

PP14767/09/2012(030761)

Tan Chong Motor Holdings Bhd

“Margin Descent”

Results Review

- **Actual vs. expectations.** Tan Chong Motor Holdings Bhd (TCM) 6M15 core net profit of RM35 million, excluding exceptional item, came in below ours and consensus estimates respectively, accounting 28% of both divide full year net profit forecast. Disappointing net profit performance in 6M15 was due EBITDA margin compression which plunged by 5pps y-o-y to 5% (6M14: 10%), impacted by heavy discounting activities coupled with the strengthening of USD against Ringgit which further pressurised TCM's EBITDA margin.
- **Dividend.** Declared an interim dividend of 2.0sen/share for 6M15, equivalent to a dividend payout ratio of 32%, significantly higher than 6M14 payout of 20%, translating into a net dividend yield of 0.8%.
- **Topline vs. Bottomline.** TCM's automotive segment revenue surged to RM2.8 billion (+21% y-o-y) in 6M15 driven by higher Nissan's vehicle sales which grew by 5% y-o-y to 24k units, raking-in 7% market share of the total 6M15 TIV of 322k units, behind Honda and Toyota market share of 14% and 12% respectively. However, TCM posted a lower automotive EBITDA of RM128 million (-41% 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 2Q15, tumbling to an average RM3.67/USD compared to 2Q14 average of RM3.23/USD.
- **New launches in FY15.** We expect Nissan vehicle sales to improve slightly 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). Note that the management is aiming to sell the new Nissan X-Trail at

Tuesday, September 01, 2015

HOLD (TP: RM2.55)

Current Price (RM)	RM2.55
New Target Price (RM)	RM2.55
Previous Target Price (RM)	RM3.00
Previous Recommend.	HOLD
Upside To Target Price	0%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	TCM MK
-----------	--------

Stock & Market Data

Listing	MAIN MARKET
Sector	Automotive
Shariah Compliance	No
Issued Shares (mn)	653
Market Cap (RM mn)	1,625
YTD Chg In Share Price	-24%
Beta (x)	0.71
52-week Hi/Lo (RM)	5.27 2.49
3M Average Volume (shrs)	0.09mn
Estimated Free Float	19%

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 by 11% due to i) softer sales of Nissan Almera and ii) higher marketing cost pressurised by stiff competition. We, nonetheless, keep unchanged our FY16 earnings forecast. Given that, FY15 and FY16 earnings are forecasted to grow by 4% y-o-y and 45% 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.** We re-value TCM at RM2.55 based on 10x PER (40% discount to last average 3-years PER of 17x) pegged to FY16 EPS of 25sen and the stock is a **HOLD**. 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
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	8.50	63	73	15.9	13.8	1.7	1.6	9	4	8.77	Hold
Tan Chong	Dec	2.55	19	26	14.5	10.5	0.6	0.6	3	2	3.00	Hold
MBM Resources	Dec	2.94	36	40	9.7	8.6	0.8	0.8	8	2	3.88	Buy
Berjaya Auto	Apr	2.14	22	25	11.4	10.5	5.2	4.4	53	3	3.32	Buy
APM Automotive	Dec	4.20	52	55	8.5	8.0	0.9	0.8	9	4	NR	NR
Average					12.0	10.3	1.8	1.7	16	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	5,241	5,556
EBIT	244	388	210	210	278
Net finance (cost)/income	(28)	(49)	(42)	(52)	(56)
Associates	1	4	3	3	3
PBT	218	360	171	160	225
Net profit	158	251	106	110	160
EPS	24	38	16	17	25
PBT margin	5%	7%	4%	3%	4%
Net profit margin	4%	5%	2%	2%	3%
P/E (x)	19.1	10.7	20.5	15.1	10.4
P/BV (x)	1.6	1.7	0.8	0.6	0.6
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)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	1,088	1,569	1,264	-19%	16%	2,348	2,833	21%
EBITDA	126	86	69	-19%	-45%	229	155	-32%
Interest expenses	(14)	(15)	(17)	13%	22%	(26)	(32)	24%
Associate	1	1	1	-42%	40%	2	2	7%
PBT	81	44	23	-48%	-72%	145	67	-54%
Taxation	(15)	(18)	(10)	-46%	-34%	(37)	(28)	-25%
Net profit	54	26	14	-46%	-74%	95	41	-58%
EPS (sen)	8	4	2	-46%	-74%	15	6	-57%
EBITDA margin	12%	5%	5%			10%	5%	
PBT margin	7%	3%	2%			6%	2%	
Net profit margin	5%	1.7%	1%			4%	1%	
Effective tax rate	18%	41%	42%			25%	42%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

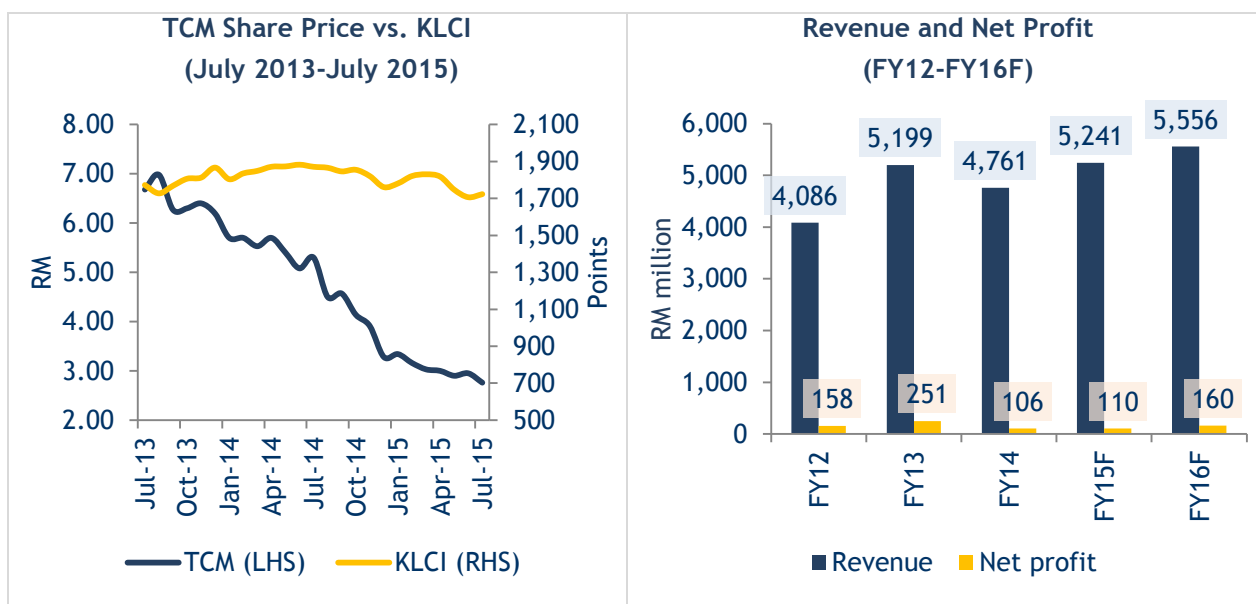
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
<u>Revenue</u>								
Automotive	1,072	1,550	1,248	-19%	16%	2,316	2,799	21%
Financial services	13	14	13	-9%	1%	27	27	3%
Others	3	4	2	-46%	-8%	5	7	29%
<u>EBITDA</u>								
Automotive	122	73	55	-25%	-55%	217	128	-41%
Financial services	3	7	6	-15%	85%	11	13	25%
Others	0.3	6	8	45%	2603%	1	14	2183%

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2015 TIV

Marque	Jun-14	May-15	Jun-15	m-o-m	y-o-y	1H14	1H15	y-o-y
Proton	10,060	8,285	9,267	12%	-8%	63,040	50,206	-20%
Perodua	16,834	17,290	16,475	-5%	-2%	94,500	108,502	15%
Toyota	9,755	7,724	9,173	19%	-6%	51,938	39,690	-24%
Honda	7,295	6,221	8,668	39%	19%	37,203	43,596	17%
Nissan	3,519	3,300	3,765	14%	7%	22,113	23,294	5%
Mazda	1,063	1,155	1,350	17%	27%	5,794	6,582	14%
Others	10,035	7,277	8,739	20%	-13%	58,554	50,314	-14%
TIV	58,561	51,252	57,437	12%	-2%	333,142	322,184	-3%
Passenger	51,898	45,874	50,695	11%	-2%	296,779	286,533	-3%
Commercial	6,663	5,380	35,651	563%	435%	36,363	35,651	-2%

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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my