

Tan Chong Motor Holdings Berhad

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

Red Ink but within Expectation

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 result came in within expectation**
- **Impacted by weak Ringgit and stiff competition**
- **GAC launch for Vietnam and e-Power launch for Malaysia in 2HFY24**
- **Maintain NEUTRAL at unchanged TP of RM0.91**

Weak start. Tan Chong Motor (TCM) reported a core net loss of -RM19m for its 1QFY24 which we deem in line with our expectation but weaker than consensus estimates at 20% and 64% of full year loss expectations respectively.

Still weak automotive performance. Group 1QFY24 topline contracted -9%yoy mainly dragged by the auto division which registered a -10%yoy decline in revenue. This came on the back of softer sales given stiff competition in the local and overseas markets. In addition, margins were negatively impacted by the weaker Ringgit, driving a -94%yoy reduction in EBITDA during the quarter. The financial services division recorded a +7%yoy revenue increase, but EBITDA fell -35%yoy due to higher provision for impairment loss on hire purchase receivables. Cushioning the weakness in autos and financial services, TCM's other operations saw a significant increase in EBITDA thanks to higher forex gains which arose from transactions and outstanding balances denominated in foreign currencies.

Weakness across most markets. From a geographical standpoint, TCM's Malaysian operations recorded a -21%yoy EBITDA while Vietnam's LBITDA expanded to -RM12m in 1QFY24. TCM's Vietnam operations commenced local assembly and distribution of a rebadged version of SGMW's N300P light truck in November 2023, but this has yet to meaningfully improve bottomline it seems. Nonetheless, TCM was also appointed distributor for GAC Motor International (GAC) for the Vietnam market commencing 2HFY24, which could support further recovery of its Vietnam unit going forward.

New launches. In terms of new launches, the new Nissan X-Trail e-Power (essentially powered by a Range Extender EV powertrain) was launched in Laos and Cambodia. TCM intends to introduce new models with e-Power technology for the domestic market as well in 2HFY24. Recent news flows also point towards TCM being involved in assembly of GAC models for the domestic market, which could improve utilisation of its Segambut plant. TCM's sister company, Warisan TC, is the official distributor of GAC models for the Malaysian market.

Earnings estimates. No change to our earnings estimates.

Maintain NEUTRAL. Our PBV-based **TP** is unchanged at **RM0.91** pegging TCM at 0.23x FY24F PBV multiple, at -1SD below historical mean given weak earnings outlook in the near-term.

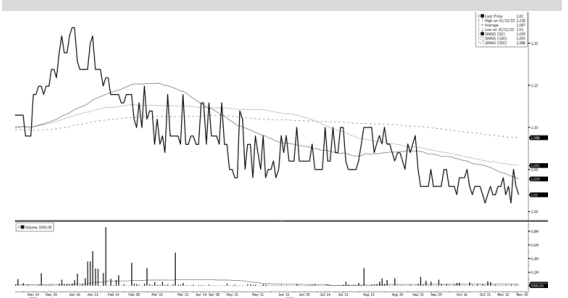
Maintain NEUTRAL

Unchanged Target Price: RM0.91

RETURN STATISTICS

Price @ 24 th May 2024 (RM)	0.86
Expected share price return (%)	+6.2
Expected dividend yield (%)	+1.2
Expected total return (%)	+7.4

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	2023A	2024F	2025F
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)	(31.0)
Core PATAMI	(128.7)	(96.1)	(32.9)
Core EPS	(19.2)	(14.3)	(4.9)
DPS	1.0	1.0	1.0
Dividend Yield	1.2	1.2	1.2

KEY STATISTICS

FBM KLCI	1619.40
Issue shares (m)	652.12
Estimated free float (%)	18.88
Market Capitalisation (RM'm)	560.82
52-wk price range	RM0.82-RM1.10
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

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Table 1: Tan Chong Motor 1QFY24 Result Summary

YE Dec (RMmil)	1Q23	4Q23	1Q24	QoQ %	YoY %
Revenue	619.9	643.8	563.7	-12.4%	-9.1%
EBITDA	51.2	(12.5)	32.1	356.1%	-37.3%
Operating profit	13.3	(52.2)	(4.3)	91.7%	-132.6%
Interest expense	(15.2)	(16.8)	(16.6)	-0.8%	9.8%
Interest income	5.0	5.4	4.9	-8.0%	-2.2%
Associates	(0.6)	0.3	(0.1)	-141.4%	79.9%
Pretax profit	2.5	(63.3)	(16.1)	74.5%	-733.5%
Tax expense	(8.3)	9.0	(3.6)	-139.5%	57.0%
Minority Interest	(0.7)	0.6	(4.0)	-811.4%	-487.9%
Net profit	(5.1)	(54.8)	(15.7)	71.3%	-210.3%
Core net profit	(9.8)	(54.8)	(19.1)	65.2%	-94.4%
EPS (sen)	(1.46)	(8.16)	(2.84)	65.2%	-94.4%
Gross DPS (sen)	1.00	0.00	1.00	NA	0.0%
Operating margin (%)	2.1%	-8.1%	-0.8%		
EBITDA margin	8.3%	-1.9%	5.7%		
Pretax profit margin (%)	0.4%	-9.8%	-2.9%		
Net profit margin (%)	-1.6%	-8.5%	-3.4%		
Effective tax rate (%)	-325.4%	-14.3%	22.1%		
Nissan TIV (units)	2,500	2,548	2,301	-9.7%	-8.0%

Source: Company, MAA, MIDFR

Table 2: Tan Chong Motor 1QFY24 Result Breakdown

YE Dec (RMmil)	1Q23	4Q23	1Q24	QoQ %	YoY %
Autos	599.1	579.1	538.4	-7.0%	-10.1%
Financial Services	17.4	17.1	18.7	9.4%	7.3%
Others	3.4	47.7	6.7	-86.1%	96.5%
Total revenue	619.9	643.8	563.7	-12.4%	-9.1%
Autos	42.8	(6.4)	2.5	-138.8%	-94.2%
Financial Services	6.7	1.5	4.4	189.0%	-35.1%
Others	1.7	(7.7)	25.3	428.5%	1391.5%
Total EBITDA	51.2	(12.5)	32.1	356.1%	-37.3%
EBITDA margins	8.3%	-1.9%	5.7%		
Autos	7.1%	-1.1%	0.5%		
Financial Services	38.7%	8.9%	23.4%		
Others	50.1%	-16.1%	380.3%		
BY COUNTRY:					
Malaysia	556.9	606.7	535.1	-11.8%	-3.9%
Vietnam	39.9	7.9	2.2	-72.3%	-94.5%
Others	23.1	29.3	26.5	-9.6%	14.6%
Total Revenue	619.9	643.8	563.7	-12.4%	-9.1%
Malaysia	56.6	(5.7)	44.8	881.5%	-20.8%
Vietnam	(4.2)	(7.7)	(12.1)	-56.4%	-190.3%
Others	(1.2)	0.9	(0.6)	-170.2%	46.7%
Total EBITDA	51.2	(12.5)	32.1	356.1%	-37.3%
Malaysia	10.2%	-0.9%	8.4%		
Vietnam	-10.4%	-97.6%	-550.8%		
Others	-5.1%	3.0%	-2.4%		
EBITDA margin	8.3%	-1.9%	5.7%		

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (FYE Dec)	FY21	FY22	FY23	FY24F	FY25F
Revenue	2,537.3	3,052.2	2,532.7	2,702.0	2,869.6
Operating expenses	(2,474.5)	(3,025.9)	(2,610.8)	(2,748.4)	(2,869.7)
Operating profit	62.8	26.3	(78.1)	(46.4)	(0.0)
Net interest expense	(43.2)	(39.7)	(42.5)	(43.6)	(30.5)
Associates	(1.5)	(0.7)	(0.5)	(0.5)	(0.5)
PBT	18.1	(14.2)	(121.1)	(90.5)	(31.0)
Taxation	(38.3)	(40.7)	(12.7)	(9.4)	(3.2)
Minority Interest	4.8	3.8	5.1	3.8	1.3
Net profit	(15.4)	(51.1)	(128.7)	(96.1)	(32.9)
Core net profit	(15.4)	(35.0)	(128.7)	(96.1)	(32.9)
Balance Sheet	FY21	FY22	FY23	FY24F	FY25F
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
Non-current assets	3,148.3	3,189.4	3,202.2	3,094.2	2,992.4
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	848.2	860.1
Current assets	1,847.6	1,849.0	1,907.9	1,931.7	1,999.7
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	2,301.3	2,261.6
TOTAL EQUITY	2,769.7	2,849.7	2,741.8	2,635.2	2,594.2
Long-term borrowings	-	300.0	450.0	435.0	420.0
Others	417.0	442.8	449.3	449.3	449.3
Non-current liabilities	417.0	742.8	899.3	884.3	869.3
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
Current liabilities	1,809.3	1,445.9	1,469.0	1,506.4	1,528.5

Cash Flow Statement	FY21	FY22	FY23	FY24F	FY25F
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)
CF from Operations	123.2	102.4	(131.9)	388.4	63.1
Capex	(150.0)	(149.0)	(30.0)	(30.0)	(30.0)
CF from Investments	79.9	(30.2)	(186.3)	(30.0)	(30.0)
Dividends paid	(9.8)	(19.6)	(6.5)	(6.7)	(6.7)
Net movement in borrowings	(233.3)	(294.2)	268.6	(15.0)	(15.0)
CF from Financing	(280.7)	(35.1)	266.4	(21.7)	(21.7)
Net changes in cash	(77.6)	37.0	(51.7)	336.6	11.9
Beginning cash	582.0	514.5	558.2	511.6	848.2
Overdrafts & Deposits	10.1	6.6	5.1	0.0	0.0
Ending cash	514.5	558.2	511.6	848.2	860.1
Key Ratios	FY21	FY22	FY23	FY24F	FY25F
PBT margin	0.7%	-0.5%	-4.8%	-3.3%	-1.1%
Core net profit margin	-0.6%	-1.1%	-5.1%	-3.6%	-1.1%
ROA	-0.3%	-0.7%	-2.5%	-1.9%	-0.7%
ROE	-0.6%	-1.2%	-4.7%	-3.6%	-1.3%
Net gearing (%)	27.2%	25.1%	37.6%	25.8%	25.2%
Book value/share (RM)	4.12	4.24	4.08	3.92	3.86
PBV (x)	0.21	0.20	0.21	0.22	0.22
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