

Thong Guan Industries Bhd

Growth on Track

By Lim Khai Xiang | limkx@kenanga.com.my

3QFY21 CNP of RM21.5m brought 9MFY21 CNP to RM70.3m, which is within our expectation, at 76% of full-year forecast. QoQ, core earnings fell 18% due to Covid-19 related production disruption. 9MFY21 DPS of 3.25 sen is in-line with estimate. We continue to favour TGUAN on the back of its healthy >80% utilisation rate, and higher ASPs to match rising resin costs. We raise FY21E CNP by 3% to account for a faster-than-expected increase in ASPs, but maintain our FY22 estimates. We reiterate **OUTPERFORM** with a higher TP of RM3.68 (from RM3.40) at 14x ESG-PER on FY22E EPS of 26.3 sen.

9MFY21 CNP within estimates. 9MFY21 revenue/CNP of RM886.3m/RM70.3m came in line with expectation at 80%/76% of our full-year estimate. 3QFY21 DPS of 1.25 sen brought 9MFY21 DPS to 3.25 sen, which is within our FY21E DPS of 4.5 sen.

YoY, 9MFY21 revenue increased 23.5% to RM886.3m on the back of higher ASPs and higher sales volume from all segments, especially the premium products. Operating profit rose 25.2% due to better product mix, fuelled by its higher-margin premium products, and operational cost efficiency. CNP rose 23.6% in line with PBT's 23.8% rise.

QoQ, revenue dipped by 3.4% mainly due to lower sales volume in the plastic packaging segment. The decline in sales volume was mainly caused by: (i) global containers shortages and elevated freight costs, and (ii) TGUAN's temporary production halt due to Covid-19 cases, which delayed shipment of orders. Operating profit also declined by a larger 9.7% due to higher production costs and higher Covid-19 compliance costs. After accounting for the one-off gains and higher effective tax rate of 23.4% (vs. 2QFY21: 22%), CNP declined by 18.1%.

Outlook. Since July, resin prices have increased significantly to levels seen in March 2021 (USD1,300/MT – USD1,700/MT). We assume resin prices will continue to hold at a higher levels (market price of USD1,250/MT to USD1,690/MT) in 4QCY21. We gathered from management that TGUAN has raised its ASPs in tandem with the increase in resin prices, and thus, we believe TGUAN would be able to maintain margins despite the higher resin costs. The demand for its premium products remains robust, which allows TGUAN to continue growing its profit margin over the long term. As lockdowns restrictions have been lifted, TGUAN is currently operating at a utilization rate above 80%, as management continues to work hard to fulfil the strong demand for its stretch film, courier bags and garbage bags. Besides, the 16-acre new factory is expected to be completed by end of 2021 and 1QFY22 and more machineries will be coming in 1QFY22.

Post results, we increase FY21E revenue/CNP by 4%/3% to RM1.1b/RM95.4m to account for a higher-than-expected rise in FY21 ASP and robust demand. We maintain our FY22 estimate as well as FY21E/FY22E DPS of 4.5 sen/5.0 sen, yielding 1.6%/1.8%.

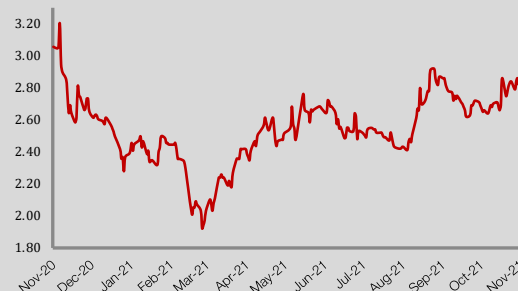
Reiterate OUTPERFORM with higher TP of RM3.68 (from RM3.40) based on FY22E EPS of 26.3 sen and an ascribed ESG-PER of 14x (from 12.9x), which is +1.5SD to its 5-year mean of 9.7x. We maintain our premium valuation for TGUAN for its continued growth in its premium products segment and long-term expansion plans, which we believe will help TGUAN achieve their first RM1b in sales in FY21.

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

OUTPERFORM ↔

Price: **RM2.73**
Target Price: **RM3.68** ↑

Share Price Performance



KLCI	1,523.79
YTD KLCI chg	-6.4%
YTD stock price chg	7.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	1,045.9
Shares Outstanding	383.1
52-week range (H)	3.35
52-week range (L)	1.95
3-mth avg daily vol:	948,991
Free Float	50%
Beta	1.2

Major Shareholders

Foremost Equals Sdn Bhd	38.8%
Prudential Unit Trust	2.3%
Norges Bank	2.1%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	960.6	1148.5	1224.3
EBIT	97.2	122.9	129.8
PBT	99.9	124.0	130.8
Net Profit (NP)	75.3	95.4	100.6
Core NP*	76.3	95.4	100.6
Consensus (NP)	N/A	89.4	102.0
Earnings Revision	N/A	+3%	N/A
Core EPS (sen)	20.1	24.9	26.3
EPS growth (%)	17.2	25.0	5.5
NDPS (sen)	2.0	4.5	5.0
Core PER (x)	13.6	11.0	10.4
BVPS (RM)	1.8	1.9	2.2
PBV (x)	1.6	1.4	1.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	0.7	1.6	1.8



19 November 2021

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	296.8	307.3	-3%	245.8	21%	886.3	717.8	23%
EBIT	30.7	34.0	-10%	26.9	14%	92.8	74.1	25%
PBT	31.0	34.5	-10%	27.4	13%	94.0	75.9	24%
Taxation	-7.2	-7.6	-5%	-5.6	28%	-20.4	-14.0	46%
PATAMI	22.4	25.6	-12%	19.6	14%	69.7	57.5	21%
Core PATAMI (CNP)	21.5	26.2	-18%	19.9	8%	70.3	56.9	24%
Core EPS (sen)	5.6	6.8	-18%	5.2	8%	18.3	14.8	24%
NDPS (sen)	1.3	1.0	25%	1.0	25%	3.3	2.5	30%
Effective tax rate	23.40	22.02		20.56		21.71	18.44	
Operating margin (%)	10.35	11.07		10.96		10.47	10.32	
PBT Margin (%)	10.43	11.21		11.16		10.61	10.58	
Core Net Profit Margin (%)	7.23	8.52		8.09		7.93	7.92	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover								
Plastic products	273.8	284.5	-4%	224.6	22%	817.6	658.9	24%
F&B, other consumable products	23.0	22.8	1%	21.2	9%	68.7	59.0	16%
Group Turnover	296.8	307.3	-3%	245.8	21%	886.3	717.8	23%
Segment Results								
Plastic products	29.9	33.6	-11%	26.4	13%	90.2	72.5	24%
F&B, other consumable products	1.1	0.9	22%	1.0	8%	3.9	3.4	13%
Group PBT	31.0	34.5	-10%	27.4	13%	94.0	75.9	24%
PBT Margin								
Plastic products	10.9%	11.8%		11.8%		11.03%	11.01%	
F&B, other consumable products	4.7%	3.9%		4.8%		5.62%	5.80%	
Group PBT Margin	10.4%	11.2%		11.2%		10.61%	10.58%	

Source: Company, Kenanga Research

19 November 2021

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					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.		
STOCKS UNDER COVERAGE																	
BP PLASTIC HOLDING BHD	2.81	527.3	Y	12/2021	29.8%	9.0%	53.7%	10.6%	17.9	11.6	10.5	2.6	2.3	20.7%	3.6%	2.85	OP
SCGM BHD	2.56	493.0	Y	04/2022	18.5%	12.6%	13.5%	6.0%	14.4	12.7	12.0	2.6	2.3	19.2%	3.1%	2.97	OP
SCIENTEX BHD	4.57	7,086.5	Y	07/2022	16.5%	10.4%	13.0%	15.5%	16.0	14.1	12.2	2.4	2.2	16.4%	2.1%	4.42	MP
SLP RESOURCES BHD	0.950	301.1	Y	12/2021	15.5%	9.1%	20.5%	16.0%	18.7	15.5	13.4	1.7	1.6	10.6%	5.8%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.73	1,045.9	Y	12/2021	19.6%	6.6%	25.0%	5.5%	13.6	11.0	10.4	1.6	1.4	14.2%	1.6%	3.68	OP
TOMYPAK HOLDINGS BHD	0.560	241.4	Y	12/2021	15.0%	5.5%	5800.0%	5.1%	2,414.2	40.9	38.9	1.3	1.3	3.1%	0.0%	0.516	MP
Simple Average					19.1%	8.9%	987.6%	9.8%	415.8	17.6	16.2	2.0	1.8	14.0%	2.71%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

19 November 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

