

1 November 2024

Consumer Cyclical | Auto & Autoparts

Tan Chong Motor (TCM MK)

Sell (Maintained)

Awaiting Signs Of Improvement; SELL

Target Price (Return): MYR0.35 (-37%)
Price (Market Cap): MYR0.55 (USD81.9m)
ESG score: 2.5 (out of 4)
Avg Daily Turnover (MYR/USD) 0.23m/0.05m

- **Keep SELL with new MYR0.35 TP from MYR0.65, 37% downside.** We think Tan Chong Motor's outlook remains bleak due to market share loss from limited new launches and tight competition. We advise investors to avoid this counter given the absence of rerating catalysts at this juncture.
- **Weak volumes amid tight competition.** In 3Q24, Nissan's sales in Malaysia fell 30% YoY (-26% MoM) to 1,697 units, bringing 9M24 volumes to 6,299 units (-16% YoY), likely due to a lack of new launches and intense competition in the non-national market, driven by the influx of lower-priced Chinese brands. Also, sales volume of its top selling model Serena fell c.20% YoY in 9M24, losing ground to cheaper MPVs such as Toyota Veloz and Mitsubishi Xpander. As a result, Nissan's market share fell to 1.1% (from 1.3% in 2023).
- **New models coming soon?** We understand from management that TCM is poised to launch its e-Power offerings in Malaysia, starting with a CBU B-segment SUV in 4Q24. Another e-Power model – an MPV – is expected to be launched by next year as well. We believe this is long overdue, considering other brands have aggressively launched various new models in both internal combustion engine (ICE) and EV segments, gaining their market share.
- **Things not going great in Vietnam.** Since losing its Nissan distributorship rights in 2020, TCM's earnings in Vietnam have been on a declining trend, further worsened by the MG distributorship termination in Apr 2023. As a result, Vietnam operations posted five consecutive years of losses recorded. To recap, TCM bled in Vietnam with a MYR13m LBITDA recorded in 2Q24, bringing 1H24 loss to MYR25m as sales volumes plunged 90% YoY, despite TCM managing to secure GAC distributorship rights in Vietnam in February.
- **Outlook.** We expect TCM to report lower earnings QoQ and YoY in 3Q24, a 26% QoQ (-30% YoY) decline in Nissan sales volumes. We remain bearish on TCM to turn profitable within our forecast years, given the absence of a clear recovery strategy from the management. Nissan continues to lose its market share in Malaysia amidst intensifying competition. We are aware of the upside risks if there is a clear turnaround plan with proper communication by management as well as the potential value unlocking via disposal of its landbank (Figure 3) if the company's struggles remain a going concern. Based on our back-of-the-envelope calculation, TCM's RNAV/share is MYR1.24, way higher than our current TP.
- **Keep SELL, with new MYR0.35 TP** as we ascribe a lower 0.1x P/BV (from 0.2x), given the bleak outlook and absence of rerating catalysts for the stock. Our TP includes a 10% discount based on its ESG score of 2.5. Despite the upcoming e-Power model locally as well as new GAC GS8 and M8 models launched in Vietnam, we made no changes to our conservative earnings forecasts as a recovery remains out of sight.
- **Upside risks include** clear turnaround plan by management, value unlocking via liquidation of assets, and improving consumer sentiment.

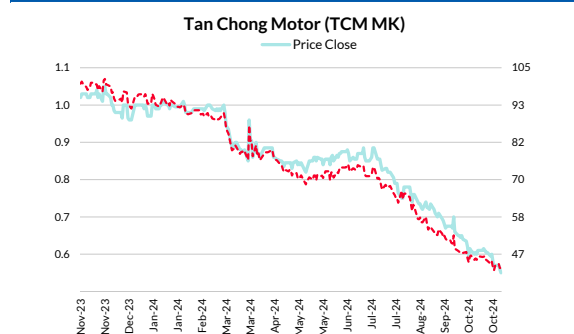
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(43.3)	(13.4)	(30.4)	(34.9)	(46.1)
Relative	(53.4)	(10.5)	(29.8)	(36.5)	(57.4)
52-wk Price low/high (MYR)				0.55	1.05



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	3,052	2,533	2,150	2,265	2,265
Recurring net profit (MYRm)	(36)	(112)	(82)	(46)	(38)
Recurring net profit growth (%)	70.5	210.7	(26.8)	(44.0)	(17.7)
Recurring P/E (x)	na	na	na	na	na
P/B (x)	0.1	0.1	0.1	0.1	0.1
P/CF (x)	2.20	na	1.12	3.87	3.48
Dividend Yield (%)	5.5	1.8	1.8	1.8	1.8
EV/EBITDA (x)	5.12	10.36	7.76	7.32	7.08
Return on average equity (%)	(0.7)	(2.4)	(3.1)	(1.8)	(1.5)
Net debt to equity (%)	27.8	41.2	33.8	34.3	34.3

Source: Company data, RHB

Overall ESG Score: 2.5 (out of 4)

E: GOOD

TCM focuses on environmentally conscious manufacturing, production and assembly processes. 2019's CO2 emissions per unit of vehicle produced declined to 0.228 tonnes/unit from 0.246 tonnes/unit a year ago.

S: GOOD

The group is proactively working to improve its workplace safety metrics, in addition to consistent CSR participation. In FY20, TCM reported 72 workplace injuries, which led to 526 total lost work days – mainly on the higher risk of traffic accidents at its assembly plant. A total of 11,450 hours of training were provided in 2019.

G: MODERATE

The tenure of two independent non-executive directors exceeded a cumulative term of nine years – one of these directors resigned in Oct 2020. The board also does not disclose, on a named basis, the top five senior management's remuneration components in bands of MYR50,000. The company engages with the investment community on a quarterly basis, through analyst briefings.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	(0.06)	(0.17)	(0.13)	(0.07)	(0.06)
Consumer Cyclical	DPS	0.03	0.01	0.01	0.01	0.01
Tan Chong Motor	BVPS	4.48	4.20	4.07	3.99	3.92
TCM MK	Return on average equity (%)	(0.7)	(2.4)	(3.1)	(1.8)	(1.5)
Sell						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	na	na	na	na	na
0.1x FY25F P/BV	P/B (x)	0.1	0.1	0.1	0.1	0.1
	FCF Yield (%)	20.7	(50.7)	66.7	3.5	6.5
Key drivers	Dividend Yield (%)	5.5	1.8	1.8	1.8	1.8
i. Increase in consumer spending;	EV/EBITDA (x)	5.12	10.36	7.76	7.32	7.08
ii. Long-term potential from Indo-China operations.	EV/EBIT (x)	15.48	2,656.98	82.55	52.81	46.50
Key risks	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Upside risks include:	Total turnover	3,052	2,533	2,150	2,265	2,265
i. Stronger-than-expected demand for Nissan vehicles both domestically and overseas following the reopening of the economy;	Gross profit	600	495	398	419	419
ii. Improving consumer sentiment;	EBITDA	221	143	160	168	171
iii. Favourable FX movement.	Depreciation and amortisation	(148)	(142)	(145)	(145)	(145)
	Operating profit	73	1	15	23	26
	Net interest	(40)	(43)	(44)	(40)	(40)
	Pre-tax profit	18	(59)	(29)	(17)	(14)
	Taxation	(41)	(13)	(58)	(33)	(28)
	Reported net profit	(19)	(67)	(82)	(46)	(38)
	Recurring net profit	(36)	(112)	(82)	(46)	(38)
Company Profile						
Tan Chong Motor owns and operates the distribution franchise for Nissan vehicles in Malaysia. This includes assembly, sales and distribution, after sales, as well as financial products. Its assembly division also undertakes third-party assembly work for Mitsubishi vehicles. The group also operates the Nissan vehicle distribution franchise in Cambodia, Laos, and Myanmar.						
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	365	36	261	(2)	0
	Cash flow from operations	163	(70)	319	93	103
	Capex	(89)	(112)	(80)	(80)	(80)
	Cash flow from investing activities	(59)	(186)	(80)	(80)	(80)
	Dividends paid	(20)	(20)	(7)	(7)	(7)
	Cash flow from financing activities	(35)	266	(7)	(7)	(7)
	Cash at beginning of period	514	558	512	744	750
	Net change in cash	69	10	233	6	17
	Ending balance cash	583	569	744	750	767
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	558	512	744	750	767
	Tangible fixed assets	2,711	2,610	2,545	2,480	2,415
	Total investments	70	66	66	66	66
	Total assets	5,097	5,110	5,058	5,020	4,972
	Short-term debt	993	1,122	1,122	1,122	1,122
	Total long-term debt	371	518	518	518	518
	Total liabilities	2,197	2,368	2,409	2,428	2,428
	Total equity	2,900	2,742	2,648	2,592	2,543
	Total liabilities & equity	5,097	5,110	5,058	5,020	4,972
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	20.3	(17.0)	(15.1)	5.3	0.0
	Recurrent EPS growth (%)	69.9	210.7	(26.8)	(44.0)	(17.7)
	Gross margin (%)	19.6	19.6	18.5	18.5	18.5
	Operating EBITDA margin (%)	7.3	5.6	7.4	7.4	7.6
	Net profit margin (%)	(0.6)	(2.6)	(3.8)	(2.0)	(1.7)
	Dividend payout ratio (%)	(101.9)	(9.8)	(7.9)	(14.2)	(17.2)
	Capex/sales (%)	2.9	4.4	3.7	3.5	3.5
	Interest cover (x)	1.42	0.01	0.24	0.39	0.43

Source: Company data, RHB

Figure 1: TCM's new vehicle registration

FYE Dec (units)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)
Nissan	2,418	2,301	1,697	-26.2	-29.8	7,452	6,299	-15.5
- Passenger	1,615	1,504	1,133	-24.7	-29.8	5,193	4,289	-17.4
- Commercial	803	797	564	-29.2	-29.8	2,259	2,010	-11.0
Renault	2	0	5	n.m.	>100	57	8	-86.0
- Passenger	2	0	5	n.m.	>100	57	8	-86.0
Total	2,420	2,301	1,702	-26.0	-29.7	7,509	6,307	-16.0

Source: Malaysian Automotive Association

Figure 2: Nissan Kicks e-Power is likely to be the e-Power SUV model to be launched in Malaysia in 4Q24



Figure 3: GAC GS8 and M8 launched in Vietnam



Source: Malaysian Automotive Association (MAA), RHB

Source: MAA, RHB

Figure 4: Estimated realisable value of TCM's main properties

Top properties	Acres	MYR per sq ft	Expected realisable value (MYRm)
Segambut land	46.9	264	539.5
Serendah land	167.2	69	501.5
Shah Alam land	16.4	138	98.3
Batu Caves land	9.8	207	87.9
Johor Bahru land	3.3	298	42.8
Total			1,270.0
Current assets net of total liabilities			(460.4)
Total RNAV			809.6
Number of shares (in million)			652.1
RNAV/share			1.24

Source: RHB

Emissions And ESG

Trend analysis

TCM does not disclose its GHG emissions in absolute terms. It, however, discloses its carbon emission intensity levels which more than doubled in 2022.

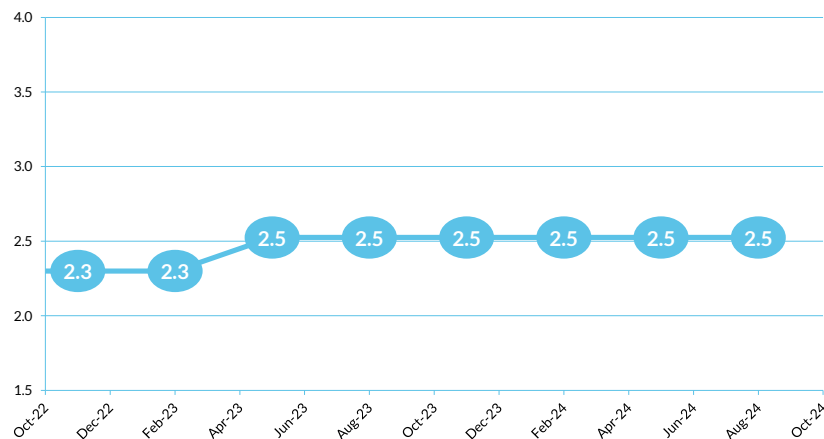
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	na	na	na
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

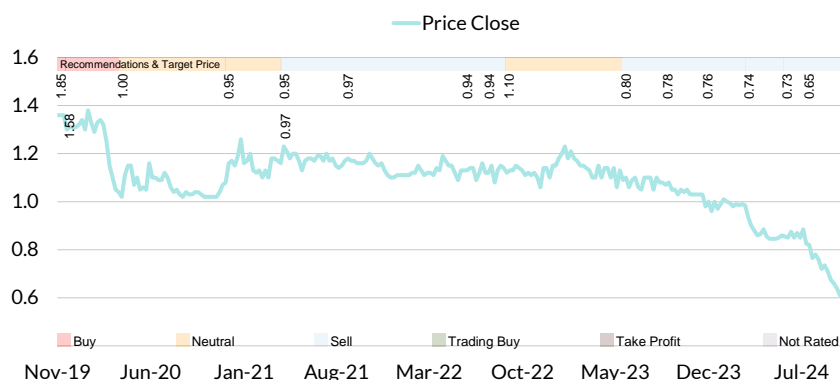
- **Social-related initiatives:** TCM provides 100% sponsorship for technical and vocational education and training (TVET) in automotive studies for students from underprivileged and marginalised backgrounds.
- **Green energy:** TCM has embarked on a solar energy project which has been granted a 4-year power purchase agreement (PPA) extension by the Energy Commission, which revised the 21-year PPA to a 25-year PPA.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-02	Sell	0.65	0.72
2024-05-27	Sell	0.73	0.86
2024-03-01	Sell	0.74	0.99
2023-11-28	Sell	0.76	1.00
2023-08-29	Sell	0.78	1.06
2023-05-25	Sell	0.80	1.09
2023-04-09	Neutral	1.10	1.10
2023-03-01	Neutral	1.10	1.11
2022-11-23	Neutral	1.10	1.12
2022-08-30	Neutral	1.10	1.12
2022-07-15	Sell	0.94	1.12
2022-05-25	Sell	0.94	1.13
2021-08-25	Sell	0.97	1.17
2021-05-25	Sell	0.97	1.15
2021-04-05	Sell	0.97	1.19

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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