Headline	Target price on Tan Chong Motor reduced		
MediaTitle	The Star		
Date	12 May 2016	Language	English
Circulation	338,368	Readership	1,032,000
Section	StarBiz	Page No	7
ArticleSize	525 cm²	Journalist	N/A
PR Value	RM 79,569		

Target price on Tan Chong Motor reduced

analyst report

TAN CHONG MOTOR HOLDINGS BHD
By Kenanga Research
Underperformed (Maintained)
Target price: RM1.76

KENANGA Research has kept its "underperform" rating and reduced the target price on Tan Chong Motor Holdings Bhd to RM1.76 from RM2.20, stating that the company's first quarter 2016 core profit after tax and minority interests (Patami) of RM10.5mil fell below expectations as opposed to its/consensus full-year core net profit estimates of RM65.7mil and RM77.3mil.

The research house said the disappointing results were mainly due to thinner operating margins resulting from heavier cost recognition of newer inventories, which were purchased during periods of unfavourable foreign exchange (forex) at the end of financial year 2015 (FY15).

The group did not declare any dividend during the period.

It said year-on-year (yoy), Tan Chong's first quarter 2016 revenue dropped by 6.6% to RM1.47bil on weaker demand for vehicles. The first quarter of 2015 was also a higher base period due to aggressive campaigns and promotional activities to clear inventory by auto players.

Core earnings fell by 174.8% to a core Patami of RM10.5mil from weaker sales and compression of earnings before interest, tax, depreciation and amortisation (EBITDA) margin from higher cost of goods sold.

Tan Chong's first quarter 2016 topline fell by 3% as sales weakened on pre-emptive purchases made in the fourth quarter 2015 ahead of a hike in car prices in January 2016.

"The slimmer EBITDA margin trend is expected to carry on until year-end as the group attempts to clear more costly inventory.

"Still, the increase in prices at about 3% (after discounts) from April 2016 should provide some support in earnings," said Kenanga Research, adding that the interest in the Nissan brand may dissipate due to lack of new models until 2018.

With the challenging operating landscape in 2016, Kenanga Research trimmed its FY16 and FY17 net profit estimates by 22.8% and 12.8%, reducing its margin expectations on higher import costs and lower sales, although some margin normalisation predicted in FY17.

TENAGA NASIONAL BHD
By AmInvestment Bank Bhd
Buy (maintained)
Fair value: RM16.60

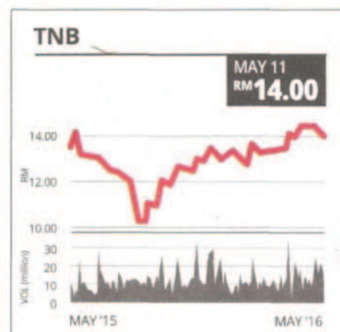
AMINVESTMENT Bank Bhd (AmInvest) has maintained its "buy" call on Tenaga Nasional Bhd (TNB) with an unchanged discounted cashflow-derived fair value of RM16.60 per share.

It said TNB's proposed US$300mil investment in GMR Energy Ltd was done after it had studied in the market in India. TNB would hold 30% stake in GMR Energy on a fully-diluted basis, following the conversion of convertible preference shares by existing shareholders.

"India is facing a power supply deficit of 5% presently, which will grow to 10.9% by 2020.

"Last year, India saw a gross domestic product growth of 7.6%, while electricity demand grew by about 6%," said AmInvest, adding that it would be able to ride on India's economic growth and power supply deficit.

It said TNB would be investing in GMR's power portfolio comprising four operating assets (2,300MW) and five assets being developed (2,330MW).



TNB also has the option to invest in two more plants (1,370MW and 768MW) within the next five years, subject to finalisation of gas suppy and Power Purchase Agreement details.

AmInvest said the US$300mil proceeds would be used to reduce GMR Energy's borrowings.

According to TNB, the firm has US$700mil in debt and it intended to restructure this to reduce interest expenses.

The GMR group expects to reduce its consolidated debt by 30% with TNB's investment.

Hence, TNB expects the investment to be earnings accretive by FY18 as other power plants are completed.

AmInvest liked TNB because it would be able to ride on the growing demand and supply deficit in India, although earnings contribution would likely be more visible from FY18 onwards.

SPRITZER BHD
By Kenanga Research
Unrated
Fair value range: RM2.31 to RM2.75

SPRITZER Bhd posted a three-year compounded annual growth rate in sales and net profit of 12.5% and 29.1%. The growth was attributed to upgrades and expansion of its integrated manufacturing facilities that had resulted in an increased annual capacity of about 600 million litres annually, from about 500 million litres in FY15. Utilisation rate was estimated at about 70%.

The group enjoyed profit before tax (PBT) margin expansion from 11.3% in FY13 to 12.6% in FY15 on growth in product mix extending beyond bottled mineral water to cater to wider demographics.

While Kenanga Research expects better sales due to seasonality factors during the second half of 2016, it forecasted product prices to be in line with FY14 till FY15's estimated average and projected second half of 2016 to record RM164mil in sales.

"Backed by better efficiency and sales volume, FY16 forecast is poised to achieve net sales of RM278.1mil (9.6% yoy) with PBT and net profit of RM36.3mil (13.4% yoy) and RM25.9mil (13.4% yoy), respectively," said Kenanga Research.

With the financial year ended changed to December in 2016, Kenanga believed that Spritzer's could continue with its performance, with RM457.4mil in revenue and RM42.5mil in net profit.

But Kenanga Research did not rate Spritzer, stating that it should be valued within a range of RM2.31 to RM2.75, implying a FY17 forecast price-to-earnings ratio of 11.5 times.

This is based on our FY17 forecast earnings per share of 20.1 sen to 23.9 sen from the plant utilisation rate assumption of 70% to 80%, said Kenanga, foreseeing a dividend payout of 25% from net profit for FY16 and FY17.

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