

30 May 2019

Thong Guan Industries Bhd

1Q19 Within Expectation

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MARKET PERFORM ↔

Price: RM2.50
Target Price: RM2.40 ↔

1Q19 CNP of RM14.1m came within our expectation at 29%. Not widely tracked, consensus is not available. No dividend was declared with dividends expected to be paid in 2H19. Moving forward, the on-going trade tension is seen dampening sales, but we believe TGUAN will continue to seek for new customers and markets. Maintain FY19-20E CNP of RM48.9-50.2m. Reiterate MP with an unchanged TP of RM2.40 on the unchanged target PER of 9.0x.

Within expectation. 1Q19 Core Net Profit (CNP) of RM14.1m came within our estimate at 29%. Consensus was not available. No dividend was declared, as expected. We expect dividends to be paid out in 2H19 based on historical trends as TGUAN tends to declare bulk of its dividend in 4Q. We maintain our 24% pay-out ratio, which is similar with the historical trend.

Results' highlight. YoY-Ytd, 1Q19 CNP increased by 55%, mainly attributable to better operating margin (+2.7ppt) coming from the strengthening of USD dollar (c.+4%) , which led to higher selling prices of its plastic products when converted to MYR. **QoQ,** 1Q19 CNP declined by 22%, mainly due to: (i) stronger USD in 4Q18 (+2%) that saw its product selling at higher price, and (ii) higher effective tax rate (+0.5 ppt) in 1Q19. Although the food, beverages and other consumable products division contributes only c.7% to group revenue, we note that this is the first quarter where it recorded gains due to increase in sales from tea products after six consecutive quarters of losses.

Outlook. The on-going trade tension between the two largest economies is likely to affect global trade and may dampen the sales growth for TGUAN. Moving forward, TGUAN will continue to seek for new customers and markets for its products. The Group is also constantly investing in R&D to improve sales and margins for 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.

No changes to estimates. No changes to our FY19-20E CNP of RM48.9-50.2m.

Maintain MARKET PERFORM with unchanged Target Price of RM2.40. Our TP is based on an unchanged ascribed PER of 9.0x (-1.0SD) to our FY19E FD EPS of 26.6 sen. Our valuations remain on the lower-end vs. comparable plastic packager peers under our coverage (from average to -1.0SD for PER valuation) due to the peers' better margins (average c.11% EBIT margins). Nonetheless, we may look to lift 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.

Share Price Performance



KLCI	1,623.67
YTD KLCI chg	-4.0%
YTD stock price chg	13.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	394.7
Shares Outstanding	157.9
52-week range (H)	3.08
52-week range (L)	2.07
3-mth avg daily vol:	176,916
Free Float	55%
Beta	1.2

Major Shareholders

Foremost Equals Sdn Bhd	40.3%
Employees Provident Fund Board	2.8%
Neoh Choo Ee & Company Sdn Bhd	2.2%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	861.6	891.3	916.8
EBIT	56.7	58.9	60.1
PBT	52.0	58.2	59.7
Net Profit (NP)	43.7	48.9	50.2
Core NP*	48.0	48.9	50.2
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	35.2	35.8	36.8
FD Core EPS (sen)	26.1	26.6	27.2
FD EPS growth (%)	12.9%	1.8%	2.6%
NDPS (sen)	8.0	8.6	8.8
FD BVPS (RM)	2.7	2.9	3.2
FD Core PER	9.6	9.4	9.2
FD Price/BV (x)	0.9	0.8	0.8
Net Gearing (x)	n.cash	n.cash	n.cash
Net Div. Yield (%)	3.2%	3.4%	3.5%

30 May 2019

OTHER POINTS

Results Highlights						
FYE Dec (RM'm)	1Q19	4Q18	QoQ Change	1Q18	YoY-Change	
Turnover	217.2	219.1	-1%	215.2	1%	
Operating Income	15.6	21.3	-27%	9.7	61%	
Interest income	0.9	0.9	2%	0.6	46%	
Finance costs	(1.1)	(1.1)	-3%	(0.6)	93%	
Associates	0.0	0.0	n.m.	0.0	n.m.	
Pretax profit	15.4	21.1	-27%	9.7	59%	
Taxation	(2.6)	(3.4)	-25%	(1.1)	133%	
Profit after tax	12.9	17.7	-27%	8.6	49%	
Minority interest	(0.1)	0.5	-111%	(0.1)	-60%	
Net profit	12.8	18.2	-30%	8.5	51%	
Core net profit	14.1	18.0	-22%	9.1	55%	
Core EPS (sen)	10.3	13.2		6.7		
NDPS (sen)	0.0	8.0		0.0		
NTA/share (RM)	3.72	3.64		3.48		
Operating margin	7.2%	9.7%		4.5%		
Pretax margin	7.1%	9.6%		4.5%		
Core net profit margin	6.5%	8.2%		4.2%		
Effective tax rate	16.6%	16.1%		11.3%		

Source: Company, Kenanga Research

Segmental Breakdown						
FYE Dec (RM'm)	1Q19	4Q18	QoQ Change	1Q18	YoY-Change	
Turnover						
Plastic products	201.6	206.4	-2%	200.7	0%	
F&B, other consumable products	15.6	12.7	23%	14.5	8%	
Group Turnover	217.2	219.1	-1%	215.2	1%	
Segment Results						
Plastic products	14.8	24.5	-40%	10.1	47%	
F&B, other consumable products	0.6	(3.4)	n.m.	(0.3)	n.m.	
Group PBT	15.4	21.1	-27%	9.7	59%	
PBT Margin						
Plastic products	7.4%	11.9%		5.0%		
F&B, other consumable products	3.9%	-27.0%		-2.3%		
Group PBT Margin	7.1%	9.6%		4.5%		

Source: Company, Kenanga Research

30 May 2019

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.		
STOCKS UNDER COVERAGE																	
SCGM BHD	0.880	169.6	Y	04/2019	9.3%	13.8%	-85.7%	95.5%	12.2	88.0	44.0	1.1	0.9	1.0%	1.5%	0.850	UP
SCIENTEX BHD	8.59	4,426.1	Y	07/2019	22.4%	4.3%	5.9%	13.0%	15.0	14.2	13.2	2.5	1.9	15.2%	2.8%	8.50	MP
SLP RESOURCES BHD	1.21	383.5	N	12/2019	12.5%	5.4%	-6.7%	5.5%	15.1	16.1	15.3	2.0	2.0	13.5%	3.1%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.50	394.7	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.6	9.4	9.2	0.9	0.8	9.5%	3.4%	2.40	MP
TOMYPAK HOLDINGS	0.500	209.5	Y	12/2019	5.7%	7.7%	-6.1%	-197.2%	N.A.	N.A.	N.A.	1.4	1.0	-3.3%	0.0%	0.430	UP
Simple Average					10.7%	6.8%	-18.4%	-16.2%	13.0	31.9	20.4	1.6	1.3	7.2%	2.2%		

Source: Bloomberg, Kenanga Research

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30 May 2019

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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Published and printed by:

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