

27 February 2020

# Thong Guan Industries Bhd

## FY19 Spot On

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

**FY19 CNP of RM61.4m is spot on our expectation while dividend of 9.0 sen came within estimate. The Group cautioned that the challenging global outlook may weigh on demand but is actively seeking new customers and markets. Maintain FY20E CNP and introduce FY21E CNP of RM65.0m. Downgrade to MARKET PERFORM (from OP) on an unchanged TP of RM4.10.**

**Spot on.** FY19 Core Net Profit (CNP) of RM61.4m came in spot on our expectation. No consensus was available as the stock is not widely tracked. FY19 dividend of 9.0 sen is well within expectation at 97% of our estimate of 9.3 sen.

**Results' highlight.** YoY, FY19 top-line increased by 9% on strong export sales from its stretch film and courier bags. Meanwhile, EBIT margins also improved on better product mix (+1.8ppt), which resulted in bottom-line increasing by 27%. QoQ, top-line declined by 10% due to weakness in the plastic segment caused by decrease in the sales volume of plastic products including stretch film and garbage bags as orders slowed in December 2019. However, CNP was up by 2% on: (i) marginally better EBIT margins (+0.2ppt), and (ii) lower effective tax rate of 14% (vs. 18%).

**Outlook.** The group cautioned that the global outlook may weigh down on demand for the sector in terms of sales growth from existing customers and the pace of market expansion. Moving forward, TGUAN will continue to seek 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. TGUAN is focusing on continued expansion into higher-margin production lines to sustain the plastic segment's margins going forward.

**Maintain FY20E CNP of RM63.3m and introduce FY21E CNP of RM65.0m.** FY20-21 will be driven by gradually increasing capacity of c.10% p.a. At current levels, FY20-21E dividends of 9.6-9.9 sen imply 2.3-2.4% yields.

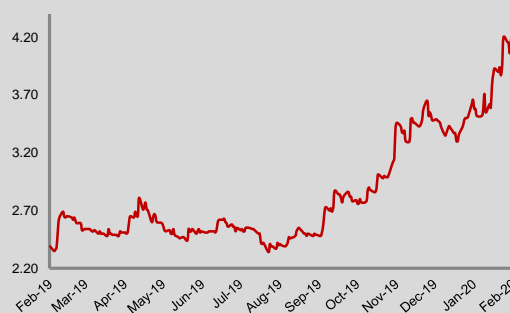
**Downgrade to MARKET PERFORM (from OP) on an unchanged Target Price of RM4.10.** Our TP is based on an unchanged FY20E FD EPS of 34.4 sen and an ascribed PER of 12.0x (5-year historical average valuations). Going forward, we may look to lift our valuations further should we see improved earnings and strong margin growth above historical high of 9.7%. However, given the strong share price run-up (+30%) since our Target Price upgrade on 21<sup>st</sup> November 2019, we believe upsides are limited in the near term while we also take cue from challenging market conditions that may limit demand for now.

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

## MARKET PERFORM ↓

Price: RM4.11  
Target Price: RM4.10 ↔

### Share Price Performance



KLCI 1,495.19  
YTD KLCI chg -5.9%  
YTD stock price chg 22.0%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker TGI MK EQUITY  
Market Cap (RM m) 761.3  
Shares Outstanding 185.2  
52-week range (H) 4.32  
52-week range (L) 2.34  
3-mth avg daily vol: 735,123  
Free Float 48%  
Beta 1.0

### Major Shareholders

Foremost Equals Sdn Bhd 40.2%  
Employees Provident Fund Board 2.4%  
Neoh Choo Ee & Company Sdn Bhd 1.9%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	935.1	916.8	942.3
EBIT	75.7	75.4	76.4
PBT	75.9	75.3	77.4
<b>Net Profit (NP)</b>	61.8	63.3	65.0
<b>Core NP*</b>	61.4	63.3	65.0
Consensus (NP)	N.A.	58.6	59.1
Earnings Revision	0%	0%	0%
Core EPS (sen)	38.5	40.0	41.2
FD Core EPS (sen)	33.4	34.4	35.3
FD EPS growth	27.9%	2.8%	2.8%
NDPS (sen)	9.0	9.6	9.9
FD BVPS (RM)	3.1	3.3	3.5
FD Core PER (x)	12.3	12.0	11.6
FD Price/BV (x)	1.3	1.3	1.2
Net Gearing (x)	(0.15)	(0.13)	(0.22)
Net Div. Yield	2.2%	2.3%	2.4%

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**OTHER POINTS**

<b>Results Highlights</b>								
<b>FYE Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ Change</b>	<b>4Q18</b>	<b>YoY- Change</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY-Ytd Change</b>
Turnover	231.6	256.5	-10%	219.1	6%	935.1	861.6	9%
Operating Income	21.4	23.1	-7%	21.3	0%	75.7	54.0	40%
Interest income	1.0	1.1	-10%	0.9	4%	4.1	3.1	32%
Finance costs	(1.0)	(1.1)	-15%	(1.1)	-16%	(4.4)	(3.5)	26%
Associates	0.3	0.1	128%	0.0	n.a.	0.5	0.0	n.a.
<b>Pretax profit</b>	<b>21.7</b>	<b>23.2</b>	<b>-6%</b>	<b>21.1</b>	<b>3%</b>	<b>75.9</b>	<b>53.6</b>	<b>42%</b>
Taxation	(3.1)	(4.2)	-26%	(3.4)	-10%	(12.0)	(8.3)	44%
Profit after tax	18.7	19.0	-2%	17.7	6%	63.9	45.3	41%
Minority interest	(0.8)	(1.7)	-51%	0.5	-261%	(2.1)	0.1	n.m.
<b>Net profit</b>	<b>17.9</b>	<b>17.3</b>	<b>3%</b>	<b>18.2</b>	<b>-2%</b>	<b>61.8</b>	<b>45.4</b>	<b>36%</b>
<b>Core net profit</b>	<b>17.9</b>	<b>17.5</b>	<b>2%</b>	<b>18.0</b>	<b>-1%</b>	<b>61.4</b>	<b>48.5</b>	<b>27%</b>
Core EPS (sen)	11.2	11.1		13.2		38.5	35.6	
NDPS (sen)	9.0	0.0		8.0		9.0	8.0	
NTA/share (RM)	3.62	3.50		3.64		3.62	3.64	
Operating margin	9.2%	9.0%		9.7%		8.1%	6.3%	
Pretax margin	9.4%	9.0%		9.6%		8.1%	6.2%	
Core net profit margin	7.7%	6.8%		8.2%		6.6%	5.6%	
Effective tax rate	14.1%	18.0%		16.1%		15.9%	15.6%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ Change</b>	<b>4Q18</b>	<b>YoY- Change</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY-Ytd Change</b>
<b>Turnover</b>								
Plastic products	214.5	241.7	-11%	206.4	4%	872.1	805.0	8%
F&B, other consumable products	17.1	14.9	15%	12.7	35%	63.0	56.6	11%
<b>Group Turnover</b>	<b>231.6</b>	<b>256.5</b>	<b>-10%</b>	<b>219.1</b>	<b>6%</b>	<b>935.1</b>	<b>861.6</b>	<b>9%</b>
<b>Segment Results</b>								
Plastic products	22.6	22.2	1%	24.5	-8%	74.4	59.2	26%
F&B, other consumable products	(0.8)	0.9	-187%	(3.4)	-76%	1.6	(5.5)	-129%
<b>Group PBT</b>	<b>21.7</b>	<b>23.2</b>	<b>-6%</b>	<b>21.1</b>	<b>3%</b>	<b>75.9</b>	<b>53.6</b>	<b>42%</b>
<b>PBT Margin</b>								
Plastic products	10.5%	9.2%		11.9%		8.5%	7.3%	
F&B, other consumable products	-4.8%	6.3%		-27.0%		2.5%	-9.7%	
<b>Group PBT Margin</b>	<b>9.4%</b>	<b>9.0%</b>		<b>9.6%</b>		<b>8.1%</b>	<b>6.2%</b>	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	(RM)	
<b><u>STOCKS UNDER COVERAGE</u></b>																	
SCGM BHD	1.48	283.5	Y	04/2020	17.4%	21.7%	45.8%	47.9%	N.A.	29.6	20.0	1.8	1.6	5.8%	1.4%	1.600	MP
SCIENTEX BHD	9.09	4,689.3	Y	07/2020	16.9%	8.6%	16.5%	22.9%	14.7	12.6	10.3	2.6	2.2	20.0%	2.4%	9.45	MP
SLP RESOURCES BHD	1.08	342.3	Y	12/2020	28.5%	5.6%	8.5%	7.8%	14.4	14.9	13.8	1.9	1.6	12.1%	4.7%	1.20	OP
THONG GUAN INDUSTRIES BHD	4.11	761.3	Y	12/2020	-2.0%	2.8%	3.1%	2.7%	12.3	12.0	11.6	1.3	1.3	12.3%	2.3%	4.10	MP
TOMYPAK HOLDINGS	0.480	200.7	Y	12/2019	-6.5%	7.2%	-3.0%	-137.2%	N.A.	N.A.	N.A.	1.4	1.0	-7.2%	0.0%	0.270	UP
<b>Simple Average</b>					<b>10.9%</b>	<b>9.2%</b>	<b>14.2%</b>	<b>-11.2%</b>	<b>13.3</b>	<b>16.9</b>	<b>13.5</b>	<b>1.9</b>	<b>1.6</b>	<b>8.6%</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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