

Tan Chong Motor (TCM MK)

The worst may be behind?

HOLD

Share Price MYR 0.71
12m Price Target MYR 0.80 (+13%)
Previous Price Target MYR 0.80

Upside from new launches and contract assembly

We keep our forecasts and HOLD rating for TCM with an unchanged TP of MYR0.80 (0.2x FY25E BV). TCM's 7th consecutive quarterly loss in 2Q24 was due to weak Nissan vehicle demand, adverse FX impact, and unprofitable overseas operations. We do not anticipate a turnaround this financial year, but the worst may be behind it, depending on effective execution. Catalysts include improved sales from new product launches and new assembly contracts in the coming quarters. Strengthening MYR is also favourable to TCM, as >90% of its purchases are denominated in USD.

Nissan Kicks e-Power to be launched in 4Q24

TCM is set to launch the *Nissan Kicks e-Power* (B-segment SUV) in 4Q24 at competitive prices. Over the next 2Y, it plans to introduce additional models in Malaysia, including another e-Power vehicle (likely the *Serena e-Power*) and 1-2 more ICE vehicles. In 2Q24, TCM launched the GAC GS8, M8, and King Long Nova Euro 5 bus in VN, with more launches planned. The upcoming GAC models are expected to improve TCM's VN operations from low base.

GAC contract assembly to increase plant utilisation

TCM has secured a contract with GAC (a CN OEM) to start local production of the CKD GS3 Emzoom at its Segambut plant. This is expected to boost plant utilization to >50% from 3Q24 onwards, up from <30% in 2Q24. Additionally, TCM anticipates more contract assembly models in the pipeline. WTCA, a sister company of TCM with distributor rights for GAC, is exploring to introduce 2 more CKD projects in Malaysia, including the Emkoo and LHD GS3 Emzoom for the VN export market. Production and sales of GAC models are projected to reach 50k units within 3-5 years.

Upcoming e-Power series may gain traction

TCM's automotive operations are likely to face ongoing challenges due to increasing competition in 2H24. However, the group believes that the e-Power series could capture market share if the petrol subsidy rationalization plan is implemented, helping to drive its Nissan sales.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	3,052	2,462	2,155	2,225	2,339
EBITDA	190	85	105	125	129
Core net profit	(29)	(130)	(129)	(108)	(97)
Core EPS (sen)	(4.5)	(20.2)	(20.0)	(16.7)	(15.0)
Core EPS growth (%)	nm	nm	nm	nm	nm
Net DPS (sen)	3.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	0.3	0.2	0.2	0.2	0.2
Net dividend yield (%)	2.5	0.0	0.0	0.0	0.0
ROAE (%)	(1.8)	(4.5)	(4.7)	(4.1)	(3.8)
ROAA (%)	(0.6)	(2.7)	(3.0)	(2.6)	(2.3)
EV/EBITDA (x)	6.1	14.1	12.3	12.6	12.3
Net gearing (%) (incl perps)	14.3	21.9	33.5	46.9	50.0
Consensus net profit	-	-	(98)	(46)	(38)
MIBG vs. Consensus (%)	-	-	(31.2)	(134.2)	(155.0)

Loh Yan Jin
lohyanjin.loh@maybank-ib.com
(603) 2297 8687

Company Description

Franchise holder for: (i) Nissan in Malaysia and Indo-China (Myanmar, Laos & Cambodia), Renault in Malaysia and (iii) MG in Vietnam.

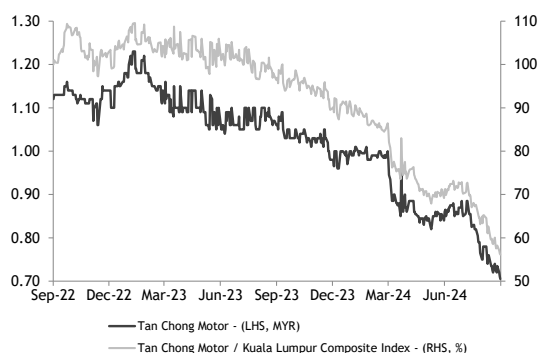
Statistics

52w high/low (MYR)	1.09/0.71
3m avg turnover (USDm)	0.0
Free float (%)	18.1
Issued shares (m)	672
Market capitalisation	MYR473.8M USD109M

Major shareholders:

Tan Chong Consolidated Sdn. Bhd.	39.3%
Employees Provident Fund	6.3%
Nissan Motor Co., Ltd.	5.6%

Price Performance



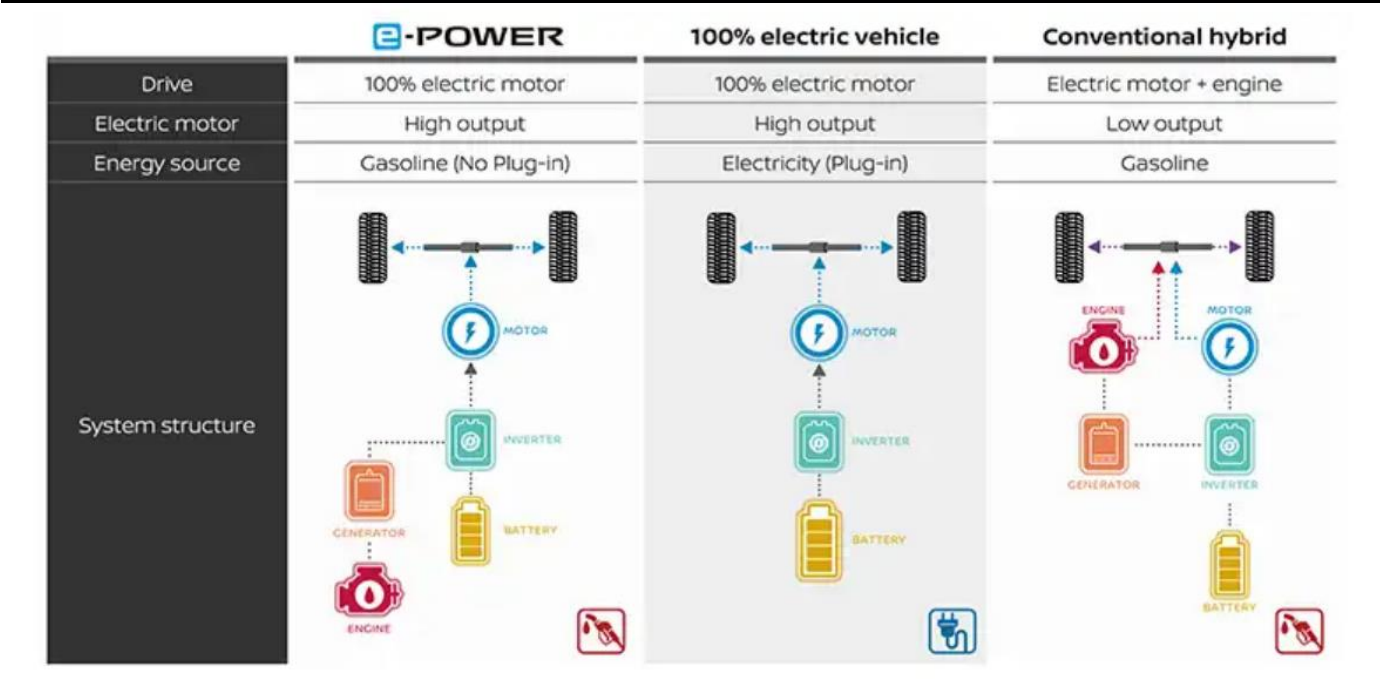
	-1M	-3M	-12M
Absolute (%)	(8)	(16)	(33)
Relative to index (%)	(11)	(19)	(42)

Source: FactSet

Abbreviation:

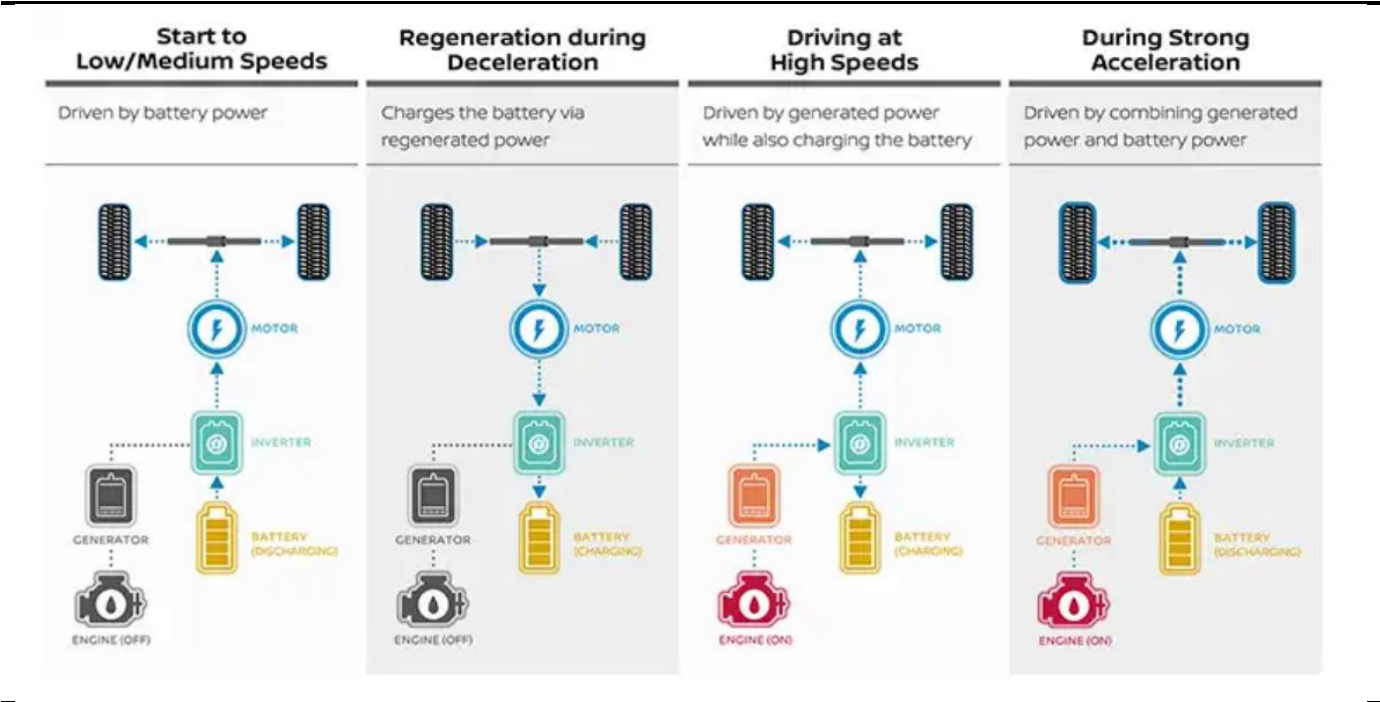
VN = Vietnam
CN = China
OEM = Original equipment manufacturer

Figure 1: The difference between e-power and other powertrain systems



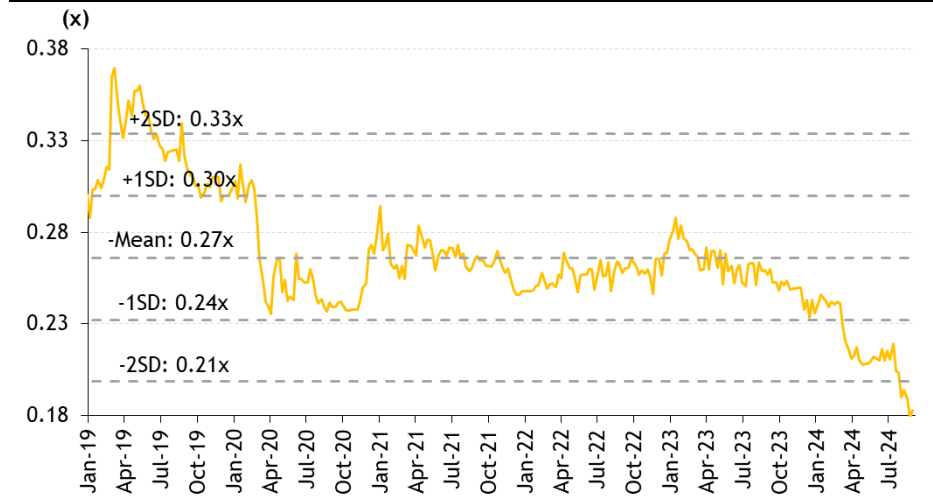
Source: asean.nissannews.com

Figure 2: How does an e-Power system works



Source: asean.nissannews.com

Figure 3: TCM one-year rolling forward PBV



Source: Bloomberg, Maybank IBG (compilation)

Risks statement

There are several risk factors for our earnings estimates, price target, and rating for TCM. Soft consumer sentiment and unattractive model launches will weigh down its earnings. Forex volatility will affect its profitability and operational planning. Execution mishaps, cost overruns and/or lack of new orders could lead to adverse earnings impact. Positive catalysts include improved sales resulting from a better reception of its new model launches and turnaround in its overseas ops. Improved operational efficiencies and better inventory management could also help enhance margins and profitability.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	nm	nm
Core P/E (x)	nm	nm	nm	nm	nm
P/BV (x)	0.3	0.2	0.2	0.2	0.2
P/NTA (x)	0.3	0.2	0.2	0.2	0.2
Net dividend yield (%)	2.5	0.0	0.0	0.0	0.0
FCF yield (%)	3.7	nm	nm	nm	nm
EV/EBITDA (x)	6.1	14.1	12.3	12.6	12.3
EV/EBIT (x)	43.8	nm	nm	nm	nm
INCOME STATEMENT (MYR m)					
Revenue	3,052.2	2,462.0	2,154.9	2,225.4	2,338.6
EBITDA	190.2	85.4	105.0	124.8	128.7
Depreciation	(148.2)	(142.3)	(154.1)	(149.3)	(147.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	26.3	(78.1)	(67.0)	(42.6)	(36.5)
Net interest income / (exp)	(39.7)	(42.5)	(52.7)	(56.8)	(56.2)
Associates & JV	(0.7)	(0.5)	(0.9)	(0.9)	(0.9)
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(14.2)	(121.1)	(138.7)	(118.3)	(111.5)
Income tax	(40.7)	(12.7)	(10.4)	(8.9)	(4.2)
Minorities	3.8	5.1	20.0	19.4	18.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(51.1)	(128.7)	(129.1)	(107.7)	(96.9)
Core net profit	(28.7)	(130.0)	(129.1)	(107.7)	(96.9)
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	558.2	369.8	92.5	291.7	361.5
Accounts receivable	388.3	292.0	234.9	225.9	222.3
Inventory	748.4	610.1	533.6	543.3	558.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	2,471.8	2,409.6	2,335.5	2,266.2	2,199.0
Intangible assets	13.0	13.0	13.0	13.0	13.0
Investment in Associates & JVs	70.5	69.9	69.0	68.1	67.2
Other assets	847.3	847.3	847.3	847.3	847.3
Total assets	5,097.5	4,611.7	4,125.8	4,255.5	4,268.8
ST interest bearing debt	974.0	974.0	974.0	1,474.0	1,574.0
Accounts payable	415.1	338.4	296.0	301.4	309.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	808.0	539.0	226.0	(40.0)	(38.0)
Total Liabilities	2,197.1	1,850.9	1,496.2	1,735.0	1,846.0
Shareholders Equity	2,923.0	2,788.4	2,677.3	2,587.6	2,508.7
Minority Interest	(22.6)	(27.7)	(47.7)	(67.1)	(85.9)
Total shareholder equity	2,900.4	2,760.7	2,629.6	2,520.5	2,422.8
Total liabilities and equity	5,097.5	4,611.7	4,125.8	4,255.5	4,268.8
CASH FLOW (MYR m)					
Pretax profit	(14.2)	(121.1)	(138.7)	(118.3)	(111.5)
Depreciation & amortisation	148.2	142.3	154.1	149.3	147.2
Adj net interest (income)/exp	(19.1)	(48.4)	(52.7)	(56.8)	(56.2)
Change in working capital	12.1	136.7	73.1	(13.3)	(21.1)
Cash taxes paid	(32.8)	(280.5)	(321.1)	(273.8)	0.0
Other operating cash flow	(3.1)	64.3	89.6	93.7	93.1
Cash flow from operations	89.5	(108.4)	(197.3)	(220.8)	49.9
Capex	(61.8)	(80.0)	(80.0)	(80.0)	(80.0)
Free cash flow	27.8	(188.4)	(277.3)	(300.8)	(30.1)
Dividends paid	(19.6)	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(17.0)	0.0	0.0	500.0	100.0
Other invest/financing cash flow	4.5	0.0	0.0	0.0	0.0
Effect of exch rate changes	6.6	0.0	0.0	0.0	0.0
Net cash flow	2.3	(188.4)	(277.3)	199.2	69.9

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.3	(19.3)	(12.5)	3.3	5.1
EBITDA growth	(10.1)	(55.1)	23.0	18.8	3.2
EBIT growth	(58.8)	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	6.2	3.5	4.9	5.6	5.5
EBIT margin	0.9	nm	nm	nm	nm
Pretax profit margin	nm	nm	nm	nm	nm
Payout ratio	nm	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	nm	nm
Revenue/Assets (x)	0.6	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.7	1.7	1.5	1.6	1.7
ROAE (%)	(1.8)	(4.5)	(4.7)	(4.1)	(3.8)
ROAA (%)	(0.6)	(2.7)	(3.0)	(2.6)	(2.3)
Liquidity & Efficiency					
Cash conversion cycle	90.7	101.4	93.7	83.2	80.2
Days receivable outstanding	47.7	49.7	44.0	37.3	34.5
Days inventory outstanding	106.2	115.9	111.6	103.2	102.7
Days payables outstanding	63.2	64.3	61.9	57.2	57.0
Dividend cover (x)	(2.6)	nm	nm	nm	nm
Current ratio (x)	1.3	1.3	1.4	1.2	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.5	2.8	2.5	2.3
Net gearing (%) (incl perps)	14.3	21.9	33.5	46.9	50.0
Net gearing (%) (excl. perps)	14.3	21.9	33.5	46.9	50.0
Net interest cover (x)	0.7	na	na	na	na
Debt/EBITDA (x)	5.1	11.4	9.3	11.8	12.2
Capex/revenue (%)	2.0	3.2	3.7	3.6	3.4
Net debt/ (net cash)	415.9	604.2	881.6	1,182.4	1,212.5

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhoang@maybank.com

LEE Jia Yu
(65) 6231 5843
jiayu.lee@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6230 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU, CFA
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winston PHOON, FCA
Head of Fixed Income
(65) 6231 5831
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Anand PATHMAKANTHAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Equity Strategy

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

Nur Natasha ARIZA
(603) 2297 8691
natashaariza.aizarizal@maybank-ib.com
• Healthcare

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

TEE Sze Chiah Head of Retail Research
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE Head of Research
(65) 6231 5840
thilanw@maybank.com
• Strategy • Consumer
• Banking & Finance - Regional

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs • Industrials

Hussaini SAIFEE
(65) 6231 5837
hussaini.saifee@maybank.com
• Telcos • Internet

PHILIPPINES

Kervin Laurence SISAYAN Head of Research
(63) 2 5322 5005
kervin.sisayan@maybank.com
• Strategy • Banking & Finance

Daphne SZE
(63) 2 5322 5008
daphne.sze@maybank.com
• Consumer

Raffy MENDOZA
(63) 2 5322 5010
joserafael.mendoza@maybank.com
• Property • REITs • Gaming

Michel ALONSO
(63) 2 5322 5007
michelxavier.alonso@maybank.com
• Conglomerates

Germaine GUINTO
(63) 2 5322 5006
germaine.guinto@maybank.com
• Utilities

VIETNAM

Quan Trong Thanh Head of Research
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

INDONESIA

Jefffrosenberg CHENLIM Head of Research
(62) 21 8066 8680
jefffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8688
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

Paulina MARGARETA
(62) 21 8066 8690
paulina.tjoa@maybank.com
• Autos

Jocelyn SANTOSO
(62) 21 8066 8689
jocelyn.santoso@maybank.com
• Consumer

Hasan BARAKWAN
(62) 21 8066 2694
hasan.barakwan@maybank.com
• Metals & Mining

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

THAILAND

Chak REUNGSIKPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs • Property
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

Boonyakorn AMORNSANK
(66) 2658 5000 ext 1394
boonyakorn.amornsank@maybank.com
• Services

Nontapat SAHAKITPINYO
(66) 2658 5000 ext 2352
nontapat.sahakitpinyo@maybank.com
• Healthcare

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Malaysia

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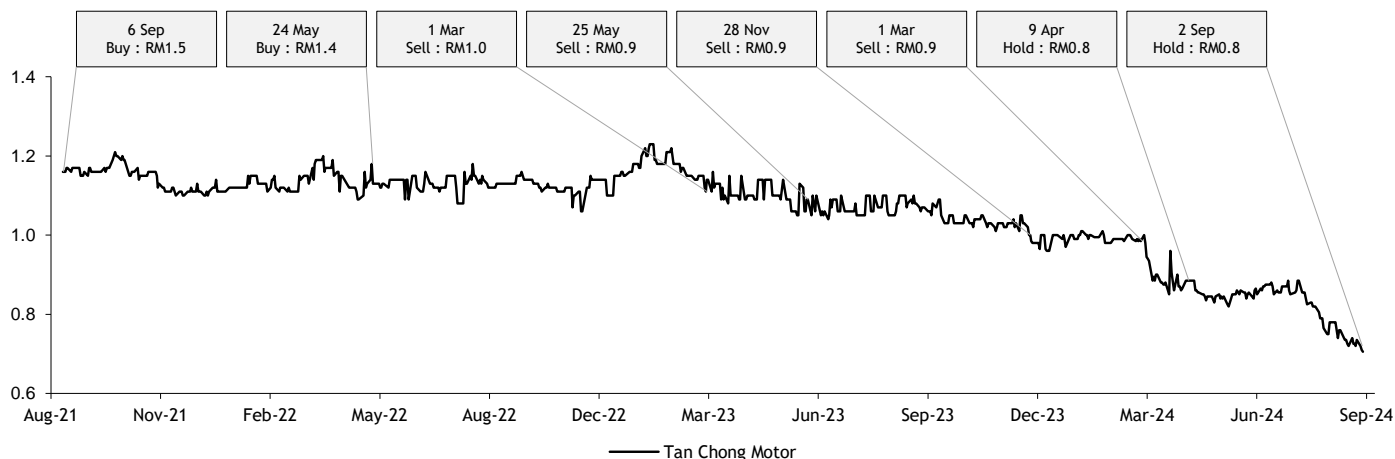
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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

Hong Kong

MIB Securities (Hong Kong)
Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

Sales Trading

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
Tel: (62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 5322 3184

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207 332 0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91) 22 6623 2629

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www.maybank-keresearch.com