

TAN CHONG MOTOR

(TCM MK EQUITY, TNCS.KL)

1 Apr 2021

Losses widens in 4Q20; the worst is not over

UNDERWEIGHT

(Maintained)

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Rationale for report: Company results

Price	RM1.19
Fair Value	RM0.65
52-week High/Low	RM1.29/RM1.00

Key Changes

Fair value	⬇️
EPS	⬇️

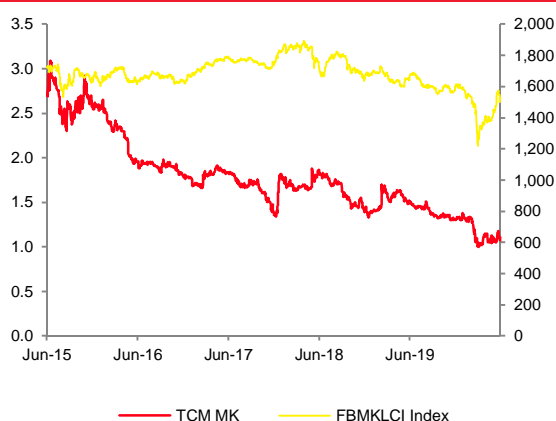
YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	2,959.6	4,063.5	4,307.4	4,565.8
Core net profit (RM mil)	(163.5)	(95.2)	(37.6)	2.5
FD Core EPS (sen)	(25.1)	(14.6)	(5.8)	0.4
FD Core EPS growth (%)	(402.8)	(41.8)	(60.5)	(106.7)
Consensus Net Profit (RM mil)	(88.3)	18.7	41.5	-
DPS (sen)	1.5	-	-	-
PE (x)	nm	nm	nm	306.5
EV/EBITDA (x)	79.3	20.8	11.5	7.7
Div yield (%)	1.3	-	-	-
ROE (%)	(5.6)	(3.5)	(1.4)	0.1
Net Gearing (%)	32.4	45.9	47.4	44.1

Stock and Financial Data

Shares Outstanding (million)	652.7
Market Cap (RM mil)	776.7
Book Value (RM/share)	4.35
P/BV (x)	0.3
ROE (%)	(5.6)
Net Gearing (%)	32.4

Major Shareholders	Tan Chong Consolidated Sdn Bhd (40.4%)
	Employees Provident Fund (6.0%)
	Nissan Motor (5.7%)
Free Float	30.0
Avg Daily Value (RM mil)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	(5.6)	15.5	14.4
Relative (%)	(2.3)	10.5	(1.8)



Investment Highlights

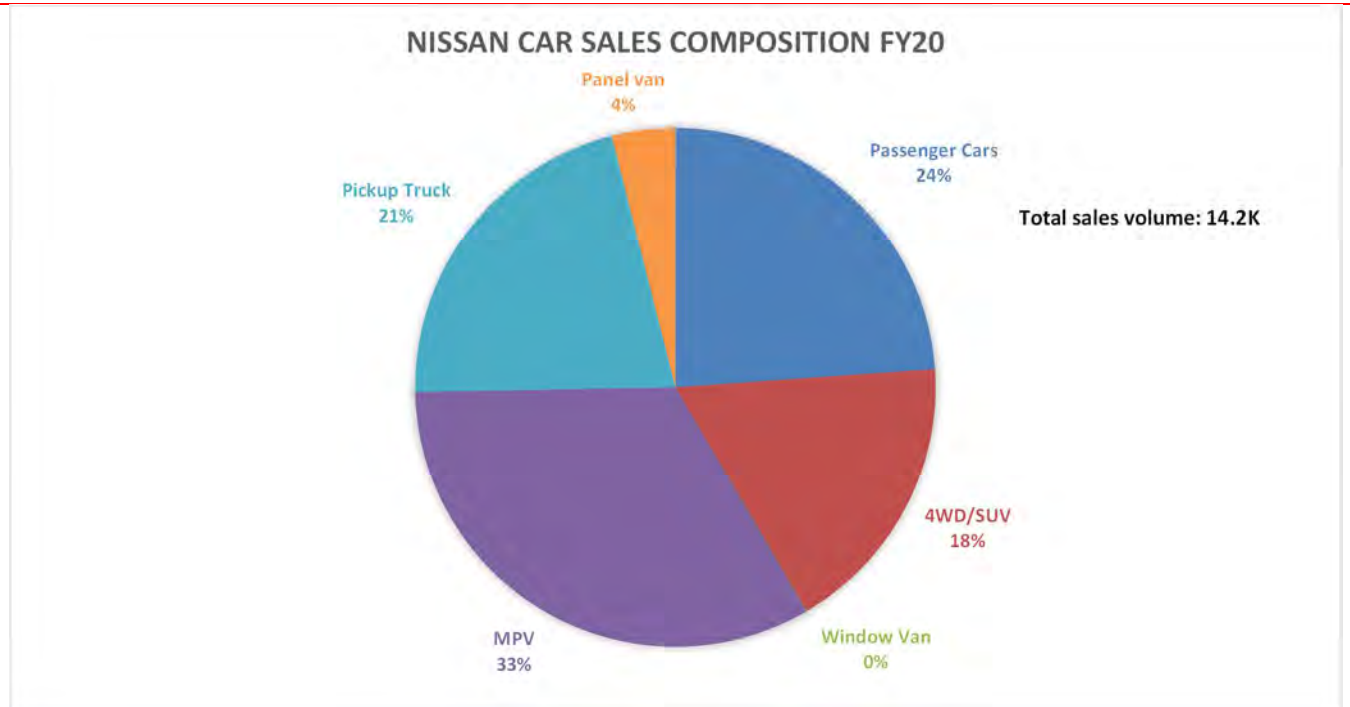
- We maintain UNDERWEIGHT on Tan Chong Motor (TCM) with a marginally lower fair value of RM0.65/share (from RM0.67/share previously), based on 0.15x P/B. This is at a 50% discount to TCM's 3-year average historical P/B of 0.3x to reflect the down cycle of the group's business operations – having lost both its CKD and CBU agreements with its principal Nissan Japan on 19 Sept and 30 Sept 2020 respectively. We have a 3-star ESG rating on TCM.
- We now project wider net losses of RM95.2mil and RM37.6mil for FY21–22F (vs. a net loss of RM70.3mil and a net profit of RM4.9mil for FY21–22F previously). We cut TCM's FY21–22F net profit forecasts to account for: i) lower Nissan sales volume assumptions in the domestic market; and ii) larger net losses from the group's Vietnam operations.
- TCM's FY20 core net loss of RM163.5mil (-414% YoY) came in way below our full-year forecasts and full-year consensus estimates. We believe that the variance was largely due to: i) wider-than-expected net losses from TCM's Vietnam operations from the gradual phasing out of the manufacturing and distribution of Nissan marques in the region due to the expiry of agreements with its principal, Nissan Japan; and ii) lower-than-expected sales volume in the domestic market despite the boost from the Penjana SST exemption throughout 2HFY20.
- TCM's automotive division posted a revenue decline of 30% to RM2.9bil for FY20. This was due to a significant fall in its domestic market's sales volume. We note that the sales of the Serena S-Hybrid dropped by 22% YoY to 4.7K units in FY20. Despite the implementation of the SST exemption, the division recorded an EBITDA of RM21.6mil (-93% YoY) for FY20 due to the nature of a highly competitive business environment, coupled with Nissan's unfavourable product mix and unattractive pricings. Nissan sold a total of 14.2K units in FY20 vs. 21.2K units in FY19, representing a -33% YoY decline in sales volume.
- TCM's Vietnam operation's LBITDA widened to RM84.0mil in FY20 from RM12.3mil in FY19. However, the losses were partially mitigated by its Indochina business where it recorded a marginal 3% growth on the EBITDA level to RM22.8mil in FY20.
- TCM's inventory levels decreased to RM773mil in 3QFY20 from RM861mil in 3QFY20. We believe that this was due to the phasing out of production and import activities in the group's Vietnam region as TCM lost both its CKD and CBU rights for Nissan vehicles in the region, coupled with the SST exemption, which helped in boosting sales for the group's domestic market.
- We continue to remain apprehensive on whether the entry of the MG Brand (via SAIC Motor) and King Long would be able to fully fill the void left by the exit of both Nissan CKD and CBU products. In addition, the launch of the all-new Nissan Almera 2020 CKD in the domestic market will face fierce competition against the Honda City CKD facelift and the famed Proton X50 – as these products share a similar price range and launch dates, but have more to offer in terms of driving experience, branding and product competitiveness.

EXHIBIT 1: RESULTS SUMMARY

	4Q19	3Q20	4Q20	QoQ	YoY	FY19	FY20	YoY
RM mil								
Revenue	974.6	964.5	747.9	-22%	-23%	4,172.4	2,959.6	-29%
Operating profit/(loss)	38.5	10.5	(66.1)	-727%	-272%	169.6	(115.5)	-168%
Interest expense	(20.8)	(13.6)	(13.7)	1%	-34%	(78.8)	(61.4)	-22%
Interest income	4.7	3.9	3.4	-14%	-29%	21.2	14.6	-31%
Net Finance Costs	(16.1)	(9.7)	(10.4)	7%	-35%	(57.6)	(46.8)	-19%
Share of results of associates	0.5	0.9	(0.4)	-147%	-178%	2.3	0.9	-59%
(Loss) / Profit before taxation	22.9	1.7	(76.9)	-4565%	-435%	114.3	(161.3)	-241%
Tax	(20.4)	(11.7)	9.4	-181%	-146%	(67.6)	(15.5)	-77%
(Loss) / Profit after tax	2.5	(10.0)	(67.4)	575%	-2790%	46.7	(176.8)	-479%
Minority interest	3.5	(2.7)	2.2	-182%	-38%	3.0	(11.2)	-467%
Net Profit	(1.0)	(7.3)	(69.6)	849%	6780%	43.6	(165.6)	-479%
Core Net Profit	6.3	(9.7)	(64.0)	562%	-1108%	52.0	(163.5)	-414%
Earnings per share (sen)	(0.2)	(1.1)	(10.7)	-91%	-179%	6.7	(25.4)	-479%
EBITDA	73.0	52.7	(38.2)	-172%	-152%	307.0	21.4	-93%
Depreciation	34.5	42.2	27.9	-34%	-19%	137.4	136.9	0%
Margins								
EBITDA margin	7.5%	5.5%	-5.1%			7.4%	0.7%	
EBIT margin	3.9%	1.1%	-8.8%			4.1%	-3.9%	
PBT margin	2.4%	0.2%	-10.3%			2.7%	-5.4%	
Net margin	-0.1%	-0.8%	-9.3%			1.0%	-5.6%	
Core net profit margin	0.7%	-1.0%	-8.6%			1.2%	-5.5%	
Effective Tax Rate	89.1%	680.6%	12.3%					
Segmental Breakdown								
Revenue								
Automobile	949.9	940.3	727.6	91%	-8%	4,073.7	2,870.1	-30%
Financial Services	18.6	18.5	17.1	19%	-2%	80.9	70.1	-13%
Others	6.1	8.9	3.2	483%	98%	17.9	19.5	9%
Total	974.6	967.7	747.9	90%	-8%	4,172.4	2,959.6	-29%
EBITDA								
Automobile	85.3	55.4	(44.1)	-417%	-16%	301.0	21.6	-93%
Financial Services	6.5	14.3	19.6	-185%	103%	26.4	20.9	-21%
Others	(12.4)	(9.0)	(9.9)	-1552%	-184%	1.2	(2.0)	-272%
Total	79.5	60.7	(34.5)	-281%	-28%	328.6	40.5	-88%
EBITDA Margin								
Automobile	9.0%	5.9%	-6.1%			7.4%	0.8%	
Financial Services	35.0%	77.3%	114.5%			32.6%	29.8%	
Revenue - by markets								
Malaysia	795.6	780.4	652.9	109%	-8%	3,261.8	2,393.5	-27%
Vietnam	105.1	117.6	31.8	33%	4%	560.9	290.7	-48%
Others	74.0	66.6	63.3	33%	-26%	349.7	275.4	-21%
Total	974.6	964.5	747.9	88%	-8%	4,172.4	2,959.6	-29%
EBITDA - by markets								
Malaysia	72.0	78.8	(16.8)	-432%	-9%	318.6	101.7	-68%
Vietnam	5.7	(24.7)	(19.9)	48%	190%	(12.3)	(84.0)	585%
Others	1.8	6.6	2.2	-2%	21%	22.2	22.8	3%
Total	79.5	60.7	(34.5)	-281%	-28%	328.6	40.5	-88%
EBITDA margin								
Malaysia	9.1%	10.1%	-2.6%			9.8%	4.2%	
Vietnam	5.4%	-21.0%	-62.5%			-2.2%	-28.9%	
Others	2.5%	10.0%	3.5%			6.3%	8.3%	
Nissan Malaysia Sales Volume	5,563	4,785	4,993	4%	-10%	21,239	14,160	-33%
Inventory Level	1,527.1	861.1	772.7					
Net Gearing ratio	0.39	0.39	0.32					

Source: AmInvestment Bank Bhd, Company

EXHIBIT 2: NISSAN FY20 DOMESTIC SALES SUMMARY



Source: AmInvestment Bank Bhd, MAA

EXHIBIT 3: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★	★	
Work site safety	★	★	★		
Worker welfare	★	★	★		
Corporate social responsibility	★	★			
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★	★		
Accessibility & transparency	★				

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	4,172.4	2,959.6	4,063.5	4,307.4	4,565.8
EBITDA	261.8	21.4	95.9	175.2	250.8
Depreciation/Amortisation	(173.6)	(136.9)	(180.1)	(183.5)	(185.2)
Operating income (EBIT)	88.2	(115.5)	(84.3)	(8.3)	65.6
Other income & associates	1.2	0.9	1.2	1.2	1.2
Net interest	(40.0)	(46.8)	(40.9)	(42.0)	(62.5)
Exceptional items	-	-	-	-	-
Pretax profit	114.3	(161.3)	(124.0)	(49.2)	4.2
Taxation	(67.6)	(15.5)	30.0	12.1	(0.7)
Minorities/pref dividends	(3.1)	11.2	(1.3)	(0.5)	-
Net profit	43.6	(165.6)	(95.2)	(37.6)	3.5
Core net profit	52.0	(163.5)	(95.2)	(37.6)	2.5
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,667.3	2,311.7	1,439.6	1,325.0	1,139.8
Intangible assets	-	-	-	-	-
Other long-term assets	1,216.2	917.5	1,134.6	1,170.0	1,207.4
Total non-current assets	2,641.1	3,229.1	2,574.2	2,495.0	2,347.2
Cash & equivalent	407.8	582.0	400.3	341.0	387.2
Stock	1,218.6	772.7	1,235.4	1,282.4	1,333.9
Trade debtors	591.7	424.9	567.8	601.8	638.0
Other current assets	270.3	311.8	272.1	277.3	282.9
Total current assets	2,641.1	2,091.4	2,475.6	2,502.6	2,642.0
Trade creditors	505.7	510.5	504.6	526.0	549.6
Short-term borrowings	1,096.9	1,501.5	869.7	830.7	792.7
Other current liabilities	26.0	51.4	26.0	26.0	26.0
Total current liabilities	1,893.3	2,063.4	1,400.4	1,382.7	1,368.4
Long-term borrowings	499.3	-	750.1	750.6	751.1
Other long-term liabilities	257.8	432.4	257.8	257.8	257.8
Total long-term liabilities	757.1	432.4	1,007.9	1,008.4	1,008.9
Shareholders' funds	3,021.3	2,842.3	2,657.0	2,619.4	2,621.9
Minority interests	(11.5)	(17.0)	(15.5)	(15.0)	(15.0)
BV/share (RM)	4.63	4.35	4.07	4.01	4.02
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	114.3	(161.3)	(124.0)	(49.2)	4.2
Depreciation/Amortisation	173.6	136.9	180.1	183.5	185.2
Net change in working capital	(245.3)	116.5	(30.8)	(98.4)	-
Others	(66.5)	480.2	30.9	14.0	63.3
Cash flow from operations	(23.9)	572.3	56.3	50.0	252.8
Capital expenditure	(68.6)	(122.9)	(65.8)	(69.8)	-
Net investments & sale of fixed assets	-	(147.8)	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(68.6)	(270.7)	(65.8)	(69.8)	-
Debt raised/(repaid)	(39.5)	(115.1)	(39.5)	(38.5)	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(11.5)	(23.1)	-	-	-
Others	-	3.7	-	3.0	6.0
Cash flow from financing	(51.0)	(135.0)	(39.5)	(35.5)	6.0
Net cash flow	(143.5)	166.6	(49.0)	(55.3)	258.8
Net cash/(debt) b/f	522.1	407.8	449.3	400.3	-
Net cash/(debt) c/f	378.7	574.4	400.3	345.0	258.8
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(14.1)	(29.1)	37.3	6.0	6.0
EBITDA growth (%)	(19.1)	(91.8)	348.0	82.7	43.2
Pretax margin (%)	2.7	(5.5)	(3.1)	(1.1)	0.1
Net profit margin (%)	1.0	(5.6)	(2.3)	(0.9)	0.1
Interest cover (x)	2.2	(246.8%)	(206.2%)	(19.8%)	1.0
Effective tax rate (%)	59.1	9.6	24.2	24.6	17.3
Dividend payout (%)	26.3	nm	nm	nm	-
Debtors turnover (days)	53	63	45	50	50
Stock turnover (days)	107	123	90	107	105
Creditors turnover (days)	57	63	46	44	43

Source: Company, AmlInvestment Bank Bhd estimates

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