

PP14767/09/2012(030761)

Tan Chong Motor Holdings Bhd

“Margin Deterioration”

Results Review

- Actual vs. expectations.** Tan Chong Motor Holdings Bhd (TCM) 1Q15 net profit of RM26 million (-36% y-o-y), came in below ours but slightly in line with consensus estimates respectively, accounting 17% and 20% of ours and consensus full year net profit forecast. Disappointing net profit performance in 1Q15 was due EBITDA margin compression which plunged by 3pps y-o-y to 5% (1Q14: 8%), impacted by heavy discounting activities coupled with the strengthening of USD against Ringgit which further weighed on TCM's EBITDA margin.
- Dividend.** No dividend was declared during the quarter.
- Automotive contribution.** TCM's automotive segment revenue surged to RM1.6 billion (+25% y-o-y) in 1Q15 driven by higher Nissan's vehicle sales which grew by 11% y-o-y to 13,226 unit, raking-in 8% market share of the total 1Q15 TIV of 168,306 units, behind Honda and Toyota market share of 13% and 10% respectively. Strong buying momentum was lifted by aggressive promotional activities ahead of the implementation of GST in April 2015. However, TCM posted a lower automotive EBITDA of RM73 million (-23% y-o-y) impacted by higher CKD kits cost arising from unfavourable foreign exchange movement during the period. Note that Ringgit continued its downtrend performance in 1Q15, tumbling to average RM3.65/USD compared to 1Q14 average of RM3.29/USD.
- New launches in FY15.** We expect Nissan vehicle sales to slightly improve in FY15 to 48k units (FY14: 46k units) on the back of new launches consisting of Nissan Almera Facelift (January 2015), all new Nissan X-Trail (January 2015) and all new Navara (2H2015). The management is aiming to sell the new Nissan X-Trail at

Thursday, May 14, 2015

HOLD (TP: RM3.00)

Current Price (RM)	RM3.05
New Target Price (RM)	RM3.00
Previous Target Price (RM)	RM3.03
Previous Recommend.	HOLD
Upside To Target Price	-2%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	TCM MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	No
Issued Shares (mn)	653
Market Cap (RM mn)	1,958
YTD Chg In Share Price	-9%
Beta (x)	0.66
52-week Hi/Lo (RM)	5.62 2.98
3M Average Volume (shrs)	0.08mn
Estimated Free Float	21%

Major Shareholders

Tan Chong Co.	40%
EPF	9%

400-500 units monthly while we reckon a stiff competition in the B-segment market will continue to dampen the sales volume of Nissan Almera following the entrance of Perodua Myvi Facelift and the all new Mazda 2 in January 2015.

- **Change to forecast.** We made adjustment to our earnings by cutting our FY15 and FY16 earnings forecast by 18% and 10% respectively due to the i) softer sales of Nissan Almera and ii) higher marketing cost pressurised by stiff competition. Nonetheless, FY15 and FY16 earnings are forecasted to grow by 17% y-o-y and 30% y-o-y respectively driven by i) expected recovery in Nissan's market share and ii) launch of the new Nissan Navarra and X-Trail in FY15.
- **Valuation & recommendation.** TCM is valued at RM3.00 based on 17x PER (30% discount to last average 3-years PER) pegged to FY16 EPS of 25sen and the stock is a **HOLD**. Re-rating catalyst 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
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	10.80	77	84	14.1	13.0	1.8	1.7	10	4	11.57	Hold
Tan Chong	Dec	3.05	22	29	14.0	10.3	0.7	0.7	4	2	3.00	Hold
MBM Resources	Dec	3.40	37	41	9.3	8.3	0.8	0.8	8	2	3.80	Buy
Berjaya Auto	Apr	3.89	23	29	15.6	13.8	6.9	5.8	52	3	4.30	Buy
APM Automotive	Dec	5.25	53	56	9.7	9.2	1.0	1.0	10	4	NR	NR
Average					12.5	10.9	2.3	2.0	17	3		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	4,086	5,199	4,761	4,922	5,464
EBIT	244	388	210	222	273
Net finance (cost)/income	(28)	(49)	(42)	(44)	(49)
Associates	1	4	3	3	3
PBT	218	360	171	180	227
Net profit	158	251	106	124	161
EPS	24	38	16	19	25
PBT margin	5%	7%	4%	4%	4%
Net profit margin	4%	5%	2%	3%	3%
P/E (x)	19.1	10.7	20.5	16.0	12.3
P/BV (x)	1.6	1.7	0.8	0.7	0.7
DPS (sen)	9	16	6	6	6
Dividend yield	2%	4%	2%	2%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	1,260	1,264	1,569	24%	25%	1,260	1,569	25%
EBITDA	103	51	86	69%	-16%	103	86	-16%
Interest expenses	(12)	(16)	(15)	-5%	26%	(12)	(15)	26%
Associate	1	0.4	1	200%	-8%	1	1	-8%
PBT	64	15	44	184%	-32%	64	44	-32%
Taxation	(22)	(7)	(18)	155%	-19%	(22)	(18)	-19%
Net profit	41	9	26	203%	-36%	41	26	-36%
EPS (sen)	6	1	4	211%	-36%	6	4	-36%
EBITDA margin	8%	4%	5%			8%	5%	
PBT margin	5%	1%	3%			5%	3%	
Net profit margin	3%	0.7%	2%			3%	2%	
Effective tax rate	35%	46%	41%			35%	41%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue								
Automotive	1,244	1,247	1,550	24%	25%	1,244	1,550	25%
Financial services	14	13	14	11%	6%	14	14	6%
Others	3	4	4	22%	66%	3	4	66%
EBITDA								
Automotive	95	37	73	99%	-23%	95	73	-23%
Financial services	7	2	7	223%	-2%	7	7	-2%
Others	0.3	12	6	-53%	1763%	0.3	6	1763%

Source: Bursa Malaysia, M&A Securities

Table 5: Selected New Launches 2014/2015

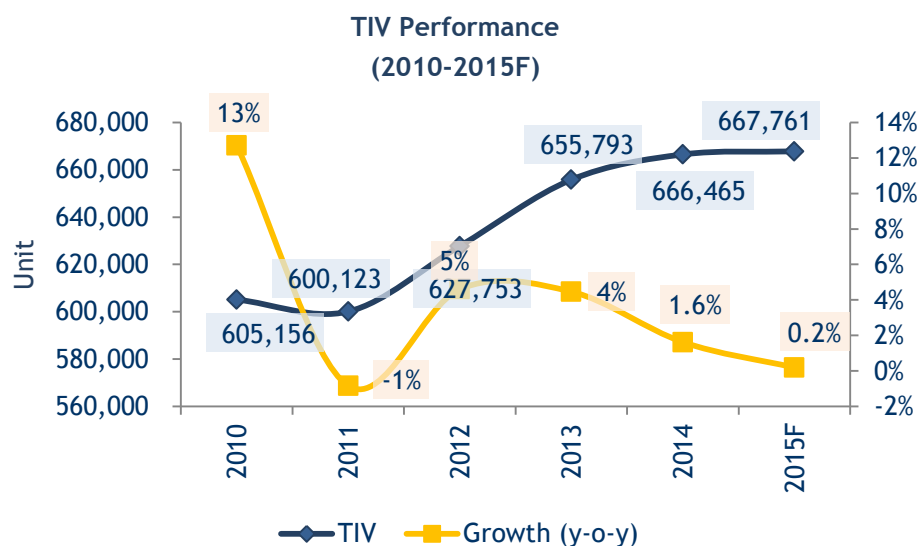
Model	Launch	Segment	OTR price (RM)
Toyota Rush Facelift	Apr-15	SUV	98k-103k
Toyota Camry	Apr-15	D	150k-175k
Mazda CX-5 GL	Apr-15	SUV	126k-133k
Mazda 3	Apr-15	C	106k-121k
Honda H-RV	Feb-15	SUV	99k-119k
Proton Exora Facelift	Feb-15	MPV	57k-82k
Perodua Myvi Facelift	Jan-15	B	42k-59k
Mazda 2	Jan-15	B	88k
Nissan Almera Facelift	Jan-15	B	65k-78k
Nissan X-Trail	Jan-15	SUV	142k-165k
Perodua Axia	Sep-14	A	24K-42K
Proton Iriz	Sep-14	B	42k-62k
Honda Jazz	Jul-14	B	73k-88k
Nissan Teana	Jun-14	D	140k-170k
Mazda 5	May-14	MPV	157k
Perodua Myvi XT	Apr-14	B	41k - 44k
Nissan Sylphy	Apr-14	C	112k - 122k

Source: Company, M&A Securities

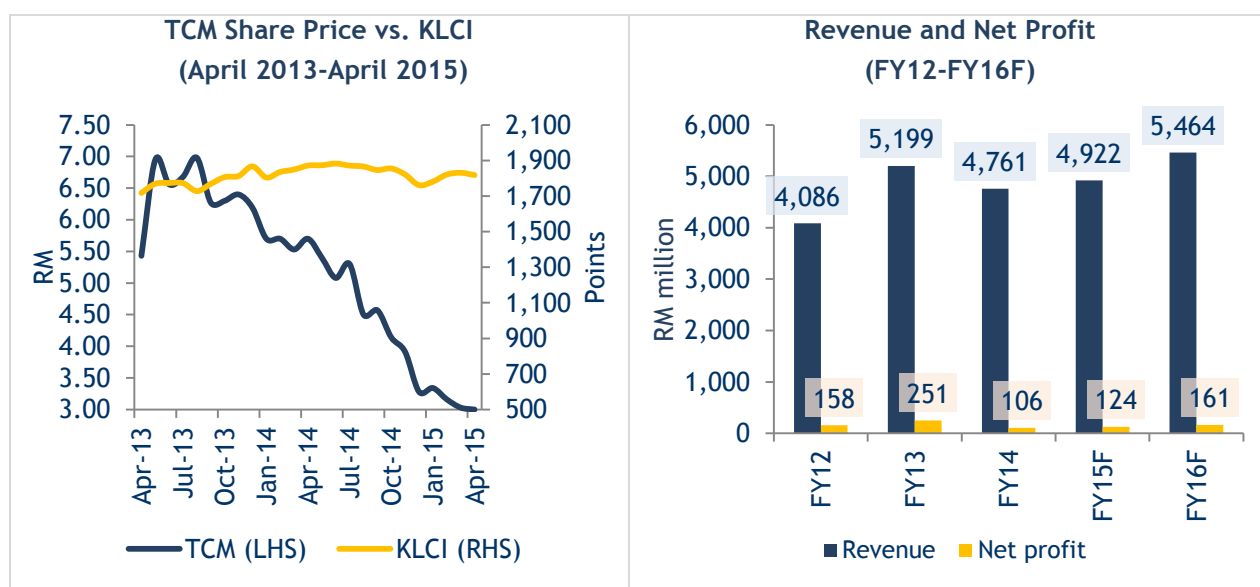
Table 6: YTD 2015 TIV

Marque	Mar-14	Feb-15	Mar-15	m-o-m	y-o-y	3M14	3M15	y-o-y
Proton	12,315	8,254	10,528	28%	-15%	32,734	27,682	-15%
Perodua	16,324	18,589	22,497	21%	38%	44,024	57,153	30%
Toyota	10,046	5,159	7,335	42%	-27%	24,634	16,603	-33%
Honda	4,915	6,042	9,581	59%	95%	15,627	22,145	42%
Nissan	3,994	3,515	5,005	42%	25%	11,957	13,226	11%
Mazda	918	994	1,503	51%	64%	2,257	3,372	49%
Others	10,407	7,837	10,865	39%	4%	28,677	28,125	-2%
TIV	58,919	50,390	67,314	33.6%	14%	159,910	168,306	5.250%
Passenger	52,122	44,917	59,318	32%	14%	52,122	148,932	186%
Commercial	6,797	5,473	7,996	46%	18%	17,382	19,374	11%

Source: MAA, M&A Securities



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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