Management Discussion and Analysis

Company profile
CCB is listed on Bursa Malaysia and is principally involved in the retailing and after-sales servicing of Mercedes-Benz passenger cars and commercial vehicles. It has the largest Mercedes-Benz passenger car dealer network in Malaysia with the largest network coverage in Malaysia, comprising eight 3S (sales, spare parts and after-sales services), two 2S (spare parts and after-sales services) and two 1S (sales) outlets. The Group's flagship body and paint repair centre at Batu Caves is among the highest ranking Centre of Competence for collision repairs globally, having achieved a perfect score in the recent re-certification audit by Daimler AG.

Objectives and strategies
The Group aims to become the partner of choice by delivering a superior proposition to both customers and its principal, MBM. We intend to achieve this by focusing on delivering a customer-centric experience. The Group will also continue to embark on its refurbishment and expansion plans to support MBM's network development. These initiatives are aimed at enhancing the Group's financial position and performance moving forward.

Highlights

- In support of MBM's network development, the Group opened Cheras 3S outlet in Q1 2017. This new facility enables the Group to expand its after-sales services to customers in the southern Klang Valley region.

- The Group completed the RM59.8 million acquisition of a 4,240 sq metre site at Sungai Besi, Kuala Lumpur. Earmarked for a 3S outlet, the site is important due to its strategic location in proximity to the Bandar Malaysia development. It is also prominently positioned along the main road and visible from the highway.

- The Group's commitment to provide the highest level of after-sales service quality was recognised by MBM in 2017. The Group achieved the top and third spots for the National Service Excellence Awards.

- To enhance the commercial vehicles customer experience, the Group completed a new commercial vehicle 3S outlet in Gopeng, Perak in January 2018. The Group has since relocated its commercial vehicle business from the Ipoh 3S outlet to the new Gopeng facility. It is strategically located on the main road between the entry from the North-South Expressway of Simpang Pulai and Gopeng, with high visibility.

2017 Performance
The Malaysian automotive market remained subdued in 2017, despite the recovery in the economy. For the second consecutive year, the total industry volume ("TIV") decreased, albeit at a lower 0.6% as compared to the previous year. The TIV reduced to approximately 576,600 units from approximately 580,000 units in 2016. This was primarily due to a decrease in commercial vehicles, as sales of passenger cars in 2017 were largely unchanged at approximately 514,700 units. Despite aggressive promotions and marketing campaigns by automotive dealers, consumers remained cautious. Sales of Mercedes-Benz passenger cars grew by 2% to approximately 12,000 units, enabling the marque to maintain its leadership position in the luxury market.

The Group's revenue declined by 4% to RM1.4 billion during the financial year due to the lower number of vehicle units sold, partly offset by stronger performance in the after-sales division. A total of approximately 4,400 Mercedes-Benz passenger cars and commercial vehicles were sold, 10% lower than the previous year. The Group's after-sales division continued to grow steadily with approximately 72,000 vehicles serviced, a 16% increase in throughput from 2016.

Key operational indicators

	2017	2016	2015
Vehicles sold (units)	4,400	4,900	4,600
Throughput (units)	72,000	62,000	52,000
Gross profit margin (%)	6.8%	8.8%	9.2%
No. of employees	794	740	629

Gross profit decreased by 26% to RM96.0 million in 2017 while the gross profit margin declined from 8.8% to 6.8%. The lower gross profit margin was due primarily to a change in sales mix in favour of lower priced and lower margin vehicles as well as higher discount due to increased competitive intensity. In 2017, the Group sold 56% fewer S-Class vehicles at reduced margin as the model reached the end of its product life cycle since it was launched in 2014. The decline in earnings was further exacerbated by losses suffered by the Group as a result of an unprecedented flood in Penang, which are subject to compensation claims from the Group's insurers. The decline in earnings was partly offset by the positive response from the locally-assembled E350e plug-in hybrid which benefited from government incentives for locally-assembled hybrid cars and was introduced to the market in October 2017.

Other operating income at RM22.8 million which was little changed from the previous year, comprised the dividend income of RM11.2 million received from MBM, insurance agency commissions, rental income and interest income.

Selling and distribution costs increased by 25% to RM100.7 million mainly due to higher staff costs, repair and maintenance costs, marketing and promotion expenses, and higher bad debts provision. Administrative expenses increased by 40% to RM28.8 million. This was mainly due to an increase in staff costs as well as professional fees.

The Group recorded an operating loss of RM10.6 million, compared to an operating profit of RM53.0 million in the previous year.

Finance cost comprising interest expense on borrowing was 53% higher at RM6.4 million as a result of higher borrowings due to the acquisition of the Sungai Besi site and higher working capital requirements.

The Group recorded a loss after tax of RM23.7 million as compared to a profit after tax of RM27.2 million from its trading operations. The loss after tax attributable to shareholders was RM12.5 million, after accounting for dividend income received from MBM, compared to a profit after tax of RM38.4 million in the previous year.

Financial Position and Liquidity

Property, plant and equipment increased by RM63.7 million to RM158.6 million at the end of 2017, mainly due to the acquisition of the Sungai Besi site. Trade and other receivables increased by 23% to RM92.6 million as more vehicles were sold towards the end of the year while inventories increased marginally.

The Group's net borrowings increased by RM115.9 million to RM216.3 million as at the end of 2017, largely due to the acquisition of the Sungai Besi site and higher working capital requirements. The Group's gearing ratio increased from 35% at the end of the previous year to 80% as at the end of 2017. During the year, the Group has secured financing facilities of RM180.0 million to support its planned refurbishment and expansion plans. Overall, the Group's funding arrangements are designed to maintain an appropriate balance between equity and debt, both short and long term, to give flexibility to grow the business.

Outlook

Notwithstanding that the Malaysian economy is forecast to grow by 5% to 5.5%, the outlook for the vehicle market in 2018 is expected to remain subdued. The Malaysian Automotive Association projects TIV to grow by 2% to approximately 590,000 units in 2018 as rising cost of living remains a key concern for consumers. High household debt levels and the continuation of strict lending guidelines for hire purchase loans by financial institutions will also reduce the number of car buyers.