

PP14767/09/2012(030761)

Tan Chong Motor Holdings Bhd

“Lacking the X-Factor”

Results Review

- **Actual vs. expectations.** Tan Chong Motor Holdings Bhd (TCM) registered a core net loss of RM11 million in 1Q16 vs. 1Q15 core net profit of RM24 million, excluding exceptional item, that came in below ours and consensus estimates respectively. Disappointing earnings performance in 1Q16 was due to EBITDA margin compression which plunged by 4pps y-o-y to 1% (1Q16: 5%) impacted by heavy discounting activities coupled with the strengthening of USD against Ringgit which further pressurised TCM's EBITDA margin.
- **Dividend.** No dividend was declared during the quarter.
- **Topline vs. Bottomline.** TCM's automotive segment revenue slipped to RM1.4 billion (-7% y-o-y, -3% q-o-q) in 1Q16 hammered by weaker Nissan's vehicle sales which dropped by 19% y-o-y to 10k units, raking-in 8% market share of 1Q16 TIV of 131k units, behind Honda market share of 14%. Moreover, TCM also posted a lower automotive EBITDA of RM14 million (-82% y-o-y, -65% q-o-q) impacted by higher CKD kits cost arising from unfavourable foreign exchange movement during the period. This was further pressurised by higher promotional cost. Note that Ringgit continued its downtrend performance in 1Q16, tumbling to an average RM4.08/USD compared to 1Q15 average of RM3.65/USD.
- **Outlook.** The group has announced a price increase effective from 1 April 2016 for its locally-assembled Nissan models comprise of Nissan Almera, Grand Livina, X-Gear and Teana with the price hikes ranging from 2.8% to 6.7%. We expect Nissan sales volume to remain weak in 2016 due to challenging outlook on automotive industry largely hampered by soft consumer sentiment

Wednesday, May 11, 2016

SELL (TP: RM1.87)

Current Price (RM)	RM2.20
New Target Price (RM)	RM1.87
Previous Target Price (RM)	RM2.45
Previous Recommend.	SELL
Upside To Target Price	-15%
Dividend Yield (FY17)	3%

Stock Code

Bloomberg	TCM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	Yes
Issued Shares (mn)	653
Market Cap (RM mn)	1,436
YTD Chg In Share Price	-15%
Beta (x)	0.81
52-week Hi/Lo (RM)	3.11 2.20
3M Average Volume (shrs)	0.06mn
Estimated Free Float	15%

Major Shareholders

Tan Chong Co.	44%
EPF	9%

Results Review - Tan Chong Motor Holdings Bhd

in tandem with rising cost of living and lack of purchasing power due to weaker Ringgit performance. Although there could be a temporary dent in sales but we believe Nissan will be able to garner back its market share underpin by its strong loyal base of customers and Nissan strong brand name.

- **Change to forecast.** We made adjustment to our earnings by cutting our FY16 and FY17 earnings forecast by 25% and 40% respectively due to i) higher CKD cost on less-than-favourable currency movement and ii) higher marketing cost pressurised by stiff competition. Given that, FY16 earnings are expected to fall by 28% y-o-y impacted by weaker consumer sentiment which will affect the sales volume of Nissan while FY17 earnings are forecasted to grow by 31% y-o-y driven by the expected strengthening of Ringgit against USD to fuel the recovery in TCM's EBITDA margin.
- **Valuation & recommendation.** We re-value TCM at RM1.87 based on the last average 3-years PER of 17x pegged to FY17 EPS of 11sen and the stock is a **SELL**. Re-rating catalysts may come from i) aggressive regional expansion plan and ii) better-than-expected Malaysia's TIV growth going forward.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
UMW Holdings	Dec	6.18	43	50	18.0	15.1	1.3	1.3	5	5	6.66	Hold
Tan Chong	Dec	2.20	13	18	20.4	14.8	0.6	0.6	3	2	1.87	Sell
MBM Resources	Dec	2.20	28	31	8.4	7.6	0.6	0.6	7	3	2.79	Buy
Berjaya Auto	Apr	2.27	21	24	10.0	8.8	3.7	3.0	52	5	2.42	Buy
APM Automotive	Dec	3.86	36	38	11.2	10.5	NA	NA	7	5	NR	NR
Average					13.6	11.4	1.5	1.4	15	4		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	5,199	4,761	5,717	5,556	5,889
EBIT	388	210	169	139	165
Net finance (cost)/income	(49)	(42)	(56)	(67)	(71)
Associates	4	3	2	3	3
PBT	360	171	115	75	97
Net profit	251	106	75	54	71
EPS	38	16	11	8	11
PBT margin	7%	4%	2%	1%	2%
Net profit margin	5%	2%	1%	1%	1%
P/E (x)	10.7	20.5	21.0	26.4	20.3
P/BV (x)	1.7	0.8	0.6	0.6	0.6
DPS (sen)	16	6	5	6	6
Dividend yield	4%	2%	2%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	1,569	1,510	1,465	-3%	-7%	1,569	1,465	-7%
EBITDA	86	58	14	-76%	-84%	86	14	-84%
Interest expenses	(15)	(21)	(18)	-11%	22%	(15)	(18)	22%
Associate	1.2	0.04	0.5	1225%	-56%	1.2	0.5	-56%
PBT	44	11	(37)	NM	NM	44	(37)	NM
Taxation	(18)	(8)	(2)	-79%	-91%	(18)	(2)	-91%
Net profit	26	5	(37)	NM	NM	26	(37)	NM
EPS (sen)	4	1	(6)	NM	NM	4	(6)	NM
EBITDA margin	5%	7%	1%			5%	1%	
PBT margin	3%	3%	-3%			3%	-3%	
Net profit margin	2%	2.1%	-3%			2%	-3%	
Effective tax rate	41%	26%	-5%			41%	-5%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

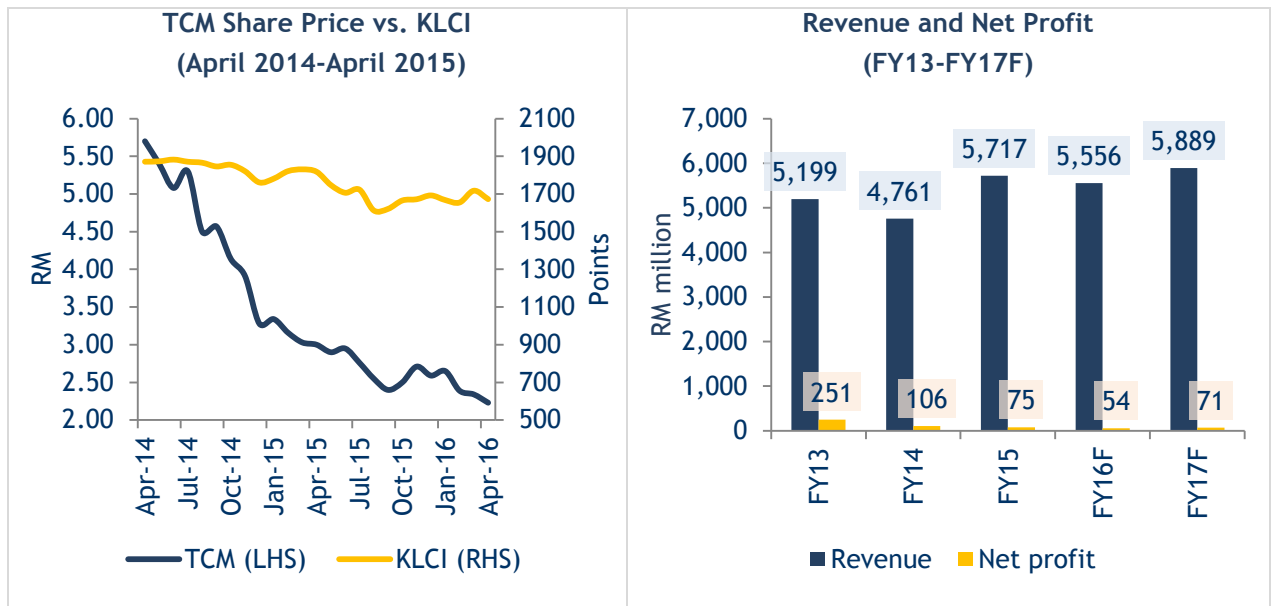
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Automotive	1,550	1,493	1,449	-3%	-7%	1,550	1,449	-7%
Financial services	14	15	14	-8%	-4%	14	14	-4%
Others	4	2	3	12%	-37%	4	3	-37%
<u>EBITDA</u>								
Automotive	73	38	14	-65%	-82%	73	14	-82%
Financial services	7	4	3	-25%	-55%	7	3	-55%
Others	5.6	15	(3)	NM	NM	5.6	(3)	NM

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2016 TIV

Marque	Mar-15	Feb-16	Mar-16	m-o-m	y-o-y	3M15	3M16	y-o-y
Proton	10,528	5,947	5,535	-7%	-47%	27,682	19,225	-31%
Perodua	22,497	14,014	17,629	26%	-22%	57,153	47,181	-17%
Toyota	7,335	3,007	4,440	48%	-39%	16,603	10,488	-37%
Honda	9,581	5,616	7,418	32%	-23%	22,145	18,777	-15%
Nissan	5,005	2,773	4,350	57%	-13%	13,226	10,773	-19%
Mazda	1,503	782	1,416	81%	-6%	3,372	3,552	5%
Others	10,865	5,737	8,012	40%	-26%	28,125	21,271	-24%
TIV	67,314	37,876	48,800	29%	-28%	168,306	131,267	-22%
Passenger	59,318	34,126	43,247	27%	-27%	148,932	117,373	-21%
Commercial	7,996	3,750	5,553	48%	-31%	19,374	13,894	-28%

Source: MAA, M&A Securities



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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