Review of Operations

Overview

2016 was a challenging year for the Malaysian vehicle market as after six consecutive years of growth, the Total Industry Volume ("TIV") decreased by 13% to approximately 580,000 units. This was largely due to lower consumer spending and cautious business sentiment in the face of an uncertain economic environment, a weakening ringgit and the tightening hire purchase loan approvals. Despite this, sales of Mercedes-Benz passenger cars grew by 9% to approximately 11,800 units, enabling the marque to maintain its leadership position in the luxury car market.

Performance

The Group is principally involved in the retailing and after-sales servicing of Mercedes-Benz passenger cars and commercial vehicles, and is the largest Mercedes-Benz dealer in Malaysia. In 2016, the Group recorded RM27.9 million in earnings from its trading operations, 32% down on the previous year. The net profit attributable to shareholders was RM39.1 million, after accounting for dividend income in its investment in Mercedes-Benz Malaysia, 25% down on 2015.

The Group achieved record unit sales in 2016 with more than 4,800 Mercedes-Benz motor vehicles sold. Revenue decreased, however, by 6% to RM1.5 billion due to a change in sales mix in favour of lower-priced and lower-margin vehicles. In 2016, the Group sold 55% fewer S-Class and 28% fewer E-Class, compared to 2015 when both models benefited from government incentives for locally-assembled hybrid cars. The new W213 E-Class launched in 2016 did not receive government incentives as sales relied solely on built-up variants prior to commencement of local assembly in 2017. The Group sold 59% more C-Class, but faced severe margin pressure in this highly competitive segment.

The Group's after-sales division continued to grow steadily throughout the year serving the growing population of Mercedes-Benz passenger cars. The Group serviced more than 23,000 vehicles, an increase of 22%, while its commitment to provide the highest level of after-sales service quality was recognised with the award of the top three places in the Mercedes-Benz Malaysia Service Excellence Award.

The Group continues to support Mercedes-Benz Malaysia's network development and in late 2016 completed construction of a new Autohaus in Cheras, Kuala Lumpur which commenced operations in early 2017. At the end of 2016, the Group had the largest network coverage in Malaysia, comprising seven 3S (sales, spare parts and after-sales services), two 2S (spare parts and after-sales services) and two 1S (sales) outlets. In January 2017, CCB announced the proposed acquisition of a strategically located 4,240 square metre site at Sungai Besi, Kuala Lumpur, at a cost of RM59.8 million, to establish another Autohaus.

The Group's sound financial position and access to committed facilities provide the support necessary for the planned development of its nationwide network. As at 31 December 2016, its consolidated net debt was RM100.4 million, representing a gearing ratio of 34%. The change from the net cash at the end of 2015 of RM10.7 million to the net debt at the end of 2016 was mainly to support the higher working capital requirements, particularly increased inventory level. The proposed acquisition of the Sungai Besi land will be funded through internally-generated funds and/or bank borrowings.

Outlook

The outlook for this year is expected to remain challenging due to a weak domestic market and an uncertain global economic environment. The Malaysian Automobile Association has forecast 2017 to be a difficult year and projected TIV to increase marginally to 590,000 units. The Group is, however, expected to benefit from the launch of several models, including the locally assembled E-Class and facelifted GLA-Class and S-Class.