

# Tan Chong Motor Holdings Berhad

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

## Still in the Red

### KEY INVESTMENT HIGHLIGHTS

- **FY23 results disappointed**
- **Impacted by weak Ringgit and stiff competition**
- **Vietnam losses narrowed amid launch of new commercial vehicle product**
- **Maintain NEUTRAL; PBV-based TP tweaked lower to RM0.91**

**Another disappointing quarter.** Tan Chong Motor (TCM) reported deeper than expected losses in FY23. The group reported a net loss of -RM55m for its 4QFY23, which brought FY23 net loss to -RM129m, which made up 130%/210% of our/consensus projected FY23 net loss. The shortfall against our forecast was due to weaker than expected Nissan TIV and margins.

**Key highlights.** Group 4QFY24 revenue was down -13%yoy to RM644m due to weaker contribution from the auto division (-19%yoy to RM579m). This was due to supply chain constraints, lack of timely refreshed product line-up and stiffer competition in the local and overseas markets. Furthermore, margins were negatively impacted by the weaker Ringgit, which resulted in the automotive division registering an LBITDA of -RM6.4m. The financial services division saw better revenue (+2%yoy) but EBITDA contracted to RM1.5m (-44%yoy) given higher impairment losses on hire purchase receivables. Meanwhile LBITDA for other operations narrowed to -RM8m (4QFY22: -RM47m) due to lower net forex losses from outstanding balances denominated in foreign currencies.

**Malaysia dipped into the red, Vietnam losses narrowing.** In the 4QFY23, both the Malaysian and Vietnam operations fell into the red dragged mainly by weaker auto division performance. Positively, the Vietnam unit registered narrower LBITDA (-58%qoq), which we reckon was supported by launch of a rebadged version of SGMW's N300P light truck for the Vietnam market in November 2023. Other Indochina markets returned marginally to the black given improved revenues (+37%yoy). TCM was appointed as distributor for GAC Motor International (GAC) for the Vietnam market recently, which could support further recovery of its Vietnam unit going forward, though details of its plans here are still sketchy.

**Earnings estimates.** Despite the result underperformance, we keep our FY24F largely unchanged as we factor in narrowing losses for TCM's Vietnam unit. We introduce FY25F at a narrower net loss of -RM34m.

**Maintain NEUTRAL.** Our PBV-based **TP** is tweaked marginally lower to **RM0.91** (from RM0.92) given a lower BV base in FY23. 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.

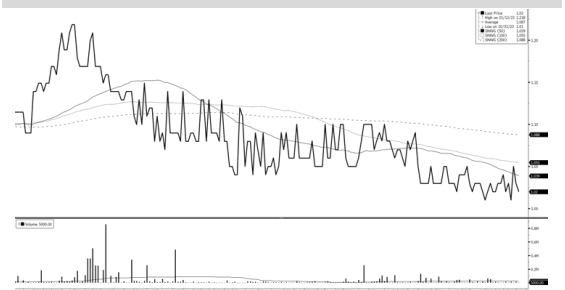
**Maintain NEUTRAL**

**Revised Target Price: RM0.91**  
(Previously RM0.92)

### RETURN STATISTICS

Price @ 29 <sup>th</sup> Feb. 2024 (RM)	0.99
Expected share price return (%)	-7.8
Expected dividend yield (%)	3.0
<b>Expected total return (%)</b>	<b>-4.8</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.0	-1.4
3 months	-1.0	-4.9
12 months	-10.5	-8.2

### INVESTMENT STATISTICS

FYE Dec	2022A	2023F	2024F
Revenue	2,532.7	2,702.0	2,869.6
Operating Profit	(78.1)	(46.4)	(0.0)
Profit Before Tax	(121.1)	(90.5)	(31.5)
Core PATAMI	(128.7)	(96.1)	(33.5)
Core EPS	(5.2)	(14.7)	(9.0)
DPS	1.0	3.0	3.0
Dividend Yield	1.0	3.0	3.0

### KEY STATISTICS

FBM KLCI	1551.44
Issue shares (m)	652.12
Estimated free float (%)	18.88
Market Capitalisation (RM'm)	645.60
52-wk price range	RM1 - RM1.25
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Tan Chong Consolidated	40.47
Employees Provident Fund Board	6.41
Daiwa Securities Group Inc	5.73

**Analyst**  
**Hafriz** Hezry  
hafriz.hezry@midf.com.my

**Table 1: Tan Chong Motor FY23 Result Summary**

YE Dec (RMmil)	4Q22	3Q23	4Q23	QoQ %	YoY %	FY22	FY23	YTD %
<b>Revenue</b>	<b>738.8</b>	<b>649.8</b>	<b>643.8</b>	<b>-0.9%</b>	<b>-12.9%</b>	<b>3052.2</b>	<b>2532.7</b>	<b>-17.0%</b>
<b>EBITDA</b>	<b>11.9</b>	<b>(9.1)</b>	<b>(12.5)</b>	<b>37.9%</b>	<b>-205.4%</b>	<b>190.4</b>	<b>85.4</b>	<b>-55.2%</b>
Operating profit	(28.6)	(41.9)	(52.2)	24.5%	82.5%	26.3	(78.1)	-396.8%
Interest expense	(15.0)	(16.2)	(16.8)	3.8%	11.9%	(51.7)	(62.9)	21.6%
Interest income	5.2	5.8	5.4	-7.7%	4.0%	12.0	20.4	70.0%
Associates	0.5	(0.1)	0.3	-640.7%	-38.8%	(0.7)	(0.5)	-27.7%
<b>Pretax profit</b>	<b>(38.0)</b>	<b>(52.3)</b>	<b>(63.3)</b>	<b>21.0%</b>	<b>66.8%</b>	<b>(14.2)</b>	<b>(121.1)</b>	<b>755.2%</b>
Tax expense	(5.2)	(1.5)	9.0	-712.8%	-272.3%	(40.7)	(12.7)	-68.8%
Minority Interest	1.5	(3.1)	0.6	-118.1%	-63.1%	(3.8)	(5.1)	36.2%
Net profit	(44.7)	(50.7)	(54.8)	8.2%	22.7%	(51.1)	(128.7)	151.9%
<b>Core net profit</b>	<b>(10.4)</b>	<b>(50.7)</b>	<b>(54.8)</b>	<b>8.2%</b>	<b>429.8%</b>	<b>(35.0)</b>	<b>(128.7)</b>	<b>268.2%</b>
EPS (sen)	(1.54)	(7.54)	(8.16)			(5.20)	(19.16)	
Gross DPS (sen)	0.00	0.00	0.00			3.00	1.00	
Operating margin (%)	-3.9%	-6.5%	-8.1%			0.9%	-3.1%	
EBITDA margin	1.6%	-1.4%	-1.9%			6.2%	3.4%	
Pretax profit margin (%)	-5.1%	-8.1%	-9.8%			-0.5%	-4.8%	
Net profit margin (%)	-1.4%	-7.8%	-8.5%			-1.1%	-5.1%	
Effective tax rate (%)	13.8%	2.8%	-14.3%			287.3%	10.5%	
Nissan TIV (units)	2,802	2,418	2,548			13,785	10,000	

Source: Company, MIDFR

**Table 2: Tan Chong Motor FY23 Result Breakdown**

YE Dec (RMmil)	4Q22	3Q23	4Q23	QoQ %	YoY %	FY22	FY23	YTD %
<b>Autos</b>	718.2	591.9	579.1	-2.2%	-19.4%	2,972.2	2,365.6	-20%
<b>Financial Services</b>	16.7	16.1	17.1	6.3%	2.4%	66.4	66.4	0%
<b>Others</b>	4.0	41.9	47.7	13.9%	1105.7%	13.7	100.7	638%
<b>Total revenue</b>	<b>738.8</b>	<b>649.8</b>	<b>643.8</b>	<b>-0.9%</b>	<b>-12.9%</b>	<b>3,052.2</b>	<b>2,532.7</b>	<b>-17%</b>
<b>Autos</b>	56.2	(19.8)	(6.4)	-67.8%	-111.3%	132.9	34.9	-74%
<b>Financial Services</b>	2.7	3.4	1.5	-55.6%	-44.3%	27.5	15.8	-43%
<b>Others</b>	(47.0)	7.3	(7.7)	-205.9%	-83.6%	30.1	34.7	15%
<b>Total EBITDA</b>	<b>11.9</b>	<b>(9.1)</b>	<b>(12.5)</b>	<b>37.9%</b>	<b>-205.4%</b>	<b>190.4</b>	<b>85.4</b>	<b>-55%</b>
<b>EBITDA margins</b>								
<b>Autos</b>	7.8%	-3.3%	-1.1%			4.5%	1.5%	
<b>Financial Services</b>	16.3%	21.2%	8.9%			41.4%	23.8%	
<b>Others</b>	-1187.3%	17.4%	-16.1%			220.1%	34.5%	
<b>BY COUNTRY:</b>								
<b>Malaysia</b>	613.4	574.6	606.7	5.6%	-1.1%	2,601.8	2,288.3	-12%
<b>Vietnam</b>	104.0	57.3	7.9	-86.2%	-92.4%	320.0	151.8	-53%
<b>Others</b>	21.3	17.9	29.3	63.2%	37.1%	130.3	92.6	-29%
<b>Total Revenue</b>	<b>738.8</b>	<b>649.8</b>	<b>643.8</b>	<b>-0.9%</b>	<b>-12.9%</b>	<b>3,052.2</b>	<b>2,532.7</b>	<b>-17%</b>
<b>Malaysia</b>	13.7	10.4	(5.7)	-155.0%	-141.9%	227.3	129.8	-43%
<b>Vietnam</b>	2.4	(18.1)	(7.7)	-57.5%	-415.9%	(8.4)	(40.1)	375%
<b>Others</b>	(4.5)	(1.4)	0.9	163.4%	120.0%	(28.7)	(4.3)	-85%
<b>Total EBITDA</b>	<b>11.9</b>	<b>(9.1)</b>	<b>(12.5)</b>	<b>37.9%</b>	<b>-207.6%</b>	<b>190.4</b>	<b>85.4</b>	<b>-55%</b>
<b>Malaysia</b>	2.2%	1.8%	-0.9%	-2.8	-3.2	8.7%	5.7%	
<b>Vietnam</b>	2.3%	-31.6%	-97.6%	-66.0	-99.9	-2.6%	-26.4%	
<b>Others</b>	-20.9%	-7.8%	3.0%	10.9	24.0	-22.0%	-4.6%	
<b>EBITDA margin</b>	<b>1.6%</b>	<b>-1.4%</b>	<b>-1.9%</b>	<b>-0.5</b>	<b>-3.5</b>	<b>6.2%</b>	<b>3.4%</b>	

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (FYE Dec)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Revenue</b>	<b>2,537.3</b>	<b>3,052.2</b>	<b>2,532.7</b>	<b>2,702.0</b>	<b>2,869.6</b>
Operating expenses	(2,474.5)	(3,025.9)	(2,610.8)	(2,748.4)	(2,869.7)
<b>Operating profit</b>	<b>62.8</b>	<b>26.3</b>	<b>(78.1)</b>	<b>(46.4)</b>	<b>(0.0)</b>
Net interest expense	(43.2)	(39.7)	(42.5)	(43.6)	(31.0)
Associates	(1.5)	(0.7)	(0.5)	(0.5)	(0.5)
<b>PBT</b>	<b>18.1</b>	<b>(14.2)</b>	<b>(121.1)</b>	<b>(90.5)</b>	<b>(31.5)</b>
Taxation	(38.3)	(40.7)	(12.7)	(9.4)	(3.3)
Minority Interest	4.8	3.8	5.1	3.8	1.3
<b>Net profit</b>	<b>(15.4)</b>	<b>(51.1)</b>	<b>(128.7)</b>	<b>(96.1)</b>	<b>(33.5)</b>
<b>Core net profit</b>	<b>(15.4)</b>	<b>(35.0)</b>	<b>(128.7)</b>	<b>(96.1)</b>	<b>(33.5)</b>
<b>Balance Sheet</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
PPE	2,317.9	2,414.5	2,371.2	2,263.6	2,162.3
Investments in associate	72.4	70.5	70.0	69.5	69.0
Others	758.0	704.4	761.0	761.0	761.0
<b>Non-current assets</b>	<b>3,148.3</b>	<b>3,189.4</b>	<b>3,202.2</b>	<b>3,094.2</b>	<b>2,992.4</b>
Inventories	778.0	748.4	822.1	642.8	682.7
Receivables	325.7	295.5	384.7	253.8	269.6
Others	229.4	246.9	189.6	186.9	187.3
Cash & equivalent	514.5	558.2	511.6	834.8	832.7
<b>Current assets</b>	<b>1,847.6</b>	<b>1,849.0</b>	<b>1,907.9</b>	<b>1,918.3</b>	<b>1,972.3</b>
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(21.9)	(22.6)	1.7	(2.1)	(3.4)
Reserves	2,455.5	2,536.3	2,404.1	2,287.9	2,234.2
<b>TOTAL EQUITY</b>	<b>2,769.7</b>	<b>2,849.7</b>	<b>2,741.8</b>	<b>2,621.7</b>	<b>2,566.8</b>
Long-term borrowings	-	300.0	450.0	435.0	420.0
Others	417.0	442.8	449.3	449.3	449.3
<b>Non-current liabilities</b>	<b>417.0</b>	<b>742.8</b>	<b>899.3</b>	<b>884.3</b>	<b>869.3</b>
Short-term borrowings	1,268.2	974.0	1,092.6	1,092.6	1,092.6
Payables	492.8	415.1	319.2	356.6	378.7
Others	48.3	56.7	57.2	57.2	57.2
<b>Current liabilities</b>	<b>1,809.3</b>	<b>1,445.9</b>	<b>1,469.0</b>	<b>1,506.4</b>	<b>1,528.5</b>

<b>Cash Flow Statement</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
PBT	18.1	(14.2)	(121.1)	(90.5)	(31.5)
Chgs in working capital	68.2	(21.7)	(262.4)	350.2	(33.9)
<b>CF from Operations</b>	<b>123.2</b>	<b>102.4</b>	<b>(131.9)</b>	<b>388.4</b>	<b>63.1</b>
Capex	(150.0)	(149.0)	(30.0)	(30.0)	(30.0)
<b>CF from Investments</b>	<b>79.9</b>	<b>(30.2)</b>	<b>(186.3)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Dividends paid	(9.8)	(19.6)	(6.5)	(20.2)	(20.2)
Net movement in borrowings	(233.3)	(294.2)	268.6	(15.0)	(15.0)
<b>CF from Financing</b>	<b>(280.7)</b>	<b>(35.1)</b>	<b>266.4</b>	<b>(35.2)</b>	<b>(35.2)</b>
<b>Net changes in cash</b>	<b>(77.6)</b>	<b>37.0</b>	<b>(51.7)</b>	<b>323.2</b>	<b>(2.1)</b>
Beginning cash	582.0	514.5	558.2	511.6	834.8
Overdrafts & Deposits	10.1	6.6	5.1	0.0	0.0
<b>Ending cash</b>	<b>514.5</b>	<b>558.2</b>	<b>511.6</b>	<b>834.8</b>	<b>832.7</b>
<b>Key Ratios</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
PBT margin	0.7%	-0.5%	-4.8%	-3.3%	-1.1%
Core net profit margin	-0.6%	-1.1%	-5.1%	-3.6%	-1.2%
ROA	-0.3%	-0.7%	-2.5%	-1.9%	-0.7%
ROE	-0.6%	-1.2%	-4.7%	-3.7%	-1.3%
Net gearing (%)	27.2%	25.1%	37.6%	26.4%	26.5%
Book value/share (RM)	4.12	4.24	4.08	3.90	3.82
PBV (x)	0.24	0.23	0.24	0.25	0.26
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