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Impressive growth forecast for Thong Guan

BY HANIM ADNAN

MAIN board listed Thong Guan Industries Bhd's track record, management team and institutional support has been quietly attracting the attention of fund managers.

SBB Securities, in its latest note, expects Thong Guan's stock to be re-rated progressively as the group's growth trajectory is validated by its financial performance.

"In our judgement, although not yet considered as a polished gem in the eyes of the investing public, Thong Guan has attracted fund managers' attention as they seek out investments in small caps to secure higher returns," the research house said in its latest notes.

The manufacturer of stretch film and plastic bags for a wide cross section of industrial and commercial sectors, is well poised to capitalise on the rising global demand for stretch films, which registered a 15% compounded annual growth rate (CAGR).

SBB Securities said that despite rising raw material costs and intense competition, Thong Guan was unscathed and has been registering a commendable performance.

Thong Guan's bottomline is forecast to grow by 18% CAGR between the company's 2004 and 2006 financial years, driven by capacity expansion, improving operational efficiency, market expansion and higher contribution from its subsidiary in China," it added.

The group has four factories in Sungei Petani and two in Kota Kinabalu. It also has a plant in Suzhou, China, which started operations in 2002.



Since the 1990s, Thong Guan has invested more than RM180mil in its stretch films and garbage bags manufacturing operations. The current monthly capacity for stretch films and garbage bags are 4,500 tonnes and 1,200 tonnes respectively.

“With the rising demand, Thong Guan plans to fork out RM40mil to RM50mil over the next two years in Malaysia and China to expand its total capacity to 6,300 tonnes for stretch films and 1,800 tonnes for garbage bags.”

The stretch film and garbage bags contributed about 70% to the group’s turnover. The research house said Thong Guan also exports about 70% of its total production to over 30 countries.

“We opine that the company’s wide clientele and diversified export market will provide a buffer from the downturn in any specific industries and markets,” SBB Securities said.

It also said Thong Guan’s plant in China would be the catalyst to the group’s future earnings growth.

The operation in China would spur the group’s revenue growth going forward by catering to the rising demand in Japan, South Korea, Taiwan and the United States.

SBB Securities said Thong Guan has an institutionalised shareholding structure with PNB Group owning 11%, followed by Pacific Pearl Fund (4%), Great Eastern Life (3%) and other fund management companies (18%).

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