MARC

MARC RATINGS BERHAD

PRESS ANNOUNCEMENT

FOR IMMEDIATE RELEASE

MARC RATINGS DOWNGRADES TAN CHONG MOTOR'S IMTN RATING TO A_{IS}

MARC Ratings has lowered its rating on Tan Chong Motor Holdings Berhad's (TCMH) RM1.5 billion Islamic Medium-Term Notes (Sukuk Murabahah) Programme to **A_{IS}** from $A+_{IS}$. The rating outlook is **negative**.

The rating action reflects the negative impact on TCMH's credit profile from declining vehicle sales over the years, resulting in reduced domestic market share to about 0.8% of total industry volume (TIV) as at end-1H2024 (average 2020-2023: 2.3%). MARC Ratings also notes that the group's ventures in foreign markets to offset weakening domestic prospects have largely been underperforming. Meanwhile, the negative outlook reflects the challenges TCMH faces to turn its performance around over the near term. For 1H2024, group revenue declined by 10.5% y-o-y to RM1.1 billion while pre-tax loss widened to RM58.4 million from negative RM5.5 million in the previous corresponding period.

TCMH mainly assembles and manufactures *Nissan* vehicles while also providing contract assembly for other marques. Its domestic car sales fell by 7.0% y-o-y to 4,987 units in 1H2024, reflecting the continued stiff competition it faces in the automotive industry, dominated by *Perodua* and *Proton* models which are priced lower than its *Nissan* models mainly due to lower input costs. Its lower sales volume was also partly attributed to fewer new models launched in recent years compared to other automotive players. The rating agency notes that to address the sales slide, TCMH will launch *e-POWER Kicks* in 4Q2024 alongside an additional five new models over the next two years under the *Nissan* marque, and *Emkoo* under China-based Guangzhou Automobile Group (GAC). TCMH group entered into an exclusive distributorship with GAC in April 2024 and has since launched two GAC models (*Emzoom* and *AION Y Plus*). While this distributorship provides TCMH with more lineups, the impact on sales volume may not be immediate given the time required to build up the brand in a crowded domestic automotive market.

The group also has a distributorship arrangement for GAC passenger cars in Vietnam where the performance of its other marques had been impacted by limited product offerings and excess unutilised capacity at its Danang plant following the termination of its distributorship for China-made MG vehicles in June 2023. In the Indo-China markets — Cambodia, Myanmar and Laos, besides Vietnam — the group recorded cumulative revenue of RM45.7 million and loss of RM3.2 million for 1H2024. The rating agency views that TCMH's foray overseas will continue to face headwinds given the strong competition in Vietnam and challenging economic conditions elsewhere in those markets.

In view of the weak cash flow generation, TCMH's borrowings rose to RM1.6 billion as at end-June 2024 (2023: RM1.5 billion) to fund working capital requirements. Notwithstanding this, TCMH's leverage position remains moderate with a gross debt-to-equity ratio of 0.61x while liquidity, as reflected by cash and cash equivalents of RM516.4 million, remains strong. Its internal funds coupled with unutilised credit lines of about RM400.0 million are sufficient to meet capex requirement of RM310.0 million for 2024-2026. The rating agency notes that RM200.0 million IMTN of the outstanding RM500.0 million under the rated programme will mature on March 14, 2025, and is likely to be refinanced.

MARC Ratings will monitor TCMH's performance over the next 12 months. Should the group be able to address the weakening in its business and financial position, the outlook will be revised to stable. Conversely, if there is no meaningful improvement in its business prospects or cash flow generation, the rating will be lowered.

Contacts:
Vanessa Leong, +603-2717 2931/ xinyue@marc.com.my
Farhan Darham, +603-2717 2945/ farhan@marc.com.my
Yazmin Abdul Aziz, +603-2717 2948/ yazmin@marc.com.my

October 3, 2024

[This announcement is available on MARC's corporate website at www.marc.com.my]