

21 August 2020

Thong Guan Industries Bhd

1HFY20 Within Expectations

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1HFY20 CNP of RM37m came in within our expectation, at 53% of full-year forecast. 1HFY20 dividend of 4.0 sen is deemed broadly within (50%). We remain cautious on the Covid-19 pandemic, but given the stellar 2QFY20 results, we are positive on its 2H prospect. The group is actively seeking new customers in the export markets and focussed on improving product margins. Maintain FY20-21E CNP. Upgrade to **OUTPERFORM** (from MP) with a higher TP of RM5.65 (based on 13.8x PER on FY21E EPS) from RM4.00.

1HFY20 within with Core Net Profit (CNP) of RM37m meeting our expectation at 53%. No consensus was available as the stock is not widely tracked. 2QFY20 dividend of 2.0 sen brought 1HFY20 dividend to 4.0 sen which is within our FY20E NDPS of 8.7 sen, at 50%.

Results' highlight. YoY-Ytd, top-line increased by 6% on strong sales from the main driver, the plastic segment (+4%) from stretch film, courier bags, and premium packaging films while the F&B segment was also up (+22%). As a results, EBIT margin also improved on better product mix and lower raw material prices (+3.0ppt), which resulted in bottom-line increasing by 42%. QoQ, top-line was down by 7%, likely due to the decrease in average selling prices, in line with lower resin prices for the plastic packaging segment (-6%). That said, EBIT margin was still stronger (+2ppt) on better product mix and its impact more than offset the higher effective tax rate of 18.2% (vs. 16.2%), resulting in CNP rising by 2% QoQ.

Outlook. The Group remains cautious of a possible new wave of Covid-19 infection but is adapting well to the new normal, focussed 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. TGUAN has also **proposed a 1-for-1 bonus issue** which we view positively as it enhances liquidity and increased market participation. The proposed bonus issue is expected to be completed in 4QFY20 with the entitlement date to be determined later.

Maintain FY20E/FY21E CNP of RM69.7/RM78.3m. We are positive on its prospect given that sales have remained strong during the MCO, aided by low resin cost. We are expecting utilisation rate to 75-80% in FY20-FY21 with FY20E/FY21E CNP growth of 12%/12%. At current levels, FY20E/FY21E dividend of 9.0 sen/10.1 sen implies 1.7%/1.9% yield.

Upgrade to OUTPERFORM (from MP) with a higher Target Price of RM5.65 (from RM4.00) with an ex-all TP of RM2.83 (post 1-for-1 bonus issue) as we roll our valuation to FY21E FD EPS of 40.9 sen (from average FY20-21E EPS of 39.8 sen) and a higher ascribed PER of 13.8x (+0.5SD to 5-year historical valuations) from 10.0x (-0.5SD to 5-year historical valuations). Our valuation are at the higher-end among plastic packagers under our coverage (-2SD to -1SD) as TGUAN (i) has been able to record better than average margins amidst the Covid-19 pandemic, (ii) is in the right segment namely F&B and courier bags, and (iii) is actively looking to increase sales in export markets in 2H. With its 80% utilised capacity at the highest (vs. peers of 40-75% in FY20), a healthy balance sheet and strong net cash position of RM95m (a strong quality given the challenging CY20), the Group should have no issue committing to dividends.

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

OUTPERFORM ↑

Price: RM5.15
Target Price: RM5.65 ↑

Share Price Performance



KLCI 1,575.38
YTD KLCI chg -0.8%
YTD stock price chg 52.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	959.0
Shares Outstanding	186.2
52-week range (H)	5.17
52-week range (L)	1.95
3-mth avg daily vol:	549,614
Free Float	51%
Beta	1.4

Major Shareholders

Foremost Equals Sdn Bhd	39.9%
Employees Provident Fund Board	2.2%
Neoh Choo Ee & Company Sdn Bhd	1.9%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	935.1	971.7	1038.9
EBIT	76.4	90.9	101.6
PBT	75.9	91.2	102.6
Net Profit (NP)	61.9	69.7	78.3
Core NP*	62.0	69.7	78.3
Consensus (NP)	n.m.	60.5	68.5
Earnings Revision			
Core EPS (sen)	32.4	36.4	40.9
EPS growth (%)	29.2	12.4	12.3
NDPS (sen)	5.7	8.7	9.8
Core PER (x)	15.9	14.1	12.6
BVPS (RM)	3.1	3.4	3.8
PBV (x)	1.7	1.5	1.4
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.1	1.7	1.9

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Results Highlights

FYE Dec (RM m)	2Q20	1Q20	QoQ Change	2Q19	YoY- Change	1H20	1H19	YoY-Ytd Change
Turnover	228.0	244.0	-7%	229.7	-1%	472.1	446.9	6%
Operating Income	25.2	22.0	15%	15.6	61%	47.2	31.2	51%
Interest income	1.3	1.2	9%	1.1	17%	2.6	2.1	24%
Finance costs	(0.7)	(0.9)	-22%	(1.2)	-40%	(1.7)	(2.3)	-28%
Associates	0.1	0.3	-66%	0.0	n.a.	0.4	0.0	n.a.
Pretax profit	25.9	22.6	15%	15.6	66%	48.5	31.0	56%
Taxation	(4.7)	(3.6)	29%	(2.3)	110%	(8.4)	(4.8)	74%
Profit after tax	21.2	18.9	12%	13.3	59%	40.1	26.2	53%
Minority interest	(0.7)	(1.5)	-49%	0.4	-267%	(2.2)	0.4	-668%
Net profit	20.5	17.5	17%	13.8	49%	37.9	26.6	43%
Core net profit	18.7	18.3	2%	12.0	55%	37.0	26.1	42%
Core EPS (sen)	9.7	9.8	-2%	8.0	21%	19.1	17.3	10%
NDPS (sen)	2.0	2.0	0%	0.0	n.a.	4.0	0.0	n.a.
NTA/share (RM)	3.20	3.11	3%	3.38	-5%	3.20	3.38	-5%
Operating margin	11.0%	9.0%		6.8%		10.0%	7.0%	
Pretax margin	11.4%	9.3%		6.8%		10.3%	6.9%	
Core net profit margin	8.2%	7.5%		5.2%		7.8%	5.8%	
Effective tax rate	18.2%	16.2%		14.4%		17.2%	15.5%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	2Q20	1Q20	QoQ Change	2Q19	YoY- Change	1H20	1H19	YoY-Ytd Change
Turnover								
Plastic products	207.7	226.5	-8%	214.3	-3%	434.2	415.9	4%
F&B, other consumable products	20.3	17.5	16%	15.4	32%	37.8	31.0	22%
Group Turnover	228.0	244.0	-7%	229.7	-1%	472.1	446.9	6%
Segment Results								
Plastic products	24.1	22.0	10%	14.7	64%	46.1	29.6	56%
F&B, other consumable products	1.8	0.6	212%	0.8	115%	2.4	1.5	66%
Group PBT	25.9	22.6	15%	15.6	66%	48.5	31.0	56%
PBT Margin								
Plastic products	11.6%	9.7%		6.9%		10.6%	7.1%	
F&B, other consumable products	9.0%	3.3%		5.5%		6.4%	4.7%	
Group PBT Margin	11.4%	9.3%		6.8%		10.3%	6.9%	

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)	
<u>STOCKS UNDER COVERAGE</u>																	
SCGM BHD	3.24	620.5	Y	04/2021	13.6%	13.4%	79.0%	22.9%	35.6	19.9	16.2	3.7	3.3	17.5%	2.2%	3.450	MP
SCIENTEX BHD	9.30	4,797.7	Y	07/2020	11.7%	13.0%	5.9%	26.3%	15.0	14.2	11.2	2.1	2.1	14.6%	2.2%	9.70	MP
SLP RESOURCES BHD	1.10	348.7	Y	12/2020	19.4%	13.5%	-9.0%	28.5%	14.7	18.1	14.1	1.8	1.7	9.5%	5.0%	1.100	MP
THONG GUAN INDUSTRIES BHD	5.15	959.0	Y	12/2020	3.9%	6.9%	12.4%	12.3%	15.4	14.1	12.6	1.7	1.5	12.4%	1.7%	5.65	OP
TOMYPAK HOLDINGS	0.82	346.1	Y	12/2020	3.9%	6.7%	n.m.	65.0%	N.A.	203.8	135.8	2.4	2.3	1.0%	0.0%	0.415	UP
Simple Average					10.5%	10.7%	22.1%	31.0%	20.2	54.0	38.0	2.3	2.2	11.0%	2.2%		

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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