

COMPANY RESULTS

Trans-China Automotive Holdings (TCAH SP)

2H21: Supply Constraints Impaired Sales

TCA recorded 2H21 net profit of Rmb51.8m (-17% yoy), taking 2021 net profit to Rmb124.0m (+13%), 15% under our estimate due to an automobile inventory supply shortage and a higher proportion of lower-valued service orders. We expect the inventory shortage issue to persist in 2022 due to the Russia-Ukraine war, and have reduced our earnings expectations by 22%. Maintain BUY with a lower target price of S\$0.31 from S\$0.39.

2021 RESULTS

Year to 31 Dec (Rmbm)	2H21	2H20	yoy % chg	2021	2020	yoy % chg
Revenue	2,053.4	2,387.8	(14.0)	4,515.7	4,214.0	+7.2
Gross profit	167.2	177.0	(5.5)	371.6	316.1	+17.5
Gross margin (%)	8.1	7.4	+0.7ppts	8.2	7.5	+0.7ppts
Net profit	51.8	62.2	(16.7)	124.0	109.9	+12.8
Net margin (%)	2.5	2.6	(0.1ppts)	2.7	2.6	+0.1ppts

Source: TCA, UOB Kay Hian

RESULTS

- 2H21 impacted by inventory shortage.** Trans-China Automotive (TCA) reported 2H21 net profit of Rmb51.8m (-16.7% yoy), which took 2021 net profit to Rmb124.0m (+13% yoy), below our estimate. For 2H21, sale of automobiles fell 16.2% yoy to Rmb1,759.6m as a result of inventory supply shortfall, as global manufacturing of new automobiles was impacted by the semiconductor chip shortage. While provision of after-sales services inched 1.6% higher yoy to Rmb293.8m, this was also weaker than expected as a result of more service orders coming from lower-valued repairs. Nevertheless, management proposed to pay a DPS of Rmb0.0257 (0.55 S cent), implying a dividend yield of 2.3%.

- Lotus distributorship terminated; new Genesis dealership.** In Feb 22, TCA and Lotus mutually terminated the arrangement for TCA to sell Lotus automobiles. The termination was amicable and was due to differences both parties had on the direction for the brand. Revenue contribution from Lotus automobiles for TCA is not significant and accounted for Rmb2.0m in 2021. On the flip side, TCA commenced construction for a dealership of Hyundai's premium brand, Genesis, in Guangzhou. Upon expected completion by Jun 22, TCA will operate the first and only Genesis dealership in Guangzhou. Hyundai is reportedly allocating a significant budget for the Genesis brand in China under an agency model, whereby orders get passed through to Hyundai and dealers do not take on inventory. Additionally, Hyundai has a capex rebate programme, where TCA is able to earn back its capex spent in building costs subsequently.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	4,214.0	4,515.7	4,957.0	5,521.9	6,164.5
EBITDA	187.8	227.5	246.6	299.4	347.5
Operating profit	165.5	209.9	233.7	291.1	344.0
Net profit (rep./act.)	109.9	124.0	140.9	189.3	233.9
Net profit (adj.)	109.9	124.0	140.9	189.3	233.9
EPS (Fen)	18.8	21.2	24.1	32.4	40.0
PE (x)	6.0	5.3	4.7	3.5	2.8
P/B (x)	8.3	2.3	1.5	1.0	0.8
EV/EBITDA (x)	6.1	4.9	3.5	2.0	1.1
Dividend yield (%)	-	2.3	2.6	3.5	4.3
Net margin (%)	2.6	2.7	2.8	3.4	3.8
Net debt/(cash) to equity (%)	611.6	152.9	46.4	(10.9)	(32.0)
Interest cover (x)	3.2	4.9	5.4	7.7	10.8
ROE (%)	4,385.0	66.7	38.7	35.5	31.2
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: TCA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.235
Target Price	S\$0.310
Upside	+31.9%
(Previous TP)	S\$ 0.390

COMPANY DESCRIPTION

Trans-China Automotive Holdings Limited is a premium automobile dealership, which carries well-established automobile brands, such as BMW and McLaren. Its business also comprises after-sales services and auto-related ancillary services.

STOCK DATA

GICS sector	Automotive
Bloomberg ticker:	TCAH SP
Shares issued (m):	584.3
Market cap (S\$m):	140.2
Market cap (US\$m):	103.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low	S\$0.32/S\$0.23			
1mth	3mth	6mth	1yr	YTD
(5.9)	(12.7)	n.a.	n.a.	(11.1)

Major Shareholders

Octo Holdings Limited	76.5
FY22 NAV/Share (Rmb)	0.75
FY22 Net Debt/Share (Rmb)	0.35

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **After-sales to buffer impact of...** Being the segment with the largest contribution to gross profit (59% in 2021), after-sales services for BMW automobiles is expected to see demand grow, in line with the increasing BMW automobile population and TCA's growth in new automobile sales. TCA's absorption ratio, which refers to the ratio of the after-sales services gross profit to a dealer's operating cost, is high, and we believe this provides for high earnings visibility for the segment.
- **...slower growth for BMW and McLaren new automobiles.** With the ongoing Russia-Ukraine situation, we believe inventory supply for imported BMW automobiles, which accounts for 20% of TCA's inventory, will be disrupted till at least end-1H22, and any resolution of the disruption is not visible currently. Furthermore, the semiconductor chip shortage has significantly impacted UK-based McLaren Group. This has resulted in a reduction in new vehicle production and shipments to TCA that was previously scheduled for Apr 22, and the delay is understood to be at least six months.
- **New BMW service centre to be ready in late-2Q22.** TCA commenced construction of a new BMW service centre in Pingshan District, located about 40km north-east of TCA's Shenzhen dealership. The centre is expected to be ready in late-2Q22 and will help expand its Shenzhen store footprint. We expect a ready pool of customers for the after-sales service centre given that the Shenzhen store historically accounted for 27% of the total new automobile units sold by TCA over the past three years.

EARNINGS REVISION/RISK

- We have lowered our 2022 and 2023 revenue forecasts by 8.3% and 8.7% to Rmb4,957m and Rmb5,522m respectively, to account for the inventory supply shortage arising from the semiconductor chip shortage and the Russia-Ukraine situation.
- 2022 gross margin assumption has been reduced from 8.8% to 8.2% due to the shift in new car sales mix towards the relatively lower profitability domestic-manufactured BMWs.
- Accordingly, net profit estimates have reduced 22% and 8.4% from Rmb180.3m to Rmb140.9m in 2022, and Rmb206.5m to Rmb189.3m in 2023.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of S\$0.31 (from S\$0.39)**, pegged to 6x 2022F PE or a 30% discount to regional peers which trade at an average 8.6x. Though smaller in scale, we are of the view that TCA's growth plans should improve the group's visibility and narrow the valuation spread with industry peers.

SHARE PRICE CATALYST

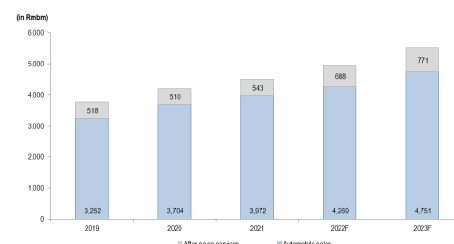
- Stronger-than-expected new automobile sales.
- Higher-than-expected absorption ratio.
- Better-than-expected cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 15 Mar 22 (lcy)	Market Cap (US\$m)	PE			PB		EV/EBITDA		Yield 2022F (%)	Net Gearing (%)
					2021 (x)	2022F (x)	2023F (x)	2021 (x)	2022F (x)	2021 (x)	2022F (x)		
Trans-China Automotive	TCAH SG	S\$	0.235	101	5.3	4.7	3.5	2.3	1.5	4.9	3.5	2.6	46.4
Zhongsheng Group	881 HK	HK\$	45.95	14,178	12.3	11.4	9.1	2.7	2.1	7.6	6.0	1.3	73.4
China Meidong	1268 HK	HK\$	26.40	4,285	27.1	22.4	15.3	6.9	5.4	12.6	9.4	1.7	(9.8)
China Grand Automotive	600297 CH	Rmb	2.28	2,900	10.1	8.1	6.5	0.4	0.4	6.3	5.9	n.a.	161.4
China Yongda	3669 HK	HK\$	6.72	1,689	4.9	4.3	3.7	0.8	0.7	3.4	3.1	5.2	70.3
Pang Da Automobile	601258 CH	Rmb	1.43	2,294	13.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	52.2
China Harmony Auto	3836 HK	HK\$	3.18	635	7.0	5.8	5.0	0.5	0.5	4.3	3.6	2.5	20.5
Betterlife Holding Ltd	6909 HK	HK\$	5.00	398	n.a.	6.1	4.7	1.1	0.9	2.7	1.5	n.a.	(12.1)
China Zhengtong Auto	1728 HK	HK\$	0.40	139	n.a.	n.a.	n.a.	0.3	0.2	n.a.	10.7	n.a.	255.5
Grand Baoxin Auto Group	1293 HK	HK\$	0.47	169	2.1	1.7	1.5	0.1	0.1	1.7	1.6	n.a.	149.5
Sunfonda Group	1771 HK	HK\$	1.82	140	2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.5	75.9
Average (Ex. Outliers: 1268 HK, 1293 HK, 1728 HK)					9.9	8.6	6.5	1.6	1.3	5.5	5.2	3.2	83.7

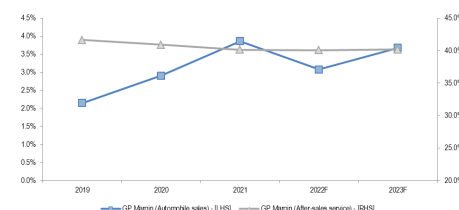
Source: Bloomberg, UOB Kay Hian

REVENUE FORECASTS BY SEGMENT



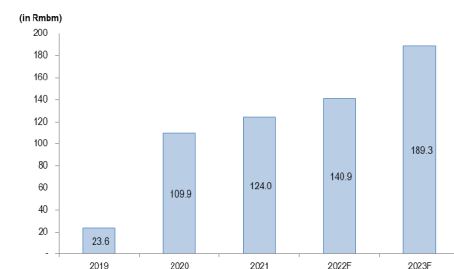
Source: UOB Kay Hian

GROSS MARGIN BY SEGMENT



Source: UOB Kay Hian

NET EARNINGS



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	4,515.7	4,957.0	5,521.9	6,164.5
EBITDA	227.5	246.6	299.4	347.5
Deprec. & amort.	17.6	12.9	8.3	3.6
EBIT	209.9	233.7	291.1	344.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(46.7)	(45.8)	(38.8)	(32.0)
Pre-tax profit	163.2	187.9	252.3	311.9
Tax	(39.3)	(47.0)	(63.1)	(78.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	124.0	140.9	189.3	233.9
Net profit (adj.)	124.0	140.9	189.3	233.9

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	230.0	399.9	360.3	291.1
Pre-tax profit	163.2	187.9	252.3	311.9
Tax	(33.8)	(47.0)	(63.1)	(78.0)
Deprec. & amort.	50.8	60.7	59.4	54.7
Working capital changes	6.5	152.5	72.9	(29.5)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	43.2	45.8	38.8	32.0
Investing	(23.3)	(70.0)	(25.0)	(25.0)
Capex (growth)	(54.6)	(70.0)	(25.0)	(25.0)
Proceeds from sale of assets	27.3	0.0	0.0	0.0
Others	4.0	0.0	0.0	0.0
Financing	(156.4)	(200.4)	(138.0)	(116.4)
Dividend payments	0.0	3.2	3.6	4.9
Issue of shares	92.3	0.0	0.0	0.0
Proceeds from borrowings	3,555.7	0.0	0.0	0.0
Loan repayment	(3,543.8)	(128.5)	(73.6)	(60.0)
Others/interest paid	(260.6)	(75.1)	(68.0)	(61.3)
Net cash inflow (outflow)	50.3	129.6	197.3	149.8
Beginning cash & cash equivalent	105.8	153.3	282.9	480.1
Changes due to forex impact	(2.7)	0.0	0.0	0.0
Ending cash & cash equivalent	153.3	282.9	480.1	629.9

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	502.2	525.9	492.4	463.5
Other LT assets	85.1	84.3	83.5	82.7
Cash/ST investment	153.3	282.9	480.1	629.9
Other current assets	1,242.0	1,134.5	1,115.7	1,208.1
Total assets	1,982.6	2,027.6	2,171.7	2,384.2
ST debt	582.3	471.8	411.8	351.8
Other current liabilities	735.8	780.8	834.8	897.8
LT debt	17.9	13.6	0.0	0.0
Other LT liabilities	354.2	325.0	295.8	266.5
Shareholders' equity	292.4	436.4	629.3	868.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,982.6	2,027.6	2,171.7	2,384.2

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	5.0	5.0	5.4	5.6
Pre-tax margin	3.6	3.8	4.6	5.1
Net margin	2.7	2.8	3.4	3.8
ROA	6.7	7.0	9.0	10.3
ROE	66.7	38.7	35.5	31.2
Growth				
Turnover	7.2	9.8	11.4	11.6
EBITDA	21.1	8.4	21.4	16.1
Pre-tax profit	19.4	15.1	34.3	23.6
Net profit	12.8	13.7	34.3	23.6
Net profit (adj.)	12.8	13.7	34.3	23.6
EPS	12.8	13.7	34.3	23.6
Leverage				
Debt to total capital	67.2	52.7	39.6	28.8
Debt to equity	205.3	111.2	65.4	40.5
Net debt/(cash) to equity	152.9	46.4	(10.9)	(32.0)
Interest cover (x)	4.9	5.4	7.7	10.8

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