

# Thong Guan Industries Bhd

## On the Growth Track

By Lim Khai Xiang | [limkx@kenanga.com.my](mailto:limkx@kenanga.com.my)

2QFY21 CNP of RM26.2m brought 1HFY21 CNP to RM48.8m, which is above our expectation, at 56% of full-year forecast. 1HFY21 DPS of 2.0 sen is in-line with our estimate. Moving forward, we expect ASPs to remain elevated @ June levels supported by the robust demand for its premium products. As ASPs are falling slower than expected, we raise FY21E CNP by 6%. We also raise FY22E CNP by 6% for newly-planned capacity expansion. Reiterate **OUTPERFORM** with new TP of RM3.70 (from RM3.38) at 14x PER on FY22E EPS of 26.4 sen.

**1HFY21 CNP above estimates.** 1HFY21 revenue/CNP of RM589.4m/RM48.8m above our expectation, at 54%/56% of our full-year estimate. 2QFY21 DPS of 1.0 sen brought 1HFY21 dividend to 2.0 sen, in-line with our FY21E DPS of 4.5 sen.

**YoY**, revenue rose 25% to RM589.4m, thanks to: (i) elevated ASPs, and (ii) higher sales volume from the plastic packaging, F&B and other consumable products segments. Operating profit rose 32% due to a better product mix. All in, CNP rose by 32%.

**QoQ**, revenue rose by 9% to RM307.3m from RM282.1m mainly due to: (i) elevated ASPs, and (ii) higher sales volume of plastic packaging and F&B products, likely driven by greater sales premium stretch film and premium blown film. Operating profit rose by 21% due to better product mix and operational cost efficiencies. Despite a higher effective tax rate of 22% (vs. 1QFY21: 19%), CNP rose by 16%.

**Outlook.** While resin prices have largely remained flat as of late, we believe that ASPs will remain elevated relative to June levels, driven by the strong demand for their premium products. We continue to like TGUAN for: (i) the robust demand for its premium products, and (ii) capacity expansion to continue fuelling long-term growth. We gather from management that TGUAN is currently operating at >80% utilisation rate in order to cater for the strong demand for its stretch film, premium blown film and courier bags. Once lockdowns are lifted and economic activities resume, the construction of its 16-acre (currently c.80% completed) new factory should resume and TGUAN will be able to continue their planned expansion. More importantly, c.95% of TGUAN's workforce has been fully vaccinated, thus, TGUAN has recently resumed to operating with 100% of its workforce.

**Increase FY21E/FY22E estimates.** We increase FY21E revenue/CNP by 1.8%/6% to RM1.1b/RM92.6m to account for a slower-than-expected decline in FY21 ASP. We also raise FY22E revenue/CNP by 4%/6% to RM1.2b/RM100.6m to account for the new expansion plans (6th Nano Stretch Film line). We maintain FY21E/FY22E DPS of 4.5 sen/5.0 sen yielding 1.6%/1.8%

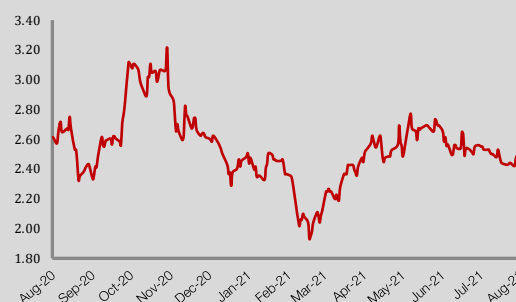
**Reiterate OUTPERFORM with a higher TP of RM3.70** (from RM3.38) based on FY22E EPS of 26.4 sen and an ascribed PER of 14x (from 13.5x), which is +1.5SD to its 5-year mean of 9.7x. We believe TGUAN deserves a valuation premium for the sustained strong demand for their products and their long-term growth plans.

**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: **RM2.81**  
Target Price: **RM3.70** ↑

### Share Price Performance



KLCI	1,585.74
YTD KLCI chg	-2.5%
YTD stock price chg	11.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	1,069.8
Shares Outstanding	380.7
52-week range (H)	3.35
52-week range (L)	1.95
3-mth avg daily vol:	690,868
Free Float	50%
Beta	1.2

### Major Shareholders

Foremost Equals Sdn Bhd	39.1%
Prudential Unit Trust	2.4%
Norges Bank	2.1%

### Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	960.6	1103.8	1224.3
EBIT	97.2	119.2	129.8
PBT	99.9	120.3	130.8
<b>Net Profit (NP)</b>	<b>75.3</b>	<b>92.6</b>	<b>100.6</b>
<b>Core NP*</b>	<b>76.3</b>	<b>92.6</b>	<b>100.6</b>
Consensus (NP)	N/A	83.1	93.7
Earnings Revision	N/A	+6%	+6%
Core EPS (sen)	20.1	24.3	26.4
EPS growth (%)	17.2	21.4	8.6
NDPS (sen)	2.0	4.5	5.0
Core PER (x)	14.0	11.6	10.6
BVPS (RM)	1.8	2.0	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



27 August 2021

## Results Highlights

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	307.3	282.1	9%	228.0	35%	589.4	472.1	25%
EBIT	34.0	28.0	21%	25.2	35%	62.0	47.2	32%
<b>PBT</b>	<b>34.5</b>	<b>28.6</b>	20%	<b>25.9</b>	33%	63.1	48.5	30%
Taxation	-7.6	-5.6	36%	-4.7	61%	-13.2	-8.4	57%
<b>PATAMI</b>	<b>25.6</b>	<b>21.8</b>	17%	<b>20.5</b>	25%	47.3	37.9	25%
<b>Core PATAMI (CNP)</b>	<b>26.2</b>	<b>22.7</b>	16%	<b>18.7</b>	40%	48.8	37.0	32%
Core EPS (sen)	6.9	6.0	16%	4.9	40%	12.8	9.7	32%
NDPS (sen)	<b>1.0</b>	<b>1.0</b>	0%	1.0	0%	2.0	2.0	0%
Effective tax rate (%)	22.02	19.49		18.19		20.87	17.24	
Operating margin (%)	11.07	9.93		11.05		10.52	9.99	
PBT Margin (%)	11.21	10.15		11.37		10.70	10.28	
Core Net Profit Margin (%)	8.52	8.03		8.20		8.29	7.84	

Source: Company, Kenanga Research

## Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Turnover</b>								
Plastic products	284.5	259.3	10%	207.7	37%	543.8	434.2	25%
F&B, other consumable products	22.8	22.8	0%	20.3	12%	45.6	37.8	21%
<b>Group Turnover</b>	<b>307.3</b>	<b>282.1</b>	<b>9%</b>	<b>228.0</b>	<b>35%</b>	<b>589.4</b>	<b>472.1</b>	<b>25%</b>
<b>Segment Results</b>								
Plastic products	33.6	26.8	25%	24.1	39%	60.3	46.1	31%
F&B, other consumable products	0.9	1.9	-52%	1.8	-51%	2.8	2.4	15%
<b>Group PBT</b>	<b>34.5</b>	<b>28.6</b>	<b>20%</b>	<b>25.9</b>	<b>33%</b>	<b>63.1</b>	<b>48.5</b>	<b>30%</b>
<b>PBT Margin</b>								
Plastic products	11.8%	10.3%		11.6%		11.09%	10.62%	
F&B, other consumable products	3.9%	8.2%		9.0%		6.06%	6.37%	
<b>Group PBT Margin</b>	<b>11.2%</b>	<b>10.1%</b>		<b>11.4%</b>		<b>10.70%</b>	<b>10.28%</b>	

Source: Company, Kenanga Research

27 August 2021

### 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>																	
BP PLASTICS HOLDING BHD	2.27	426.0	Y	12/2021	29.8%	9.0%	53.7%	10.6%	14.5	9.4	8.5	2.1	1.8	20.7%	4.4%	3.15	OP
SCGM BHD	2.44	467.3	Y	04/2022	14.8%	4.6%	10.0%	7.5%	13.7	12.5	11.6	2.5	2.2	18.6%	3.3%	3.02	OP
SCIENTEX BHD	4.44	6,884.9	Y	07/2021	3.2%	12.5%	-3.8%	16.2%	16.9	17.6	15.1	2.9	2.4	16.1%	1.7%	3.96	MP
SLP RESOURCES BHD	0.970	307.5	Y	12/2021	22.3%	3.1%	33.5%	4.7%	19.1	14.3	13.7	1.7	1.7	11.8%	5.7%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.81	1,069.8	Y	12/2021	14.9%	10.9%	21.4%	8.6%	14.0	11.6	10.6	1.6	1.4	14.2%	1.6%	3.70	OP
TOMYPAK HOLDINGS BHD	0.550	237.1	Y	12/2021	12.8%	3.8%	4790.0%	7.2%	2,368.3	48.4	45.2	1.3	1.3	2.6%	0.0%	0.570	MP
<b>Simple Average</b>					<b>16.3%</b>	<b>7.3%</b>	<b>817.5%</b>	<b>9.1%</b>	<b>407.8</b>	<b>19.0</b>	<b>17.5</b>	<b>2.0</b>	<b>1.8</b>	<b>14.0%</b>	<b>2.78%</b>		

Source: Bloomberg, Kenanga Research

*This section is intentionally left blank*

27 August 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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

