

# Tan Chong Motor Holdings Berhad

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

## Still in the Red

### KEY INVESTMENT HIGHLIGHTS

- **2QFY24 result came in within expectation**
- **Auto division hit by weak MYR and fierce competition**
- **TCM expects Nissan to regain market share with upcoming models**
- **No changes to earnings estimates**
- **Maintain NEUTRAL with a revised TP of RM0.77**

**Within expectations.** Tan Chong Motor Holdings Berhad (TCM) reported a core net loss of -RM33.0m, resulting in total core losses of -RM51.3m for 1HFY24. This loss was in line with expectations, representing 53% of our full-year estimate, but it is below the consensus estimate, which was at 69%.

**Underwhelming automotive performance.** In 2QFY24, Group revenue contracted by -12.0%yoy, largely due to a -12.5%yoy decline in the auto division's revenue. This downturn was caused by weaker sales and heightened competition in both local and international markets. Furthermore, the weaker MYR negatively impacted margins, resulting in a -97.1%yoy drop in EBITDA. Despite a +5.9%yoy rise in revenue for the financial services division, EBITDA fell by -40.6%yoy due to increased impairment losses on hire purchase receivables. Meanwhile, TCM's other operations recorded a -7.8%yoy decline in revenue, with EBITDA dropping even more sharply by -81.3%yoy due to reduced net foreign exchange gains from transactions and outstanding balances in foreign currencies.

**Outlook.** With the e-powered model set to launch towards the end-CY24 and additional new models scheduled over the next 2 years in the domestic market, the Nissan segment is anticipated to regain some of its market share moving forward. In Vietnam, the Euro 5 King Long buses and TQ Wuling N300P light commercial pick-ups are expected to maintain its sales momentum and enhance plant utilisation. Additionally, with the recent introduction of the GAC CBU models M8 and GS8, TCM remains cautiously optimistic that performance in Vietnam will begin to improve in the coming months.

**Maintain NEUTRAL.** There are no changes to our earnings estimates. However, we have updated our valuation to a P/BV of 0.20x (down from 0.23x) which is its 3-year historical mean, based on the FY25F BVPS (rolled forward valuation base year). Consequently, our target price is now lower at **RM0.77** (from RM0.91). This adjustment better reflects the current weak earnings outlook and the absence of appealing new models in the market.

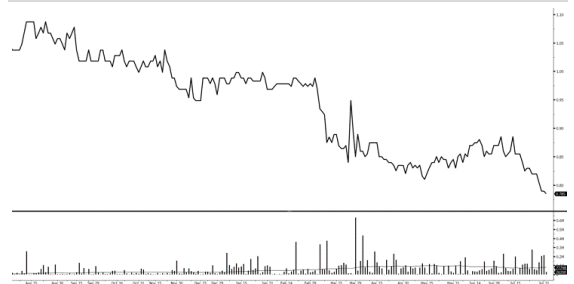
**Maintain NEUTRAL**

**Revised Target Price: RM0.77**  
(Previously RM0.91)

### RETURN STATISTICS

Price @ 30 <sup>th</sup> August 2024 (RM)	0.74
Expected share price return (%)	+4.1
Expected dividend yield (%)	+1.4
<b>Expected total return (%)</b>	<b>+5.5</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-9.8	-11.2
3 months	-9.8	-9.8
12 months	-25.9	-33.8

### INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	2,532.7	2,702.0	2,869.6
Operating profit	-78.1	-46.4	-0.04
PBT	-121.1	-90.4	-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	1.4	1.4	1.4

### KEY STATISTICS

FBM KLCI	1,678.80
Issue shares (m)	651.81
Estimated free float (%)	20.72
Market Capitalisation (RM'm)	511.56
52-wk price range	RM0.78 - RM1.1
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	0.06
Top Shareholders (%)	
Tan Chong Consolidated	40.49
Employees Provident Fund Board	5.97
Daiwa Securities Group Inc	5.73

**TAN CHONG MOTOR: 2Q24 RESULTS SUMMARY**

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2QFY24	1QFY24	2QFY23	QoQ	YoY	6MFY24	6MFY23	YoY
<b>Income Statement</b>								
Revenue	545.1	563.7	619.2	-3.3%	-12.0%	1,108.8	1,239.1	-10.5%
EBITDA	9.2	32.1	55.8	-71.2%	-83.4%	41.4	107.0	-61.3%
Operating profit	-28.6	-4.3	2.8	-561.3%	<100%	-32.9	16.0	-305.4%
Net interest expense	-13.2	-11.7	-10.7	-12.9%	-24.0%	-24.9	-20.8	-20.0%
Associates	-0.5	-0.1	-0.2	-294.2%	-180.6%	-0.6	-0.8	22.5%
PBT	-42.3	-16.1	-8.0	-161.9%	-425.5%	-58.4	-5.5	-962.6%
Tax expense	-0.6	-3.6	-12.0	82.0%	94.6%	-4.2	-20.3	79.2%
PATAMI	-40.1	-15.7	-18.1	-155.2%	-121.2%	-55.8	-23.2	-140.6%
Core PATAMI	-33.0	-18.3	-18.1	-80.3%	-82.2%	-51.3	-33.4	-53.6%
				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
EBITDA margin (%)	1.7%	5.7%	9.0%	-4.0	-7.3	3.7%	8.6%	-490.5%
OP margin (%)	-5.2%	-0.8%	0.4%	-4.5	-5.7	-3.0%	1.3%	-426.4%
PBT margin (%)	-7.8%	-2.9%	-1.3%	-4.9	-6.5	-5.3%	-0.4%	-482.7%
Core PATAMI margin (%)	-6.1%	-3.2%	-2.9%	-2.8	-3.1	-4.6%	-2.7%	-193.0%
Effective tax rate (%)	1.5%	22.1%	148.7%	-20.6	-147.2	7.2%	368.4%	<100%

Source: Company, MIDFR

**SEGMENTAL BREAKDOWN**

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2QFY24	1QFY24	2QFY23	QoQ	YoY	6MFY24	6MFY23	YoY
<b>Revenue</b>								
Automotive	521.1	538.4	595.6	-3.2%	-12.5%	1,059.5	1,194.7	-11.3%
Financial services	16.8	18.7	15.9	-10.1%	5.9%	35.5	33.3	6.6%
Others	7.2	6.7	7.8	7.7%	-7.8%	13.8	11.2	23.8%
	545.1	563.7	619.2	-3.3%	-12.0%	1,108.8	1,239.1	-10.5%
<b>EBITDA</b>								
Automotive	0.5	2.5	18.2	-78.9%	-97.1%	3.0	61.0	-95.1%
Financial services	2.5	4.4	4.2	-43.5%	-40.6%	6.8	10.9	-37.2%
Others	6.3	25.3	33.4	-75.3%	-81.3%	31.6	35.1	-10.2%
	9.2	32.1	55.8			41.4	107.0	
<b>EBITDA Margin</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Automotive	0.1%	0.5%	3.1%	-0.36	-2.95	0.3%	5.1%	-4.82
Financial services	14.7%	23.4%	26.2%	-8.69	-11.52	19.3%	32.7%	-13.45
Others	87.3%	380.3%	430.2%	-292.96	-342.87	228.4%	314.9%	-86.55

Source: Company, MIDFR

**GEOGRAPHICAL BREAKDOWN**

FYE Dec (RM'm)	Quarterly					Cumulatively		
	2QFY24	1QFY24	2QFY23	QoQ	YoY	6MFY24	6MFY23	YoY
<b>Revenue</b>								
Malaysia	519.0	535.1	550.1	-3.0%	-5.7%	1,054.1	1,107.0	-4.8%
Vietnam	6.8	2.2	46.8	210.5%	-85.5%	9.0	86.6	-89.6%
Others	19.3	26.5	22.3	-27.1%	-13.6%	45.7	45.4	0.7%
	545.1	563.7	619.2	-3.3%	-12.0%	1,108.8	1,239.1	-10.5%
<b>EBITDA</b>								
Malaysia	24.7	56.6	68.5	-56.4%	-64.0%	69.5	125.1	-44.4%
Vietnam	-12.9	-4.2	-10.1	-209.6%	-26.8%	-24.9	-14.3	-74.3%
Others	-2.6	-1.2	-2.6	-119.6%	0.6%	-3.2	-3.8	15.0%
	9.2	51.2	55.8			41.4	107.0	
<b>EBITDA Margin</b>				<b>ppts</b>	<b>ppts</b>			<b>ppts</b>
Malaysia	4.8%	10.6%	12.5%	-5.82	-7.70	6.6%	11.3%	-4.71
Vietnam	-189.2%	-189.7%	-21.7%	0.54	-167.50	-277.3%	-16.5%	-260.78
Others	-13.4%	-4.4%	-11.6%	-8.93	-1.75	-7.0%	-8.3%	1.29

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
Revenue	2,537.3	3,052.2	2,532.7	2,702.0	2,869.6
Operating profit	62.8	26.3	-78.1	-46.4	-0.04
PBT	18.1	-14.2	-121.1	-90.4	-31.0
PATAMI	-15.4	-51.1	-128.7	-96.1	-32.9
Core PATAMI	-15.4	-35.0	-128.7	-96.1	-32.9
EPS (sen)	-2.3	-5.2	-19.2	-14.3	-4.9
DPS (sen)	1.5	3.0	1.0	1.0	1.0
Dividend yield	2.0%	4.1%	1.4%	1.4%	1.4%
<b>Balance Sheet (RM'm)</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
<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
Cash & equivalents	514.5	558.2	511.6	848.2	860.1
<b>Current assets</b>	<b>1,847.6</b>	<b>1,849.0</b>	<b>1,907.9</b>	<b>1,931.7</b>	<b>1,999.7</b>
Share capital	336.0	336.0	336.0	336.0	336.0
Reserves	2,455.5	2,536.3	2,404.1	2,301.3	2,261.6
<b>Total equity</b>	<b>2,769.7</b>	<b>2,849.7</b>	<b>2,741.8</b>	<b>2,635.2</b>	<b>2,594.2</b>
Long-term borrowings	-	300.0	450.0	435.0	420.0
<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 (RM'm)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
PBT	178.6	114.3	-161.3	18.1	-14.2
Depreciation & Amortisation	100.4	137.0	136.9	141.4	148.4
Changes in working capital	402.8	-189.1	676.5	68.2	-21.7
<b>Operating cash flow</b>	<b>528.9</b>	<b>-23.9</b>	<b>572.3</b>	<b>123.2</b>	<b>102.4</b>
Capex	-89.5	-296.9	-150.0	-150.0	-149.0
<b>Investing cash flow</b>	<b>-50.2</b>	<b>-101.5</b>	<b>-270.7</b>	<b>79.9</b>	<b>-30.2</b>
Dividends paid	-26.9	-26.9	-26.9	-9.8	-19.6
Net movement in borrowings	-255.9	42.5	-108.2	-233.3	-294.2
<b>Financing cash flow</b>	<b>-275.8</b>	<b>12.6</b>	<b>-135.0</b>	<b>-280.7</b>	<b>-35.1</b>
<b>Net changes in cash</b>	<b>202.9</b>	<b>-112.8</b>	<b>166.6</b>	<b>-77.6</b>	<b>37.0</b>
<b>Beginning cash</b>	<b>318.0</b>	<b>522.1</b>	<b>407.8</b>	<b>582.0</b>	<b>514.5</b>
<b>Ending cash</b>	<b>522.1</b>	<b>407.8</b>	<b>582.0</b>	<b>514.5</b>	<b>558.2</b>
<b>Margins</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
OP margin	2.5%	0.9%	-3.1%	-1.7%	-0.001%
PBT margin	0.7%	-0.5%	-4.8%	-3.3%	-1.1%
Core PATAMI margin	-0.6%	-1.1%	-5.1%	-3.6%	-1.1%

Source: Company, MIDF

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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