Star Exclusive - Thong Guan on expansion mode

thestar.com.my/business/business-news/2020/10/19/star-exclusive---thong-guan-on-expansion-mode

By DAVID TAN 19 October 2020

Thong Guan group managing director Datuk Ang Poon Chuan told StarBiz the company's planned venture into Myanmar, a low-cost production country, is in line with its aim to grow its plastic packaging material business as well as enhance its competitive edge in the industry.

GEORGE TOWN: Thong Guan Industries Bhd has earmarked RM150mil as capital expenditure (capex) for the next two years to expand its business in Malaysia and overseas.

Of the planned capex, the packaging firm said it would invest about RM30mil to RM40mil to build a new plant in Myanmar. The remainder would be used for its Malaysian factory lines to produce stretch films and specialty mailer bags, as well as to install machinery for the manufacturing of food and beverage packaging products.

Thong Guan group managing director Datuk Ang Poon Chuan told StarBiz the company's planned venture into Myanmar, a low-cost production country, is in line with its aim to grow its plastic packaging material business as well as enhance its

competitive edge in the industry.

“The group would invest RM150mil in 2021 and 2022 to expand its business in Malaysia and overseas. Some RM30mil to RM40mil is for a new plant in Myanmar. We will go there once the border reopens, ” Ang said.

The main lure of Myanmar, he explained, is the country’s status as a developing country, which would allow it to enjoy zero-tariff privileges for its exports.

“Importers don’t need to pay any duty for the goods they buy from Myanmar; whereas if the goods are produced in Malaysia and they are heading to the United States, the importers over there would need to pay a 4.9% tariff. European importers, on the other hand, would need to pay a 6.5% tariff for Malaysian-made plastic packaging products, ” Ang said.

In addition, he said, setting up a production plant in Myanmar would result in cost-savings for the company.

“The group gets to save approximately RM1,000 per month for an average production worker, ” Ang said, citing the average monthly wage, including overtime pay, for a worker in Malaysia was around RM1,800, while in Myanmar, it was only around RM800.

Furthermore, he said, the Myanmar government would give a five-year income tax waiver for the company as incentive to set up a plant there.

“Myanmar also has a bigger market, with a sizeable population of about 65 million, ” Ang said.

With the group’s expansion plan, Ang said, the group is confident of increasing its yearly output to 175,000 tonnes in 2021, up from over 150,000 tonnes this year.

“We are on track to achieve RM1bil in revenue this year, as the two lines in which we have invested earlier have started to make contributions, ” he said.

Earlier, the group had spent RM30mil for a stretch film production line and a blown film production line to manufacture laminated films that could improve its 2020 revenue by about 10% from the RM935mil revenue achieved in 2019.

According to Ang, the demand for food and beverage (F&B) products in Europe has increased.

“Because of the Covid-19 pandemic, more people are buying from supermarkets to eat at home.

“This has resulted in the rise in demand for stretch films used for wrapping pallets of F&B goods heading to Europe, ” he said.

“In the domestic market, we also see an increase in the use of laminated packaging materials for wrapping F&B products, ” he added.

Ang said he expected the European market to contribute about 10% of the group’s 2020 revenue. He noted Europe used to be a single-digit percentage contributor to the group’s income.

Ang revealed the market in Japan also showed no signs of slowing down.

“It will contribute about 20% to this year’s revenue, ” he added.

According to a Research and Markets report, the global stretch and shrink film market size is expected to reach US$21.72bil by 2027, exhibiting a 5.5% compounded annual growth rate for the 2020-2027 period.

“Rising demand for lightweight material for industrial packaging is expected to drive the growth.

“Factors such as superior packaging properties, improved printability, easier application and robust package sealing capabilities of the films are anticipated to further fuel the growth.

“The introduction of superior shrink and stretch film materials, such as linear low-density polyethylene, extended polyethylene and high-density polyethylene is expected to strengthen the pallet further holding abilities of the films, ” the report says.

Thong Guan’s net profit surged nearly 50% year-on-year to RM20.46mil for the second quarter ended June 30,2020.

In a filing with the local bourse, the company said the earnings improvement was due to more premium product mix, favourable exchange rate for its export sales and lower raw material prices as compared with the second quarter of 2019.

Revenue in the second quarter stood at RM228.03mil, compared with RM229.71mil in the previous corresponding period.

For the six-months period to June 2020, Thong Guan’s net profit rose to RM37.92mil from RM26.70mil in the previous corresponding period, while revenue increased to RM472.06mil from RM446.90mil a year earlier. It declared a second interim dividend of two sen.

Thong Guan’s shares rose seven sen to close at RM2.87 last Friday.

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