

## Thong Guan Industries Bhd

### High Resin Costs But Margins Stable

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**FY20 CNP of RM79m (+35%) exceeded our expectation at 106% of forecast. 4QFY20 DPS of 1.5 sen brings FY20 DPS to 4.0 sen, below our 4.7 sen estimate. In a quarter of soaring resin prices, its CNP margin (8%) was stable, as their higher margin products helped to cushion the rise. We raise FY21E CNP by 3% to RM87m and lower FY21E DPS to 4.6 sen. Introduce FY22E CNP of RM95m (+8%) and DPS of 5.0 sen. Maintain OP on lower TP of RM3.00 (from RM3.25) on 13x PER, down from 14x due to uncertain resin prices.**

**Better than expected.** FY20 CNP of RM79m (+35%) exceeded our expectation at 106%. Top-line came within and margins across the board met expectations, but a lower-than-expected minority interest lifted CNP above our estimate. 4QFY20 DPS of 1.5 sen brought FY20 DPS to 4.0 sen (FY19: 4.3 sen) below our expectation of 4.7 sen, due to lower-than-expected payout ratio of 20% vs. our estimated 24%.

**YoY**, revenue rose 3% to RM961m (from RM935m) on the back of increase in sales volume of stretch film, courier bags, premium packaging films and F&B products. CNP rose 35% due to an increase in revenue and an increase in margins across the board (FY20 vs. FY19: GP margins: 17% vs 14%; EBIT margins: 10% vs. 8%; CNP margins: 8% vs. 6%). We believe that the rise in margins is not only due to higher-margin products such as premium stretch films and courier bags, but also due to favourable resin costs during the period, as 2QCY20 saw multi-year low resin prices.

**QoQ**, revenue fell 1% to RM243m (from RM246m) mainly due to delays in shipment and deferment of taking delivery by certain customers due to unprecedented high ocean freight costs. GP/PAT fell 13%/12%, while GP margin fell to 16% from 18% and PBT margin fell to 10% from 11%. Management attributes the decrease in profitability to stronger MYR/USD and higher shipping costs. After accounting for one-offs, CNP only fell 1%, while CNP margin held steady at 8.1%.

**Stable margins.** We believe the Group can continue to weather the storm of high resin prices, as shown in their flattish CNP margin during a period of soaring resin prices. Moving forward, we are cautiously optimistic over the Group's growing courier bag and premium-stretch film segments. While we believe that resin prices will remain high until 2HFY21 (average FY21 assumption: USD1,100/MT), we believe the Group stands to benefit once resin prices start to fall, boosted by their high-margin products.

**Post results**, we tweak FY21E CNP by +3% to RM87m, lower FY21E DPS to 4.6 sen on a lower payout ratio of 20% (from 24%). We introduce FY22E CNP of RM95m (+8%) and FY22E DPS of 5.0 sen (20% payout ratio).

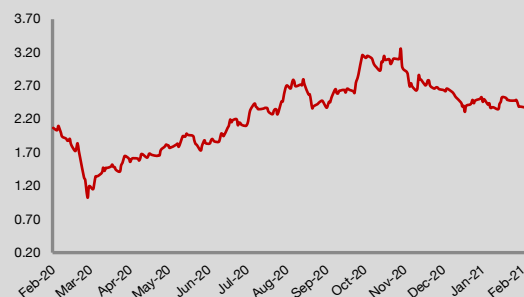
**Maintain OUTPERFORM but with lower TP of RM3.00 (from RM3.25)**, which is derived using FY21E EPS of 23.0 sen and our ascribed PER of 13x, which is +1SD above its 5-year mean of 9.5x. We lowered valuation from +1.5SD to +1SD mainly due to the uncertain sentiment around resin prices, while imputing a slight premium to mean due to its growing premium products segments. Should resin prices turn favourable for TGUAN, we may ascribe a higher multiple.

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

## OUTPERFORM ↔

**Price:** RM2.27  
**Target Price:** RM3.00 ↓

### Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	-10.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	862.8
Shares Outstanding	380.1
52-week range (H)	3.35
52-week range (L)	0.98
3-mth avg daily vol:	1,058,092
Free Float	52%
Beta	1.2

### Major Shareholders

Foremost Equals Sdn Bhd	39.1%
Employees Provident Fund Board	2.1%
Neoh Choo Ee & Company Sdn Bhd	1.9%

### Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	960.6	1,084.0	1,177.4
EBIT	97.5	108.4	117.7
PBT	100.2	108.8	118.0
<b>Net Profit (NP)</b>	75.5	87.4	94.8
<b>Core NP*</b>	79.1	87.4	94.8
Consensus (NP)	-	-	-
Earnings Revision	-	+3%	-
Core EPS (sen)	0.21	0.23	0.25
EPS growth (%)	35%	10%	8%
NDPS (sen)	4.0	4.6	5.0
Core PER (x)	10.9	9.9	9.1
BVPS (RM)	1.7	1.9	2.1
PBV (x)	1.3	1.2	1.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.8	2.0	2.2



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**Results Highlights**

FYE Dec (RM m)	4Q20	3Q20	QoQ Change	4Q19	YoY Change	FY20	FY19	YoY Change
Turnover	242.7	245.8	-1%	231.6	5%	960.6	935.1	3%
EBIT	23.4	26.9	-13%	21.4	9%	97.5	75.7	29%
<b>PBT</b>	<b>24.2</b>	<b>27.4</b>	<b>-12%</b>	<b>21.7</b>	<b>11%</b>	<b>100.2</b>	<b>75.9</b>	<b>32%</b>
Taxation	(5.6)	(5.6)	0%	(3.1)	84%	(19.6)	(12.0)	63%
<b>PATAMI</b>	<b>17.3</b>	<b>19.6</b>	<b>-12%</b>	<b>17.9</b>	<b>-3%</b>	<b>75.5</b>	<b>61.9</b>	<b>22%</b>
<b>Core PATAMI (CNP)</b>	<b>19.7</b>	<b>19.9</b>	<b>-1%</b>	<b>17.9</b>	<b>10%</b>	<b>79.1</b>	<b>58.7</b>	<b>35%</b>
Core EPS (sen)	0.0	5.2	-100%	4.7	-100%	0.0	15.3	-100%
NDPS (sen)	1.5	1.0	-100%	4.3	-100%	4.0	4.3	-100%
Operating margin	9.6%	11.0%		9.2%		10.2%	8.1%	
Pretax margin	10.0%	11.2%		9.4%		10.4%	8.1%	
Core net profit margin	8.1%	8.1%		7.7%		8.2%	6.3%	
Effective tax rate	23.3%	20.6%		14.1%		19.6%	15.9%	

Source: Company, Kenanga Research

**Segmental Breakdown**

FYE Dec (RM m)	3Q20	2Q20	QoQ Change	3Q19	YoY Change	9M20	9M19	YoY Change
<b>Turnover</b>								
Plastic products	224.6	207.7	8%	241.7	-7%	658.9	657.6	0%
F&B, other consumable products	21.2	20.3	4%	14.9	42%	59.0	45.9	29%
<b>Group Turnover</b>	<b>245.8</b>	<b>228.0</b>	<b>8%</b>	<b>256.5</b>	<b>-4%</b>	<b>717.8</b>	<b>703.4</b>	<b>2%</b>
<b>Segment Results</b>								
Plastic products	26.4	24.1	10%	22.2	19%	72.5	51.8	40%
F&B, other consumable products	1.0	1.8	-45%	0.9	7%	3.4	2.4	43%
<b>Group PBT</b>	<b>27.4</b>	<b>25.9</b>	<b>6%</b>	<b>23.2</b>	<b>18%</b>	<b>75.9</b>	<b>54.2</b>	<b>40%</b>
<b>PBT Margin</b>								
Plastic products	11.8%	11.6%		9.2%		11.0%	7.9%	
F&B, other consumable products	4.8%	9.0%		6.3%		5.8%	5.2%	
<b>Group PBT Margin</b>	<b>11.2%</b>	<b>11.4%</b>		<b>9.0%</b>		<b>10.6%</b>	<b>7.7%</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>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	1.87	358.1	Y	04/2021	16.0%	13.3%	101.7%	21.2%	20.8	10.4	8.5	2.1	1.9	19.5%	3.7%	3.85	OP
SCIENTEX BHD	4.12	6,388.4	Y	07/2021	14.9%	0.8%	11.6%	5.1%	15.7	14.1	13.4	2.7	2.2	17.3%	2.1%	3.78	MP
SLP RESOURCES BHD	0.890	282.1	Y	12/2021	22.3%	11.7%	21.6%	9.6%	17.1	14.4	13.1	1.4	1.3	9.7%	6.2%	0.950	MP
THONG GUAN INDUSTRIES BHD	2.27	862.8	Y	12/2021	12.8%	8.6%	10.5%	8.5%	10.9	9.9	9.1	1.4	1.2	13.0%	2.0%	3.00	OP
TOMYPAK HOLDINGS BHD	0.710	305.7	Y	12/2021	12.8%	3.8%	2200.0%	87.0%	N/A	142.0	71.0	1.7	1.6	1.1%	0.0%	0.415	UP
<b>Simple Average</b>					<b>15.8%</b>	<b>7.7%</b>	<b>469.1%</b>	<b>26.3%</b>	<b>16.1</b>	<b>38.1</b>	<b>23.0</b>	<b>1.8</b>	<b>1.7</b>	<b>12.1%</b>	<b>2.8%</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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