

Company Note

Malaysia

ADD (no change)

Current price:	RM2.98
Target price:	RM3.20
Previous target:	RM2.52
Up/downside:	7.4%
Reuters:	TGIB.KL
Bloomberg:	TGI MK
Market cap:	US\$74.26m
	RM313.7m
Average daily turnover:	US\$0.32m
	RM1.37m
Current shares o/s	105.2m
Free float:	50.1%

Key changes in this note

- FY16F EPS increased by 39.8%.
- FY17F EPS increased by 32.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.6	12.5	31.9
Relative (%)	-4.6	14.1	40.6

Analyst(s)



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Thong Guan Industries

Record 4Q profit

- FY15 net profit was 58% above our forecast and 34% above consensus mainly due to higher-than-expected profit margin expansion from strong US\$.
- It benefited from export revenue which is mainly in US\$ while costs like labour and electricity are in Ringgit.
- New 33-layer nano-technology stretch film line was commissioned in early-2016.
- We raise our FY16-17F EPS by 33-40%.
- Maintain Add with a higher target price, based on 30% discount to SOP.

FY15 profit up 120% yoy

Thong Guan's FY15 revenue fell 4% yoy but net profit jumped 120%. Higher net profit growth was mainly due to profit margin expansion from export sales which are mainly in US\$. While raw material costs are mainly in US\$, its other costs such as labour and electricity are in RM. It declared a final 9sen DPS, below our 10sen forecast.

New nano layer stretch film starts running

The company started running the 33-layer nano layer stretch films in early-2016. We estimate that at full capacity, this plant could generate around RM150m-180m revenue, depending on raw material prices. Profit margin from this nano-layer film is much higher, above 10% compared to 5-6% for traditional stretch films. As management needs to focus more on marketing and promotion of this new product, it could take 2-3 years to reach full-production capacity.

Net cash balance sheet

The company had RM52m of net cash as at end-Dec. By end-2016, the company would have completed its major RM100m capex programme. The group's annual production capacity would rise from 120,000 tonnes to 170,000 tonnes.

Maintain Add, target price raised

We maintain our Add call on the stock. Our target price is raised as our SOP/share rises, based on an unchanged 30% discount. Potential re-rating catalysts include continued profit margin expansion and strong sales of its nano stretch films.

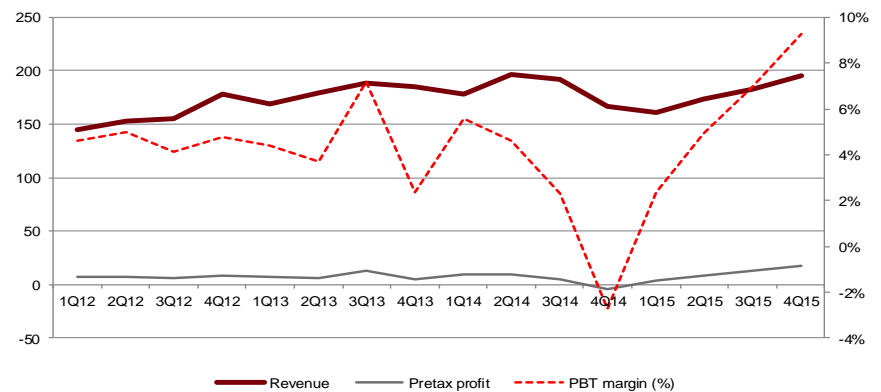
Financial Summary	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
Revenue (RMm)	720.3	732.6	712.0	754.7	792.5
Operating EBITDA (RMm)	49.10	36.90	62.70	66.90	70.40
Net Profit (RMm)	28.10	17.50	38.40	39.79	41.95
Core EPS (RM)	0.27	0.17	0.37	0.38	0.40
Core EPS Growth	3%	(38%)	119%	4%	5%
FD Core P/E (x)	11.16	24.63	14.29	13.79	13.08
DPS (RM)	0.08	0.07	0.10	0.12	0.12
Dividend Yield	2.68%	2.35%	3.36%	3.86%	3.86%
EV/EBITDA (x)	6.04	8.47	5.89	4.70	4.09
P/FCFE (x)	NA	NA	NA	8.12	13.95
Net Gearing	(7.0%)	(1.8%)	14.9%	(2.1%)	(9.1%)
P/BV (x)	1.08	0.92	0.97	0.90	0.83
ROE	10.2%	5.5%	11.6%	11.8%	11.5%
% Change In Core EPS Estimates				39.9%	32.8%
CIMB/consensus EPS (x)				1.37	1.31

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results Comparison

FYE Dec (RM m)	4QFY15	4QFY14	yoy % chg	qoq % chg	4QFY15 cum	4QFY14 cum	yoy % chg	Prev. FY15F	Comments
Revenue	195.7	167.0	17.2	7.4	712.1	740.2	(3.8)	671.0	Above, strong demand in 4Q15
Operating costs	(173.7)	(166.4)	4.4	5.7	(649.4)	(702.7)	(7.6)	(623.9)	In line with revenue contribution
EBITDA	22.0	0.6	3,566.7	22.9	62.7	37.5	67.2	47.1	-
<i>EBITDA margin (%)</i>	<i>11.2</i>	<i>0.4</i>	<i>3,028.9</i>	<i>14.5</i>	<i>8.8</i>	<i>5.1</i>	<i>73.8</i>	<i>7.0</i>	Above, record high EBITDA margin
Deprn & amort.	(4.5)	(4.8)	(6.3)	(15.1)	(20.4)	(18.1)	12.7	(19.3)	In line, major capex from 2014-2016
EBIT	17.5	(4.2)	516.7	38.9	42.3	19.4	118.0	27.8	-
Interest expense	(0.3)	(0.5)	(40.0)	0.0	(1.3)	(1.2)	8.3	-	In line, RM52m net cash
Interest & invt inc	0.9	0.2	350.0	125.0	2.2	0.6	266.7	0.8	-
Pretax profit	18.1	(4.5)	502.2	42.5	43.2	18.8	129.8	28.6	Above, record quarter
Tax	(1.9)	0.3	nm	72.7	(3.5)	(0.4)	775.0	(2.9)	Below, benefit from tax planning
Tax rate (%)	10.5	6.7	nm	21.2	8.1	2.1	280.8	10.1	Below, low taxes from tax planning
Minority interests	(0.7)	0.1	(800.0)	nm	(1.2)	(0.9)	33.3	(1.4)	-
Net profit	15.5	(4.1)	478.0	38.4	38.5	17.5	120.0	24.3	Above, mainly due to strong US\$
EPS (sen)	14.8	(4.0)	470.0	38.3	36.6	16.6	120.2	23.1	-

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Thong Guan quarterly revenue and pretax profit (RMm)

SOURCES: CIMB, COMPANY REPORTS

Figure 3: Thong Guan SOP/share (RM)

	Value (RMm)
No ICULS and warrants conversion	
TGIB's operations (RM41.9m net profit) at 2017 13x P/E	545.35
Net debt	10
Net current asset	210
SOP	765.35
Issued share base (m)	105.2
SOP /share (RM)	7.28
Assume full ICULS conversion	
TGIB's operations (RM41.9m net profit) at 2017 13x P/E	545.35
Net cash	50
Net current asset	210
SOP	805.35
Issued share base (m)	157.8
SOP /share (RM)	5.10
Assume full ICULS and warrants conversion	
TGIB's operations (RM41.9m net profit) at 2017 13x P/E	545.35
Net cash	89.5
Net current asset	210
SOP	844.85
Issued share base (m)	184.1
SOP /share (RM)	4.59

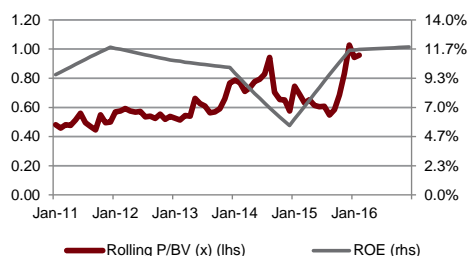
SOURCES: CIMB

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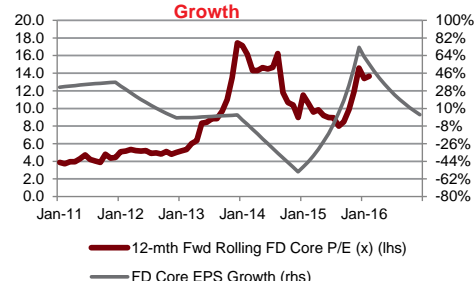
Share price info

Share px perf. (%)	1M	3M	12M
Relative	-4.6	14.1	40.6
Absolute	-2.6	12.5	31.9
Major shareholders			% held
Ang family			45.5
AmInvestment Bank			2.6
Prime Finc			1.8

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
Total Net Revenues	720.3	732.6	712.0	754.7	792.5
Gross Profit	183.3	176.0	192.6	204.5	214.8
Operating EBITDA	49.1	36.9	62.7	66.9	70.4
Depreciation And Amortisation	(17.1)	(17.6)	(20.4)	(21.8)	(22.9)
Operating EBIT	32.0	19.3	42.3	45.1	47.5
Financial Income/(Expense)	(0.2)	(0.5)	0.8	1.0	1.0
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	31.8	18.8	43.1	46.1	48.5
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	31.8	18.8	43.1	46.1	48.5
Taxation	(3.0)	(0.4)	(3.5)	(4.6)	(4.9)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	28.8	18.4	39.6	41.5	43.7
Minority Interests	(0.7)	(0.9)	(1.2)	(1.7)	(1.7)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
Net Profit	28.1	17.5	38.4	39.8	42.0
Recurring Net Profit	28.1	17.5	38.4	39.8	42.0
Fully Diluted Recurring Net Profit	28.1	17.5	38.4	39.8	42.0

Cash Flow

(RMm)	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
EBITDA	49.10	36.90	62.70	66.90	70.40
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(25.60)	(67.50)	(11.12)	35.23	3.77
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	(0.10)	0.70	0.00	0.00	0.00
Net Interest (Paid)/Received	(0.20)	(1.30)	0.00	0.00	0.00
Tax Paid	(4.50)	(3.10)	(3.50)	(4.61)	(4.85)
Cashflow From Operations	18.70	(34.30)	48.08	97.52	69.32
Capex	(15.40)	(29.00)	(40.00)	(30.00)	(30.00)
Disposals Of FAs/subsidiaries	0.30	6.30	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	(12.70)	0.80	0.00	0.00	0.00
Cash Flow From Investing	(27.80)	(21.90)	(40.00)	(30.00)	(30.00)
Debt Raised/(repaid)	5.90	35.70	(35.70)	0.00	0.00
Proceeds From Issue Of Shares	0.00	52.60	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(7.40)	(11.60)	(11.55)	(11.94)	(12.59)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	(1.50)	76.70	(47.25)	(11.94)	(12.59)
Total Cash Generated	(10.60)	20.50	(39.17)	55.59	26.73
Free Cashflow To Equity	(3.20)	(20.50)	(27.62)	67.52	39.32
Free Cashflow To Firm	(8.90)	(54.90)	8.08	67.52	39.32

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
Total Cash And Equivalents	70.2	91.5	53.3	109.8	137.5
Total Debtors	108.3	113.4	121.0	128.3	134.7
Inventories	130.3	192.4	192.2	159.0	159.0
Total Other Current Assets	14.8	8.7	6.4	6.4	6.4
Total Current Assets	323.6	406.0	373.0	403.5	437.6
Fixed Assets	111.5	122.5	143.2	151.4	158.5
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	12.4	12.3	12.4	12.4	12.4
Total Non-current Assets	123.9	134.8	155.6	163.8	170.9
Short-term Debt	42.2	73.8	42.2	42.2	42.2
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	97.9	96.2	92.6	101.8	112.0
Other Current Liabilities	0.5	11.7	0.5	0.5	0.5
Total Current Liabilities	140.6	181.7	135.3	144.5	154.7
Total Long-term Debt	7.4	11.5	7.4	7.4	7.4
Hybrid Debt - Debt Component			52.6	52.6	52.6
Total Other Non-Current Liabilities	6.3	1.2	4.0	4.2	5.0
Total Non-current Liabilities	13.7	12.7	64.0	64.2	65.0
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	154.3	194.4	199.3	208.7	219.7
Shareholders' Equity	289.5	342.1	322.4	350.2	379.6
Minority Interests	3.6	5.4	6.6	8.3	10.0
Total Equity	293.1	347.5	329.0	358.5	389.6

Key Ratios

	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
Revenue Growth	14.1%	1.7%	(2.8%)	6.0%	5.0%
Operating EBITDA Growth	6.3%	(24.8%)	69.9%	6.7%	5.2%
Operating EBITDA Margin	6.82%	5.04%	8.81%	8.86%	8.88%
Net Cash Per Share (RM)	0.20	0.06	(0.46)	0.07	0.34
BVPS (RM)	2.75	3.25	3.06	3.33	3.61
Gross Interest Cover	160.0	14.8	N/A	N/A	N/A
Effective Tax Rate	9.43%	2.13%	8.12%	10.00%	10.00%
Net Dividend Payout Ratio	23.8%	64.8%	27.6%	26.9%	26.9%
Accounts Receivables Days	47.94	55.23	60.09	60.46	60.57
Inventory Days	82.2	105.8	135.1	116.8	100.5
Accounts Payables Days	60.43	63.65	66.32	64.64	67.55
ROIC (%)	13.6%	6.9%	12.4%	11.8%	13.4%
ROCE (%)	9.8%	5.2%	10.0%	10.3%	10.2%
Return On Average Assets	7.60%	3.91%	7.91%	8.23%	8.08%

Key Drivers

	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	3.0%	3.0%	3.0%	3.0%	3.0%
Unit sales grth (% , main prod./serv.)	11.0%	1.0%	5.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	3.0%	4.0%	4.0%	4.0%	4.0%
Unit sales grth (% ,2ndary prod/serv)	4.0%	5.0%	10.0%	10.0%	10.0%
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit Raw Material ASP (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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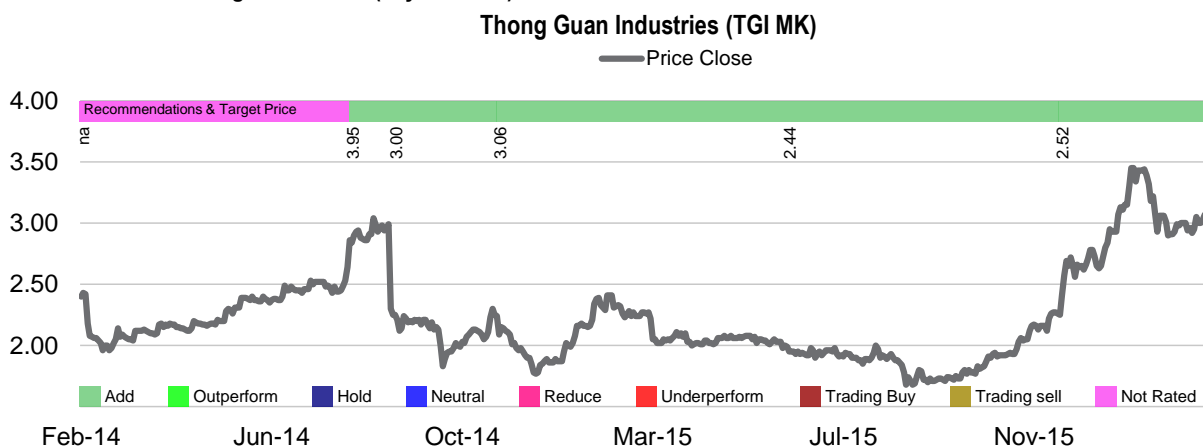
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1536 companies under coverage for quarter ended on 31 December 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.8%	9.3%
Hold	31.5%	4.0%
Reduce	8.5%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2015, Anti-Corruption Progress Indicator 2015.

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Add The stock's total return is expected to exceed 10% over the next 12 months.

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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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