDA</b>	<b>76.3</b>	<b>51.2</b>	<b>55.8</b>	<b>8.8%</b>	<b>-26.9%</b>	<b>112.2</b>	<b>107.0</b>	<b>-5%</b>
<b>EBITDA margins</b>	<b>9.4%</b>	<b>8.3%</b>	<b>9.0%</b>			<b>7.1%</b>	<b>8.6%</b>	
Autos	4.4%	7.1%	3.1%			3.3%	5.1%	
Financial Services	71.6%	38.7%	26.2%			60.3%	32.7%	
Others	880.3%	50.1%	430.2%			673.9%	314.9%	
<b>BY COUNTRY:</b>								
Malaysia	686.1	556.9	550.1	-1.2%	-19.8%	1,336.1	1,107.0	-17%
Vietnam	94.9	39.9	46.8	17.3%	-50.7%	160.5	86.6	-46%
Others	33.3	23.1	22.3	-3.2%	-32.9%	86.9	45.4	-48%
<b>Total Revenue</b>	<b>814.3</b>	<b>619.9</b>	<b>619.2</b>	<b>-0.1%</b>	<b>-24.0%</b>	<b>1,583.6</b>	<b>1,239.1</b>	<b>-22%</b>
Malaysia	81.2	56.6	68.5	21.1%	-15.6%	134.1	125.1	-7%
Vietnam	(0.4)	(4.2)	(10.1)	144.2%	2402.7%	(1.1)	(14.3)	1165%
Others	(4.4)	(1.2)	(2.6)	120.9%	-41.5%	(20.8)	(3.8)	-82%
<b>Total EBITDA</b>	<b>76.3</b>	<b>51.2</b>	<b>55.8</b>	<b>8.8%</b>	<b>-26.9%</b>	<b>112.2</b>	<b>107.0</b>	<b>-5%</b>
Malaysia	11.8%	10.2%	12.5%			10.0%	11.3%	
Vietnam	-0.4%	-10.4%	-21.7%			-0.7%	-16.5%	
Others	-13.3%	-5.1%	-11.6%			-23.9%	-8.3%	
<b>EBITDA margin</b>	<b>9.4%</b>	<b>8.3%</b>	<b>9.0%</b>			<b>7.1%</b>	<b>8.6%</b>	

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (FYE Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>
<b>Revenue</b>	<b>2,959.6</b>	<b>2,537.3</b>	<b>3,052.2</b>	<b>3,044.5</b>	<b>3,037.3</b>
Operating expenses	(3,075.1)	(2,474.5)	(3,025.9)	(3,030.1)	(3,025.7)
<b>Operating profit</b>	<b>(115.5)</b>	<b>62.8</b>	<b>26.3</b>	<b>14.4</b>	<b>11.6</b>
Net interest expense	(46.8)	(43.2)	(39.7)	(46.2)	(44.4)
Associates	0.9	(1.5)	(0.7)	2.0	2.0
<b>PBT</b>	<b>(161.3)</b>	<b>18.1</b>	<b>(14.2)</b>	<b>(29.8)</b>	<b>(30.8)</b>
Taxation	(15.5)	(38.3)	(40.7)	(28.6)	(16.4)
Minority Interest	11.2	4.8	3.8	0.3	0.3
<b>Net profit</b>	<b>(165.6)</b>	<b>(15.4)</b>	<b>(51.1)</b>	<b>(58.1)</b>	<b>(46.9)</b>
<b>Core net profit</b>	<b>(77.8)</b>	<b>(15.4)</b>	<b>(35.0)</b>	<b>(58.1)</b>	<b>(46.9)</b>
<b>Balance Sheet</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>
PPE	2,311.7	2,317.9	2,414.5	2,303.4	2,199.8
Investments in associate	63.3	72.4	70.5	72.5	74.5
Others	854.2	758.0	704.4	704.4	704.4
<b>Non-current assets</b>	<b>3,229.1</b>	<b>3,148.3</b>	<b>3,189.4</b>	<b>3,080.3</b>	<b>2,978.7</b>
Inventories	772.7	778.0	748.4	724.3	722.6
Receivables	424.9	325.7	295.5	286.0	285.3
Others	311.8	229.4	246.9	247.3	247.8
Cash & equivalent	582.0	514.5	558.2	593.5	613.8
<b>Current assets</b>	<b>2,091.4</b>	<b>1,847.6</b>	<b>1,849.0</b>	<b>1,851.1</b>	<b>1,869.4</b>
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(17.0)	(21.9)	(22.6)	(22.9)	(23.2)
Reserves	2,505.7	2,455.5	2,536.3	2,458.1	2,391.0
<b>TOTAL EQUITY</b>	<b>2,824.7</b>	<b>2,769.7</b>	<b>2,849.7</b>	<b>2,771.1</b>	<b>2,703.8</b>
Long-term borrowings	-	-	300.0	285.0	270.0
Others	432.4	417.0	442.8	442.8	442.8
<b>Non-current liabilities</b>	<b>432.4</b>	<b>417.0</b>	<b>742.8</b>	<b>727.8</b>	<b>712.8</b>
Short-term borrowings	1,501.5	1,268.2	974.0	974.0	974.0
Payables	510.5	492.8	415.1	401.8	400.8
Others	51.4	48.3	56.7	56.7	56.7
<b>Current liabilities</b>	<b>2,063.4</b>	<b>1,809.3</b>	<b>1,445.9</b>	<b>1,432.5</b>	<b>1,431.6</b>

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	(161.3)	18.1	(14.2)	(29.8)	(30.8)
Chgs in working capital	676.5	68.2	(21.7)	19.9	1.0
<b>CF from Operations</b>	<b>572.3</b>	<b>123.2</b>	<b>102.4</b>	<b>100.5</b>	<b>85.4</b>
Capex	(150.0)	(150.0)	(149.0)	(30.0)	(30.0)
<b>CF from Investments</b>	<b>(270.7)</b>	<b>79.9</b>	<b>(30.2)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Dividends paid	(26.9)	(9.8)	(19.6)	(20.2)	(20.2)
Net movement in borrowings	(108.2)	(233.3)	(294.2)	(15.0)	(15.0)
<b>CF from Financing</b>	<b>(135.0)</b>	<b>(280.7)</b>	<b>(35.1)</b>	<b>(35.2)</b>	<b>(35.2)</b>
<b>Net changes in cash</b>	<b>166.6</b>	<b>(77.6)</b>	<b>37.0</b>	<b>35.4</b>	<b>20.3</b>
Beginning cash	407.8	582.0	514.5	558.2	593.5
Overdrafts & Deposits	7.5	10.1	6.6	0.0	0.0
<b>Ending cash</b>	<b>582.0</b>	<b>514.5</b>	<b>558.2</b>	<b>593.5</b>	<b>613.8</b>
Key Ratios	FY20	FY21	FY22	FY23F	FY24F
PBT margin	-5.4%	0.7%	-0.5%	-1.0%	-1.0%
Core net profit margin	-2.6%	-0.6%	-1.1%	-1.9%	-1.5%
ROA	-1.5%	-0.3%	-0.7%	-1.2%	-1.0%
ROE	-2.8%	-0.6%	-1.2%	-2.1%	-1.7%
Net gearing (%)	32.6%	27.2%	25.1%	24.0%	23.3%
Book value/share (RM)	4.20	4.12	4.24	4.12	4.02
PBV (x)	0.25	0.26	0.25	0.26	0.27
PER (x)	NA	NA	NA	NA	NA

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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.

#### 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