

28 May 2021

# Thong Guan Industries Bhd

## Commendable 1QFY21

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1QFY21 CNP of RM22.7m came within expectation at 26% of our FY21 estimate. 1QFY21 DPS of 1.0 sen is as expected. ASPs continued to rise in 1QFY21, as expected. Moving forward, we expect ASPs to stabilize and gradually soften as we move into 2HCY21, in tandem with gradually declining resin prices. Over the past several quarters, TGUAN's margin has proven to be resilient against wild resin price fluctuations while continuing to expand its product portfolio, earning it a higher valuation multiple. Reiterate **OUTPERFORM** with a higher TP of RM3.38 (from RM3.00) on 13.5x FY22E EPS of 25.0 sen, @ +1.5SD above 5-year mean.

**Commendable 1QFY21.** 1QFY21 CNP of RM22.7m (+24% YoY; +15% QoQ) came within at 26% of our full-year estimate. 1QFY21 revenue of RM282.1m (+16% YoY; +16% QoQ) is also in line at 26%. 1QFY21 DPS of 1.0 sen is within FY21E DPS of 4.5 sen.

**YoY**, revenue rose 15.6% to RM282.1m (from RM244m) on the back of: (i) higher ASPs in tandem with higher resin prices and (ii) increase in sales volume of stretch film, courier bags, premium packaging films and F&B products. Margins across the board rose (e.g. EBIT margin: 9.9% vs. 9%; CNP margin: 8% vs. 7.5%), likely due to the rapidly increasing ASPs for most of 1QFY21. Thanks to the margin expansion, CNP rose by a relatively higher 24%.

**QoQ**, revenue rose 16.2% to RM282.1m. As EBIT margin inched up from 9.6% to 9.9%, EBIT rose by a relatively larger 19.7%. CNP rose by 15%. (refer to overleaf for more in-depth QoQ comparison)

**Moving forward**, as resin prices continue their gradual decline (-16% from March peak), we expect resin prices to flatten and ASP gradually decline along with the fall in resin prices. However, we believe that in the near term, ASPs will remain sticky and will not fall at the same rate as resin prices will, as our channel checks with plastic manufacturers indicate that because demand for plastic products remains robust, they are still able to maintain their elevated ASPs. We believe TGUAN will continue to expand capacity in FY21 mostly to grow its courier bag and premium stretch film segments, where they continue to operate at >80% utilisation rate to meet demand. While we do not anticipate any margin expansion or contraction for the rest of FY21, we think there may be room for upside surprises from higher-margin products and slower-than-expected decline in ASPs. We maintain our FY21E average resin price of USD1,100/MT.

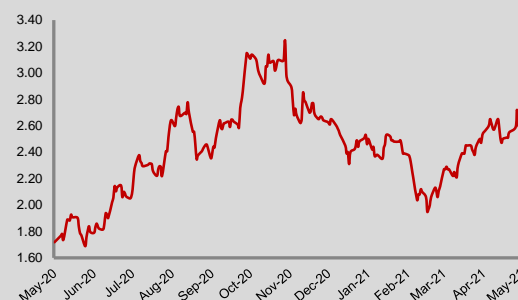
**Maintain FY21E/FY22E estimates.** Assuming 8% CNP margin, we maintain our FY21E revenue/CNP of RM1.08b/RM87.4m, conservative relative to management's targets. We also maintain our FY22E revenue/CNP of Rm1.2b/RM94.8m. FY21E/FY22E DPS of 4.5 sen/5.0 sen yield 1.6%/1.8%.

**Reiterate OUTPERFORM with a higher TP of RM3.38** (from RM3.00) as we roll forward our valuation base to FY22E EPS of 25.0 sen and using a higher PER multiple of 13.5x (vs. 13x), which is +1.5SD (vs. +1SD) of its 5-year mean of 9.6x. We believe that TGUAN deserves a valuation premium as over the past several quarters, TGUAN has proven to be resilient against wild resin price fluctuations while continuing to expand its product portfolio.

# OUTPERFORM ↔

Price: **RM2.80**  
Target Price: **RM3.38** ↑

### Share Price Performance



KLCI	1,593.90
YTD KLCI chg	-2.0%
YTD stock price chg	10.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	1,060.7
Shares Outstanding	378.8
52-week range (H)	3.35
52-week range (L)	1.69
3-mth avg daily vol:	1,295,534
Free Float	12%
Beta	1.1

### Major Shareholders

Foremost Equals SdnBhd	77.0%
Employees Provident Fund Board	2.6%
Neoh Choo Ee& Company SdnBhd	2.1%

### Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	960.6	1084.0	1177.4
EBIT	97.2	108.4	117.7
PBT	99.9	108.8	118.0
<b>Net Profit (NP)</b>	75.3	87.4	94.8
<b>Core NP*</b>	76.3	87.4	94.8
Consensus (NP)	N/A	83.1	93.7
Earnings Revision	N/A	N/A	N/A
Core EPS (sen)	20.2	23.1	25.0
EPS growth (%)	17.2%	14.5%	8.5%
NDPS (sen)	4.0	4.5	5.0
Core PER (x)	13.8	12.1	11.2
BVPS (RM)	1.8	1.9	2.1
PBV (x)	1.6	1.5	1.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.4	1.6	1.8

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**QoQ**, revenue rose 16.2% to RM282.1m (from RM242.7m) due to: (i) higher ASPs, (ii) higher volume of plastic packaging and F&B products, and (iii) relief on freight delays, which previously caused minor shipment delays. EBIT rose by a relatively larger 19.7% likely due to: (i) margin expansion (EBIT margin: 9.9% vs. 9.6%) from rising ASPs and operational efficiencies, and (ii) better product mix, as we assume that TGUAN's premium stretch film and courier bags are making up an increasingly larger portion of its total revenue. A lower effective tax rate of 19.5% (vs. 23.3%) lifted PAT further, up 26% QoQ. However, the different quantum of one-off items in both quarters meant that CNP only rose by a relatively modest 15%.

**Risks to our call include:** (i) faster-than-expected ASP declines, (ii) foreign currencies fluctuations, (iii) labour shortage and (iv) lower-than-expected margins.

**Results Highlights**

FYE Dec (RM m)	1Q21	4Q20	QoQ Chg	1Q20	YoY Chg
Revenue	282.1	242.7	16%	244.0	16%
EBIT	28.0	23.4	20%	22.0	27%
<b>PBT</b>	<b>28.6</b>	<b>24.2</b>	<b>18%</b>	<b>22.6</b>	<b>27%</b>
Taxation	-5.6	-5.6	-1%	-3.6	53%
<b>PATAMI</b>	<b>21.8</b>	<b>17.3</b>	<b>26%</b>	<b>17.5</b>	<b>25%</b>
<b>Core PATAMI</b>	<b>22.7</b>	<b>19.7</b>	<b>15%</b>	<b>18.3</b>	<b>24%</b>
Core EPS (sen)	6.0	5.2	15%	4.8	24%
NDPS (sen)	1.0	1.5	-33%	1.0	N.A.
Operating margin	9.9%	9.6%		9.0%	
Pretax margin	10.1%	10.0%		9.3%	
Core net profit margin	8.0%	8.1%		7.5%	
Effective tax rate	19.5%	23.3%		16.2%	

Source: Company, Kenanga Research

**Segmental Breakdown**

FYE Dec (RM m)	1Q21	4Q20	QoQ Change	1Q20	YoY-Change
<b>Turnover</b>					
Plastic products	259.3	223.2	16%	226.5	14%
F&B, other consumable products	22.8	19.5	17%	17.5	30%
<b>Group Turnover</b>	<b>282.1</b>	<b>242.7</b>	<b>16%</b>	<b>244.0</b>	<b>16%</b>
<b>Segment Results</b>					
Plastic products	26.8	23.7	13%	22.0	22%
F&B, other consumable products	1.9	0.5	258%	0.6	220%
<b>Group PBT</b>	<b>28.6</b>	<b>24.2</b>	<b>18%</b>	<b>22.6</b>	<b>27%</b>
<b>PBT Margin</b>					
Plastic products	10.3%	10.6%		9.7%	
F&B, other consumable products	8.2%	2.7%		3.3%	
<b>Group PBT Margin</b>	<b>10.1%</b>	<b>10.0%</b>		<b>9.3%</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>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	2.41	461.6	Y	04/2021	13.1%	16.1%	88.2%	1.8%	26.4	14.0	13.8	2.7	2.4	18.3%	2.9%	2.62	OP
SCIENTEX BHD	4.30	6,667.6	Y	07/2021	14.0%	1.7%	7.8%	8.8%	16.4	15.2	14.0	2.8	2.3	16.7%	2.0%	3.75	MP
SLP RESOURCES BHD	0.950	301.1	Y	12/2021	22.3%	3.1%	33.3%	4.9%	18.7	14.0	13.4	1.7	1.6	11.8%	5.8%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.80	1,060.7	Y	12/2021	12.8%	8.6%	14.5%	8.5%	13.9	12.1	11.2	1.6	1.5	12.8%	1.6%	3.38	OP
TOMYPAK HOLDINGS BHD	0.570	245.4	Y	12/2021	12.8%	3.8%	4790.0%	7.2%	2,454.4	50.2	46.8	1.3	1.3	2.6%	0.0%	0.57	MP
<b>Simple Average</b>					<b>15.0%</b>	<b>6.6%</b>	<b>986.8%</b>	<b>6.2%</b>	<b>506.0</b>	<b>21.1</b>	<b>19.8</b>	<b>2.0</b>	<b>1.8</b>	<b>12.4%</b>	<b>2.5%</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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