

19 May 2020

# Thong Guan Industries Bhd

## 1QFY20 Broadly Within Expectation

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1QFY20 CNP of RM18.3m came in broadly within our expectation at 36% on a strong 1Q as expected. 1QFY20 dividend of 2.0 sen was also within (26%). We remain cautious of the Covid-19 challenges on the sector. The group is working hard to push sales, and actively seeking new customers in export markets. Maintain FY20-21E CNP of RM50.4-65.2m. Downgrade to UNDERPERFORM (from MP) on an unchanged TP of RM2.20 (based on 8x PER on FY20E EPS).

1QFY20 broadly within as Core Net Profit (CNP) of RM18.3m came in broadly within our expectation at 36% as we expect 2QFY20 to come in weak amid the Covid-19 outbreak. No consensus was available as the stock is not widely tracked. The deviation from our estimate was due a strong 1QFY20 top-line which came in at 32% of our FY19E CNP and lower than expected tax rate of 16% (vs. our expectation of 18%). The 1QFY20 dividend of 2.0 sen is also within our FY20E NDPS of 7.6 sen, at 26%.

**Results' highlight.** YoY, top-line increased by 12% on strong sales from the plastic segment (+12%) from stretch film, industrial bags & films and courier bags, while the F&B segment was also up (+12%) on increased sales of tea and coffee products. Meanwhile, EBIT margin also improved on better product mix and lower raw material prices (+1.8ppt), which resulted in bottom-line increasing by 30%. QoQ, top-line was up by 5%, bolstered by sales from the plastic segment (+6%) stretch film, industrial bags & films. However, EBIT margin was down marginally by 0.2ppt while the higher effective tax rate of 16% (vs. 14%) weighed on bottom-line which only increased by 2%.

**Outlook.** The Group has cautioned that Covid-19 has affected sales and production activities due to travel restrictions as well as the MCO. That said, they are also focused on improving sales and margins for existing products (i.e. stretch film) and aims to target more export markets. It is also concentrating on continued expansion into higher-margin production lines to sustain the plastic segment's margins going forward.

**Maintain FY20-21E CNP of RM50.4-65.2m which is driven by** gradually expanding utilised capacity of 65-75% in FY20-21. We deem the results as inline as we expected 1QFY20 to be strong given robust sales especially in the months of Jan-Feb. However, going forward, we believe 2QFY20 results would be a litmus test for the severity of the Covid-19 pandemic on earnings. As such, we prefer to be cautious on subsequent earnings, in line with the entire sector. At current levels, FY20-21E dividends of 7.6-9.9 sen imply 2.1-2.8% yields.

**Downgrade to UNDERPERFORM (from MP) on an unchanged Target Price of RM2.20.** Our TP is based on an unchanged FY20E EPS of 27.4 sen and an ascribed PER of 8.0x SD (-1.0SD to the 5-year historical valuations). Our valuations is on the higher-end among plastic packagers under our coverage (-2SD to -1SD) as the Group's utilised capacity is on the higher end at >65% (vs. other of 40-60% in FY20). Its healthy balance sheet and strong net cash position of RM87m are positive attributes given that CY20 may be a challenging year. However, given the strong share price run-up (+22%) since our last report (on 3<sup>rd</sup> April 2020 Plastic Strategy), we believe upsides are limited in the near term while we take cue from the challenging market conditions that may affect the sector for now.

**Risks to our call include:** (i) volatile plastic resin prices, (ii) foreign currencies fluctuations, and (ii) volatile margin.

**UNDERPERFORM** ↓

**Price:** RM3.58  
**Target Price:** RM2.20 ↔

### Share Price Performance



KLCI 1,410.16  
YTD KLCI chg -11.2%  
YTD stock price chg 6.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK EQUITY
Market Cap (RM m)	664.2
Shares Outstanding	185.5
52-week range (H)	4.32
52-week range (L)	1.95
3-mth avg daily vol:	643,823
Free Float	48%
Beta	1.3

### Major Shareholders

Foremost Equals Sdn Bhd	40.1%
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	761.4	901.7
EBIT	75.7	61.5	76.3
PBT	75.9	61.7	77.6
<b>Net Profit (NP)</b>	61.8	50.4	65.2
<b>Core NP*</b>	61.4	50.4	65.2
Consensus (NP)	n.m.	58.6	62.1
Earnings Revision	0%	0%	0%
Core EPS (sen)	33.4	27.4	35.4
EPS growth (%)	27.9%	-18.2	29.5
NDPS (sen)	9.0	7.6	9.9
BVPS (RM)	3.1	3.2	3.5
Core PER (x)	10.7	13.1	10.1
Price/BV (x)	1.1	1.1	1.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.5	2.1	2.8

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**OTHER POINTS****Results Highlights**

FYE Dec (RM m)	1Q20	4Q19	QoQ Change	1Q19	YoY- Change
Turnover	244.0	231.6	5%	217.2	12%
Operating Income	22.0	21.4	3%	15.6	41%
Interest income	1.2	1.0	28%	0.9	32%
Finance costs	(0.9)	(1.0)	-3%	(1.1)	-16%
Associates	0.3	0.3	-13%	0.0	n.a.
<b>Pretax profit</b>	<b>22.6</b>	<b>21.7</b>	<b>4%</b>	<b>15.4</b>	<b>46%</b>
Taxation	(3.6)	(3.1)	19%	(2.6)	43%
Profit after tax	18.9	18.7	1%	12.9	47%
Minority interest	(1.5)	(0.8)	79%	(0.1)	n.m.
<b>Net profit</b>	<b>17.5</b>	<b>17.9</b>	<b>-2%</b>	<b>12.8</b>	<b>36%</b>
<b>Core net profit</b>	<b>18.3</b>	<b>17.9</b>	<b>2%</b>	<b>14.1</b>	<b>30%</b>
Core EPS (sen)	9.8	11.2		10.3	
NDPS (sen)	0.0	9.0		0.0	
NTA/share (RM)	3.23	3.62		3.72	
Operating margin	9.0%	9.2%		7.2%	
Pretax margin	9.3%	9.4%		7.1%	
Core net profit margin	7.5%	7.7%		6.5%	
Effective tax rate	16.2%	14.1%		16.6%	

Source: Company, Kenanga Research

**Segmental Breakdown**

FYE Dec (RM m)	1Q20	4Q19	QoQ Change	1Q19	YoY- Change
<b>Turnover</b>					
Plastic products	226.5	214.5	6%	201.6	12%
F&B, other consumable products	17.5	17.1	2%	15.6	12%
<b>Group Turnover</b>	<b>244.0</b>	<b>231.6</b>	<b>5%</b>	<b>217.2</b>	<b>12%</b>
<b>Segment Results</b>					
Plastic products	22.0	22.6	-3%	14.8	48%
F&B, other consumable products	0.6	(0.8)	-172%	0.6	-3%
<b>Group PBT</b>	<b>22.6</b>	<b>21.7</b>	<b>4%</b>	<b>15.4</b>	<b>46%</b>
<b>PBT Margin</b>					
Plastic products	9.7%	10.5%		7.4%	
F&B, other consumable products	3.3%	-4.8%		3.9%	
<b>Group PBT Margin</b>	<b>9.3%</b>	<b>9.4%</b>		<b>7.1%</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	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.	Price (RM)	
<b><u>STOCKS UNDER COVERAGE</u></b>																	
SCGM BHD	1.63	312.2	Y	04/2020	-2.8%	35.2%	213.6%	40.6%	N.A.	22.6	16.1	2.0	1.8	8.3%	1.8%	1.400	MP
SCIENTEX BHD	8.35	4,307.6	Y	07/2020	31.7%	17.2%	-4.9%	55.8%	14.6	16.1	10.3	2.5	2.0	13.9%	1.9%	6.50	MP
SLP RESOURCES BHD	0.85	267.8	Y	12/2020	11.0%	22.3%	-25.5%	57.0%	11.3	16.9	10.8	1.4	1.3	7.8%	6.0%	0.625	UP
THONG GUAN INDUSTRIES BHD	3.58	664.2	Y	12/2020	-18.6%	18.4%	-18.0%	29.5%	10.7	13.1	10.1	1.1	1.1	9.0%	2.1%	2.20	UP
TOMYPAK HOLDINGS	0.41	169.4	Y	12/2020	-13.3%	16.8%	n.m.	-144.3%	N.A.	N.A.	N.A.	1.2	1.2	-11.9%	0.0%	0.245	UP
<b>Simple Average</b>					<b>2.8%</b>	<b>21.3%</b>	<b>41.3%</b>	<b>7.7%</b>	<b>11.7</b>	<b>17.2</b>	<b>11.9</b>	<b>1.7</b>	<b>1.5</b>	<b>5.4%</b>	<b>2.4%</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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Published and printed by:

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