

Tan Chong Motor (TCM MK)

U/G to BUY; TP raised to **MYR1.45**

Risk-reward outlook improving

We have raised FY21-23 earnings by 22%-28%, to account for an improving operating outlook at its: (i) Malaysia and (ii) Vietnam ops. It has also commenced its de-carbonisation exercise, a positive start. Its auto ops could directly benefit from MY's upcoming EV policy, leveraging on Nissan's EV models. Our TP, pegged to 16x FY22 PER (mean valuations) offers a 19% upside.

SST extension offers a timely boost to its MY ops

We expect TCM to register higher vehicle sales in FY21; 16.6k units (+17% YoY), driven by the 6-month SST extension impact (till end-Dec 2021) and the better-than-expected demand for its new 4WD Navarra. The 16.6k unit sales target is realistic (4M21 vehicle sales of 4.3k units equates to 26% of our FY estimate), and it will reverse the slide in sales experienced over the last 2 years (FY19-20). The SST extension is a major boost to TCM (especially in 2H21) and peers, as it addresses the multiple disruptions, brought about by the: (i) MCOs and (ii) chip supply shortages. Inventory-wise, TCM has ably covered its position up to 4Q21. Its inventory turnover days were at 165 days @ Mar 2021.

Vietnam ops is progressively turning around

We expect a significantly lower YoY loss at its Vietnam ops from FY21; post the termination of the Distribution Agreement with Nissan Motor Ltd (NML) in Sep 2020, which resulted in an aggressive price discounting exercises of the models to clear up inventories in FY20. To-date, its collaborations with SAIC Motor International Co. Ltd are showing much promise. The CBU SUVs - MG ZS, MG HS and MG ZS MCE models are selling well there. TCM is exploring the possibility of CKD-ing the MG models, which would further improve its operating visibility there.

Worst is over; timely to look ahead

We posit that the worst is over TCM, operationally-speaking. Most of the major setbacks experienced in FY20 (i.e. settlement of excise duties, end of partnership with Nissan VN) will not recur from FY21, a positive. Focus should be on the recovering FY21 outlook & stronger FY22 ahead.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,172	2,960	3,298	3,956	4,050
EBITDA	328	40	281	305	315
Core net profit	49	(134)	38	59	68
Core EPS (sen)	7.6	(20.7)	5.9	9.1	10.6
Core EPS growth (%)	(72.9)	nm	nm	53.6	16.4
Net DPS (sen)	4.0	1.5	1.5	1.5	2.5
Core P/E (x)	17.5	nm	20.7	13.5	11.6
P/BV (x)	0.3	0.3	0.3	0.3	0.3
Net dividend yield (%)	3.0	1.2	1.2	1.2	2.0
ROAE (%)	1.5	(5.6)	1.3	2.0	2.3
ROAA (%)	0.9	(2.4)	0.7	1.1	1.2
EV/EBITDA (x)	6.2	42.4	6.2	5.7	5.3
Net gearing (%) (incl perps)	39.5	32.6	33.2	32.9	29.0
Consensus net profit	-	-	23	35	50
MKE vs. Consensus (%)	-	-	65.8	65.5	36.6

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[Prior:HOLD]

Share Price MYR 1.22

MYR 1.45 (+19%) 12m Price Target MYR 1.14

Company Description

Previous Price Taraet

Franchise holder for Nissan for Malaysia and Indo-China region (Vietnam, Myanmar, Laos & Cambodia).

Statistics

52w high/low (MYR)	1.28/1.01
3m avg turnover (USDm)	0.0
Free float (%)	21.8
Issued shares (m)	672
Market capitalisation	MYR819.8M
	USD199M

Major shareholders:

Tan Chong Consolidated Sdn. Bhd.	39.3%
Employees Provident Fund	5.9%
Nissan Motor Co., Ltd.	5.6%

Price Performance



-Tan Chong Motor / Kuala Lumpur Composite Index - (RHS, %) -12M -1M -3M 3 11 13

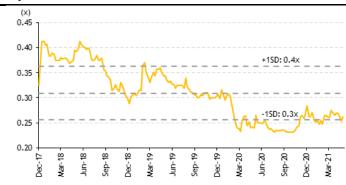
Absolute (%) Relative to index (%) 3 10 9 Source: FactSet

TCM: Vehicles sales

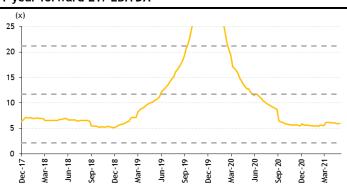
	2019	2020A	2021F	2022F	2023F
Nissan MY	21,239	14,160	16,550	23,500	24,640
YoY growth (%)	-25.8	-33.3	16.9	42.0	4.9

Source: Company, Maybank KE

1-year forward PBV



1-year forward EV/ EBITDA



Source: Company, Maybank KE

Source: Company, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, target price and rating for TCM. A sharp turn in consumer sentiment in the Malaysian market where TCM's key operation is, may affect its sales volume. Additionally, forex volatility, especially USD/MYR and JPY/MYR, will also affect TCM's contribution. Countryrisk will also affect its operations. TCM's ASEAN footprints include Vietnam, Myanmar, Cambodia, Laos and Thailand.

June 4, 2021

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics P/E (reported) (x)	21.5	nm	20.7	13.5	11.6
Core P/E (x)	17.5	nm	20.7	13.5	11.6
P/BV (x)	0.3	0.3	0.3	0.3	0.3
P/NTA (x)	0.3	0.3	0.3	0.3	0.3
Net dividend yield (%)	3.0	1.2	1.2	1.2	2.0
FCF yield (%)	22.4	82.5	17.0	19.7	34.1
EV/EBITDA (x)	6.2	42.4	6.2	5.7	5.3
EV/EBIT (x)	12.0	nm	14.4	11.8	10.3
INCOME STATEMENT (MYR m)					
Revenue	4,172.4	2,959.6	3,298.4	3,956.2	4,049.6
EBITDA	328.2	40.5	280.7	305.3	314.8
Depreciation	(137.4)	(136.9)	(140.6)	(136.9)	(133.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	169.6	(115.5)	120.1	148.4	161.4
Net interest income /(exp)	(57.6)	(46.8)	(46.4)	(47.1)	(47.4)
Associates & JV	2.3	0.9	2.0	2.0	2.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	114.3	(161.3)	55.7	83.3	96.0
Income tax	(67.6)	(15.5)	(13.4)	(20.0)	(23.0)
Minorities	(3.0)	11.2	(4.2)	(4.7)	(4.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit Core net profit	43.6 49.2	(165.6) (133.7)	38.1 38.1	58.6 58.6	68.2 68.2
Core net pront	47.2	(133.7)	30.1	36.6	00.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	407.8	582.0	545.9	531.4	623.8
Accounts receivable	509.4	424.9	497.4	567.5	560.3
Inventory	1,527.1	772.7	882.4	1,056.3	1,148.3
Reinsurance assets	0.0	0.0	0.0 2,251.0	0.0	0.0
Property, Plant & Equip (net) Intangible assets	2,251.0 0.8	2,311.7 0.8	0.8	2,194.1 0.8	2,140.6 0.8
Investment in Associates & JVs	61.8	76.0	78.0	80.0	82.0
Other assets	1,075.4	1,152.6	1,152.6	1,152.6	1,152.6
Total assets	5,833.2	5,320.5	5,408.1	5,582.6	5,708.4
ST interest bearing debt	1,096.9	1,501.5	1,501.5	1,501.5	1,501.5
Accounts payable	740.9	510.5	551.5	660.2	717.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	499.3	0.0	0.0	0.0	0.0
Other liabilities	488.0	484.0	478.0	470.0	462.0
Total Liabilities	2,825.2	2,495.8	2,530.8	2,631.7	2,680.7
Shareholders Equity	3,019.6	2,841.7	2,890.1	2,959.0	3,031.1
Minority Interest	(11.5)	(17.0)	(12.8)	(8.1)	(3.4)
Total shareholder equity	3,008.0	2,824.7	2,877.3	2,950.9	3,027.7
Total liabilities and equity	5,833.2	5,320.5	5,408.1	5,582.6	5,708.4
CASH FLOW (MYR m)					
Pretax profit	114.3	(161.3)	55.7	83.3	96.0
Depreciation & amortisation	137.4	136.9	140.6	136.9	133.5
Adj net interest (income)/exp	(57.6)	(43.4)	(46.4)	(47.1)	(47.4)
Change in working capital	(175.3)	580.2	(161.2)	(155.3)	(47.3)
Cash taxes paid	(86.7)	(43.4)	(16.7)	(25.0)	(28.8)
Other operating cash flow	46.2	106.1	84.4	85.1	85.4
Cash flow from operations	(23.9)	572.3	53.6	75.2	188.6
Capex	(216.4)	(99.2)	(80.0)	(80.0)	(80.0)
Free cash flow	192.6	671.5	133.6	155.2	268.6
Dividends paid	(26.4)	(23.1)	(9.7)	(9.7)	(16.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt Other invest/financing cash flow	39.0	(111.9)	0.0	0.0	0.0
Other invest/financing cash flow Effect of exch rate changes	115.0	(171.4) 7.5	0.0 (7.5)	0.0 0.0	0.0
•	(1.5)	7.5 174.2	(7.5)		0.0 92.5
Net cash flow	(114.3)	174.2	(43.6)	(14.5)	92.

June 4, 2021

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(14.1)	(29.1)	11.4	19.9	2.4
EBITDA growth	(6.0)	(87.7)	593.6	8.8	3.1
EBIT growth	(25.2)	nm	nm	23.6	8.8
Pretax growth	(36.0)	nm	nm	49.5	15.3
Reported net profit growth	(58.8)	nm	nm	53.6	16.4
Core net profit growth	(73.1)	nm	nm	53.6	16.4
Profitability ratios (%)					
EBITDA margin	7.9	1.4	8.5	7.7	7.8
EBIT margin	4.1	nm	3.6	3.8	4.0
Pretax profit margin	2.7	nm	1.7	2.1	2.4
Payout ratio	59.3	nm	25.4	16.5	23.7
DuPont analysis					
Net profit margin (%)	1.0	nm	1.2	1.5	1.7
Revenue/Assets (x)	0.7	0.6	0.6	0.7	0.7
Assets/Equity (x)	1.9	1.9	1.9	1.9	1.9
ROAE (%)	1.5	(5.6)	1.3	2.0	2.3
ROAA (%)	0.9	(2.4)	0.7	1.1	1.2
Liquidity & Efficiency					
Cash conversion cycle	111.2	130.5	90.1	89.2	92.7
Days receivable outstanding	45.0	56.8	50.3	48.5	50.1
Days inventory outstanding	148.0	161.5	111.0	108.6	113.6
Days payables outstanding	81.9	87.9	71.2	67.9	71.0
Dividend cover (x)	1.7	(17.1)	3.9	6.0	4.2
Current ratio (x)	1.4	1.0	1.1	1.1	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	2.1	2.1	2.1
Net gearing (%) (incl perps)	39.5	32.6	33.2	32.9	29.0
Net gearing (%) (excl. perps)	39.5	32.6	33.2	32.9	29.0
Net interest cover (x)	2.9	na	2.6	3.1	3.4
Debt/EBITDA (x)	4.9	nm	5.3	4.9	4.8
Capex/revenue (%)	5.2	3.4	2.4	2.0	2.0
Net debt/ (net cash)	1,188.4	919.5	955.6	970.1	877.6

Source: Company; Maybank

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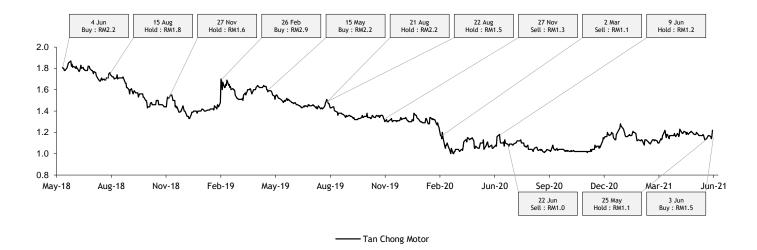
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Historical recommendations and target price: Tan Chong Motor (TCM MK)



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June 4, 2021

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