

PP14767/09/2012(030761)

Tan Chong Motor Holdings Bhd

“Margin Deterioration”

Results Review

- **Actual vs. expectations.** Tan Chong Motor Holdings Bhd (TCM) 9M15 core net profit of RM41 million (-64% y-o-y), excluding exceptional item, came in below ours and consensus estimates respectively, accounting 37% and 51% of both divides full year net profit forecast. Disappointing net profit performance in 9M15 was due EBITDA margin compression which plunged by 2pps y-o-y to 6% (9M14: 8%), 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 surged to RM4.2 billion (+20% y-o-y) in 9M15 driven by higher Nissan's vehicle sales which grew by 7% y-o-y to 35k units, raking-in 7% market share of the total 9M15 TIV of 485k units, behind Honda and Toyota market share of 14% and 13% respectively. However, TCM posted a lower automotive EBITDA of RM207 million (-21% 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 3Q15, tumbling to an average RM4.14/USD compared to 3Q14 average of RM3.21/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

Thursday, November 19, 2015

SELL (TP: RM2.47)

Current Price (RM)	RM2.88
New Target Price (RM)	RM2.47
Previous Target Price (RM)	RM2.55
Previous Recommend.	HOLD
Upside To Target Price	-14%
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)	1,788
YTD Chg In Share Price	-16%
Beta (x)	0.82
52-week Hi/Lo (RM)	4.23 2.28
3M Average Volume (shrs)	0.05mn
Estimated Free Float	19%

Major Shareholders

Tan Chong Co.	40%
EPF	9%

Results Review - Tan Chong Motor Holdings Bhd

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.

- **Outlook.** With ringgit is expected to remain in protracted weakness form in 2016, we expect TCM performance will continue to be impacted next year, albeit slightly better than 2015 as the worse is almost over. TCM may able to offset the downside risk to earnings if it can pass back the elevating cost to consumers via car price upward adjustments. 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 FY15 and FY16 earnings forecast by 24% and 30% 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 forecasted to grow by 33% y-o-y driven by i) expected recovery in Nissan's market share and ii) higher sales volume of Nissan Navarra and X-Trail.
- **Valuation & recommendation.** We re-value TCM at RM2.47 based on 14x PER (15% discount to last average 3-years PER of 17x) pegged to FY16 EPS of 17sen 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
			FY15	FY16	FY15	FY16	FY15	FY16				
UMW Holdings	Dec	8.35	45	54	18.1	15.1	1.4	1.4	8	5	7.80	Hold
Tan Chong	Dec	2.88	11	16	25.2	16.5	0.6	0.6	2	2	2.47	Sell
MBM Resources	Dec	2.83	32	36	8.5	7.5	0.7	0.6	8	3	3.20	Buy
Berjaya Auto	Apr	2.14	20	22	10.0	9.4	4.2	3.6	52	5	2.45	Buy
APM Automotive	Dec	4.00	49	49	8.3	8.3	0.7	NA	8	5	NR	NR
Average					14.0	11.4	1.5	1.6	15	4		

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	183	222
Net finance (cost)/income	(28)	(49)	(42)	(63)	(67)
Associates	1	4	3	3	3
PBT	218	360	171	124	159
Net profit	158	251	106	84	112
EPS	24	38	16	13	17
PBT margin	5%	7%	4%	2%	3%
Net profit margin	4%	5%	2%	2%	2%
P/E (x)	19.1	10.7	20.5	22.3	16.8
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)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	1,149	1,264	1,374	9%	20%	3,497	4,206	20%
EBITDA	51	69	94	36%	84%	280	249	-11%
Interest expenses	(14)	(17)	(19)	10%	33%	(40)	(51)	27%
Associate	1	1	0.4	-43%	-50%	3	2	-12%
PBT	10	23	38	65%	269%	155	104	-33%
Taxation	(7)	(10)	(10)	0%	34%	(44)	(37)	-15%
Net profit	2	14	29	106%	1460%	97	70	-28%
EPS (sen)	0	2	4	106%	1441%	15	11	-28%
EBITDA margin	4%	5%	7%			8%	6%	
PBT margin	1%	2%	3%			4%	2%	
Net profit margin	0%	1.1%	2%			3%	2%	
Effective tax rate	71%	42%	26%			28%	36%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

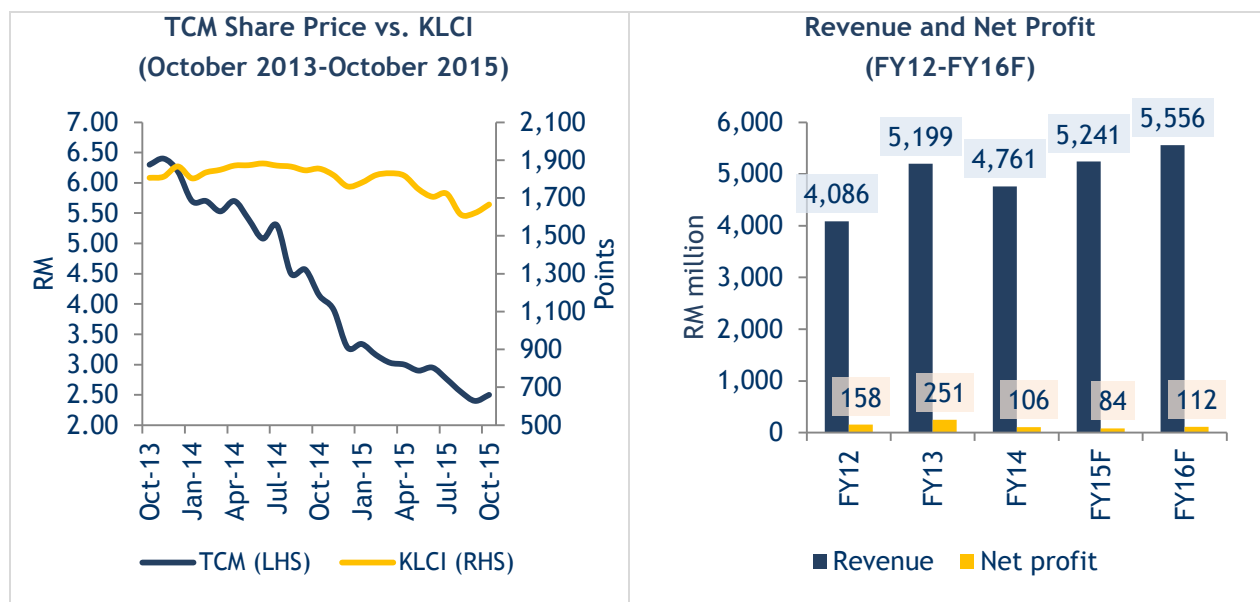
YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Automotive	1,132	1,248	1,355	9%	20%	3,448	4,154	20%
Financial services	14	13	14	9%	3%	40	42	3%
Others	3	2	4	81%	45%	8	11	35%
EBITDA								
Automotive	44	55	79	43%	77%	262	207	-21%
Financial services	4	6	6	3%	40%	15	19	29%
Others	2.4	8	9	13%	281%	3	23	662%

Source: Bursa Malaysia, M&A Securities

Table 5: YTD 2015 TIV

Marque	Sep-14	Aug-15	Sep-15	m-o-m	y-o-y	9M14	9M15	y-o-y
Proton	8,053	9,040	8,723	-4%	8%	90,749	78,836	-13%
Perodua	12,114	16,589	14,479	-13%	20%	140,317	157,527	12%
Toyota	7,585	8,233	8,049	-2%	6%	75,815	63,463	-16%
Honda	6,170	6,853	7,519	10%	22%	56,747	66,411	17%
Nissan	3,503	3,705	3,595	-3%	3%	32,609	34,759	7%
Mazda	990	1,192	1,279	7%	29%	8,775	10,386	18%
Others	9,356	7,840	7,462	-5%	-20%	87,293	74,006	-15%
TIV	47,771	53,452	51,106	-4%	7%	492,305	485,388	-1%
Passenger	41,397	47,302	45,245	-4%	9%	436,652	431,586	-1%
Commercial	6,374	6,150	5,861	-5%	-8%	55,653	53,802	-3%

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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