

Stock Snippet – CCB

Cycle & Carriage Bintang Berhad (CCB) is one of the authorised dealers of the well-known premium branded vehicles Mercedes-Benz (Benz) in Malaysia.

Net Profit Plunged 91%

CCB's net profit for the 1st half of 2013 plunged 91% to RM1.1m as compared with the previous corresponding year of RM13m. The lower profit was mainly due to weaker sales of its Benz trading operation which in fact suffered a net loss of RM4.5m for the period. Weaker sales of Benz products could be caused by the existing Benz models approaching the end of their product life cycle and sluggish local demand due to the negative impact from the 13th general election manifesto promises on car prices reduction.

Dividend of RM5.6m Mitigated the Losses

To recap, CCB is promised a fixed annual dividend of RM11.2m through its joint venture (JV) partnership with "Daimler" in Mercedes-Benz Malaysia (MBM). The dividend income was recognized evenly in each quarter throughout the year in the past. After accounting for accrued dividend income of RM5.6m for the 1H13, the Group was able to mitigate the losses of RM4.5m incurred by its Benz trading operation and registered a total Group's net profit of RM1.1m. With this marginal earnings, there was no dividend declared for first half of this year. (1HFY12: 5 sen single tier dividend)

Impact of the Amended JV Agreement

In 2012, the fixed annual dividend income of RM11.2m from MBM accounted for 64% of Group's EBIT. The recent announcement of cessation of the fixed annual dividend distribution from MBM could potentially hit the CCB's bottom-line starting from 2015 as the Group will no longer be able to enjoy the "guaranteed" amount of dividend income from MBM. The amended JV's terms stated that the dividend will only be paid to CCB depending on the actual dividend distribution by the JV partner "Daimler" which will depend on the performance of MBM. Now, there is an uncertainty whether the dividend distribution by MBM from 2015 onwards will be as much as its existing fixed annual dividend payment of RM11.2m to CCB. From 2014, the Group will not recognize any dividend income from MBM unless it is declared. Thus, the CCB's performance from 2014 onwards may not be as favourable.

Sluggish Demand on Mercedes-Benz Products

According to Malaysian Automotive Association, the total Benz's vehicle sales in 1H13 has declined 17% while its competitor "BMW" increased 4.1% on its total vehicle sales for the same period. Going forward, we see the trading conditions remain challenging for CCB with the sluggish demand caused by potential change in local consumers' preferences and strong competition in the premium car market. This will in turn affect the future dividend distribution of MBM.

Recommend "Sell"

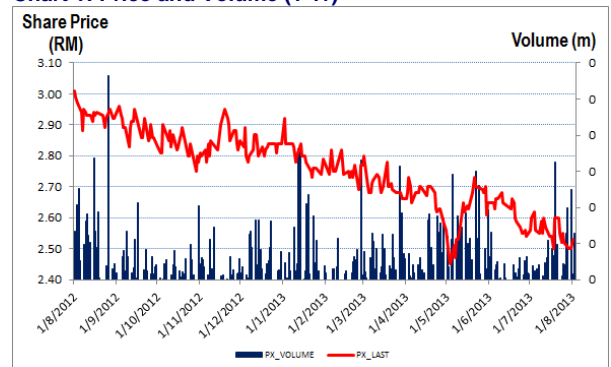
We are expecting a weaker earnings performance for FY2013 as the company only managed to garner net profit of RM1.1mil for 1HFY2013 compared with RM13mil for the preceding half year. Therefore, we think that the company is overvalued as its current NTA per share of RM1.84 remains below its current share price of RM2.53.

Summary

Share Price (RM)	2.53
52-Week Low/High (RM)	2.44 – 3.07
Market Value (RM m)	254.8
Shares Outstanding (RM1.00 par)	100.7m
Dividend Yield	2.0%
Return on Equity	4.0%
FY2012 EPS	16 sen
P/E	15.8x

Source: Bloomberg

Chart 1: Price and Volume (1 Yr)



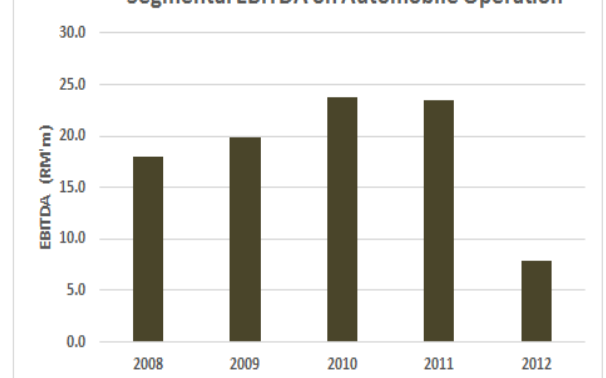
Source: Bloomberg

Financial (FYE 31 Dec)

	2009	2010	2011	2012	2013
Revenue (RMm)	513	466	589	675	656
EPS (sen)	46.4	28.0	26.6	26.4	16.0
Dividend (sen)	107.4	97.5	7.5	9.0	5.0

Source: Bloomberg

Segmental EBITDA on Automobile Operation



*Automobile Operation: assembly, distribution and retailing of motor vehicles, distribution and sales of spare parts and servicing of vehicles

Source: PCM & Company Annual Report

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For Phillip Capital Management Sdn Bhd



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