

28 February 2019

# Thong Guan Industries Bhd

## FY18 Above Expectations

By Loo Tungwye | [lootw@kenanga.com.my](mailto:lootw@kenanga.com.my); Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my),

**FY18 CNP of RM48.5m is above our expectation at 127% mainly from better margins likely from improved product sales mix. A final dividend of 8.0 sen declared also came above our expectation. Upgrade FY19E CNP by 24% as we believe the group will seek higher margin products while we also introduce FY20E earnings of RM50.2m. Upgrade to MARKET PERFORM with higher TP of RM2.40 on an unchanged target PER of 9.0x.**

**Above expectation.** FY18 core net profit (CNP) of RM48.5m came above our estimate at 127%. Top-line came in line at 103% but the positive deviation stemmed mainly from better margins, likely attributable to an improved product sales mix. No consensus was available. A final dividend of 8.0 sen was declared for FY18, which is above our expectation at 112% due to the stronger-than-expected earnings and higher payout of 24% (vs. our assumption of a 20% payout).

**Results highlight.** YoY-Ytd, FY18 CNP increased by 13%, mainly from: (i) stronger top-line (+4%) on increased export sales for its stretch film, industrial bags and PVC food wrap, and (ii) better operating margin (+0.3ppt) likely from higher portion of sales of plastic product such as stretch film and PVC food wrap, which generally yield higher margin. **QoQ**, despite revenue declining marginally by 1%, 4Q18 CNP surged 140% mainly attributed to improvement in its operating margin (+4.0 ppt) coming from the strengthening of USD dollar in 4Q18 (c.+2%), which led to better selling price when converted to MYR.

**Outlook.** Moving forward, TGUAN will continue to seek for new customers and markets for its product. The Group is also constantly investing in R&D to improve sales and margins on existing products (i.e. stretch film) and aims to target more MNCs. The group is focusing on continued expansion into high-margin production lines to sustain the plastic segment's margins going forward.

**Increase FY19E CNP by 24% to RM48.9m and introduce FY20E CNP of RM50.2m.** In view of the stronger earnings and better CNP margins shown in FY18, we increase our FY19E CNP by 24% after increasing our CNP margin assumption to 5.5% (from 4.5% previously). We believe management is likely to seek for more sales from higher margin products such as stretch film and PVC food wrap. We also introduce our FY20E CNP of RM50.2m, on the back of CNP margin of 5.5%

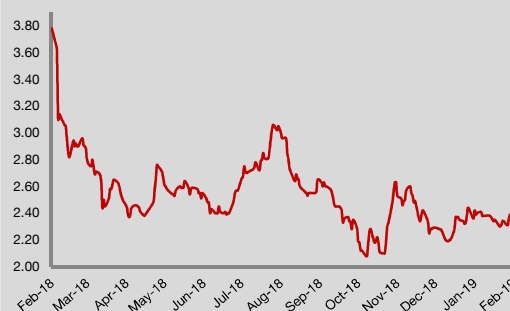
**Upgrade to MARKET PERFORM with higher TP of RM2.40 (from RM1.95)** post increasing our earnings for FY19E. Our TP is based on an unchanged ascribed PER of 9.0x (-1.0SD) to our increased FY19E FD EPS of 26.6 sen (from 21.4 sen). We upgrade our call to MARKET PERFORM (from UP) given the improvement in TGUAN's margins in 4Q18. However, our valuations remain on the lower end vs. comparable plastic packager peers under our coverage of 18.0x PER (mean valuations) due to the other peers' abilities to garner even better margins (average c.11% EBIT margins). Nonetheless, we may look to lifting up our valuations should we see better earnings and margin consistency.

**Risks to our call include:** (i) volatile plastic resin prices, (ii) foreign currencies fluctuations, and (ii) higher/lower-than-expected margin.

# MARKET PERFORM ↑

**Price:** **RM2.38**  
**Target Price:** **RM2.40** ↑

### Share Price Performance



KLCI	1,713.45
YTD KLCI chg	1.4%
YTD stock price chg	8.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	324.3
Shares Outstanding	136.2
52-week range (H)	3.20
52-week range (L)	2.07
3-mth avg daily vol:	87,418
Free Float	45%
Beta	1.3

### Major Shareholders

Foremost Equals Sdn Bhd	32.3%
Poon Chuan Ang	19.1%
Kumpulan Wang Simpanan Pekerja	3.7%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	861.6	891.3	916.8
EBIT	57.2	58.9	60.1
PBT	53.6	58.2	59.7
<b>Net Profit (NP)</b>	45.4	48.9	50.2
<b>Core NP*</b>	48.5	48.9	50.2
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	+24%	n.a.
Core EPS (sen)	35.6	35.8	36.8
FD Core EPS (sen)	26.4	26.6	27.2
FD EPS growth (%)	15.8%	7.8%	2.6%
NDPS (sen)	8.0	8.6	8.8
FD BVPS (RM)	2.7	3.0	3.2
FD Core PER	9.0	9.0	8.7
FD Price/BV (x)	0.9	0.8	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	3.4%	3.6%	3.7%

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**OTHER POINTS**

<b>Results Highlights</b>								
<b>FYE Dec (RM'm)</b>	<b>4Q18</b>	<b>3Q18</b>	<b>QoQ Change</b>	<b>4Q17</b>	<b>YoY- Change</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY-Ytd Change</b>
Turnover	219.1	221.6	-1%	209.5	5%	861.6	831.2	4%
Operating Income	21.3	12.6	69%	(0.7)	n.m.	54.0	49.8	9%
Interest income	0.9	0.9	8%	0.8	14%	3.1	2.8	13%
Finance costs	(1.1)	(1.0)	13%	(0.6)	78%	(3.5)	(1.8)	88%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>21.1</b>	<b>12.5</b>	<b>69%</b>	<b>(0.5)</b>	<b>n.m.</b>	<b>53.6</b>	<b>50.7</b>	<b>6%</b>
Taxation	(3.4)	(2.2)	58%	0.6	-670%	(8.3)	(8.0)	5%
Profit after tax	17.7	10.3	72%	0.1	32087%	45.3	42.7	6%
Minority interest	0.5	(0.3)	n.m.	0.2	110%	0.1	(0.8)	n.m.
<b>Net profit</b>	<b>18.2</b>	<b>10.0</b>	<b>81%</b>	<b>0.3</b>	<b>6012%</b>	<b>45.4</b>	<b>41.9</b>	<b>8%</b>
<b>Core net profit</b>	<b>22.1</b>	<b>9.2</b>	<b>140%</b>	<b>2.2</b>	<b>887%</b>	<b>48.5</b>	<b>43.1</b>	<b>13%</b>
Core EPS (sen)	16.2	6.7		1.8		35.6	33.8	
NDPS (sen)	8.0	0.0		8.0		8.0	8.0	
NTA/share (RM)	3.64	3.51		3.82		3.64	3.82	
Operating margin	9.7%	5.7%		-0.3%		6.3%	6.0%	
Pretax margin	9.6%	5.6%		-0.3%		6.2%	6.1%	
Core net profit margin	10.1%	4.1%		1.1%		5.6%	5.2%	
Effective tax rate	16.1%	17.3%		n.m.		15.6%	15.7%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Dec (RM'm)</b>	<b>4Q18</b>	<b>3Q18</b>	<b>QoQ Change</b>	<b>4Q17</b>	<b>YoY- Change</b>	<b>FY18</b>	<b>FY17</b>	<b>YoY-Ytd Change</b>
<b>Turnover</b>								
Plastic products	206.4	206.7	0%	195.1	6%	805.0	776.4	4%
F&B, other consumable products	12.7	14.9	-15%	14.5	-12%	56.6	55.8	1%
<b>Group Turnover</b>	<b>219.1</b>	<b>221.6</b>	<b>-1%</b>	<b>209.5</b>	<b>5%</b>	<b>861.6</b>	<b>832.2</b>	<b>4%</b>
<b>Segment Results</b>								
Plastic products	24.5	12.5	96%	3.3	655%	59.2	52.9	12%
F&B, other consumable products	(3.4)	(0.0)	7040%	(3.8)	-10%	(5.5)	(2.2)	148%
<b>Group PBT</b>	<b>21.1</b>	<b>12.5</b>	<b>69%</b>	<b>(0.5)</b>	<b>-3994%</b>	<b>53.6</b>	<b>50.7</b>	<b>6%</b>
<b>PBT Margin</b>								
Plastic products	11.9%	6.1%		1.7%		7.3%	6.8%	
F&B, other consumable products	-27.0%	-0.3%		-26.2%		-9.7%	-4.0%	
<b>Group PBT Margin</b>	<b>9.6%</b>	<b>5.6%</b>		<b>-0.3%</b>		<b>6.2%</b>	<b>6.1%</b>	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	1.19	229.4	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	16.5	45.8	29.8	1.5	1.0	2.6%	1.6%	1.15	MP
SCIENTEX BHD	8.73	4,490.3	Y	07/2019	22.4%	4.3%	5.9%	13.0%	15.3	14.4	13.4	2.5	1.9	15.2%	2.8%	8.50	MP
SLP RESOURCES BHD	1.28	405.7	N	12/2019	12.5%	5.4%	-6.7%	5.5%	16.0	17.1	16.2	2.1	2.1	13.5%	3.0%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.38	324.3	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.0	9.0	8.7	0.9	0.8	9.5%	3.6%	2.40	MP
TOMYPAK HOLDINGS	0.555	232.5	Y	12/2019	23.4%	12.9%	37.3%	273.2%	N.A.	247.1	66.2	1.6	1.1	0.5%	0.3%	0.495	UP
<b>Simple Average</b>					<b>14.2%</b>	<b>7.8%</b>	<b>-5.4%</b>	<b>69.7%</b>	<b>14.4</b>	<b>66.7</b>	<b>26.9</b>	<b>1.7</b>	<b>1.4</b>	<b>8.3%</b>	<b>2.2%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

