

## Malaysia

**ADD** (no change)

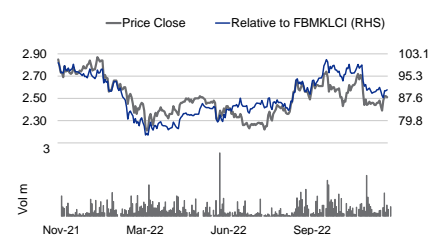
Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price:	RM2.51
Target price:	RM4.54
Previous target:	RM4.54
Up/downside:	80.9%
CGS-CIMB / Consensus:	13.8%
Reuters:	TGIB.KL
Bloomberg:	TGI MK
Market cap:	US\$218.6m
	RM979.5m
Average daily turnover:	US\$0.22m
	RM1.04m
Current shares o/s:	382.8m
Free float:	60.0%

\*Source: Bloomberg

### Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6	-3.5	-10.4
Relative (%)	-8	-1.9	-8.2

Major shareholders	% held
Ang family	40.0

### Analyst(s)



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# Thong Guan Industries

## Stronger quarters ahead

- Thong Guan's 9M22 core net profit made up 73% of our full-year forecast. We expect its 4Q22F to perform better qoq on stronger year-end sales.
- With more sales focused on Europe and the US, Thong Guan's margins have been more resilient than its peers.
- The group is also optimistic its sales would rise further in 4Q22F, as the recruitment of new foreign workers would boost production. Reiterate Add.

### 9M22 core net profit within expectations

Thong Guan Industries' 9M22 core net profit constituted 73% of our full-year forecast and 70% of consensus's, which is within our expectation since we expect the group to register higher sales and earnings qoq in 4Q22F. 9M22 core net profit, after deducting RM1.3m of unrealised foreign exchange gains, came to RM79.9m, 16.8% higher yoy than 9M21 core net profit of RM68.4m. 9M22 sales meanwhile rose 20.6% yoy, thanks to higher sales volume and average selling price (ASP) yoy. The softer yoy rise in 9M22 core net profit vs. sales resulted in its 9M22 EBITDA margin falling 0.8% pt yoy to 12%.

### 9M22 EBITDA margin dropped after underperformance in 3Q22

Thong Guan's 3Q22 EBITDA margin narrowed to 11.5% – the lowest since 4Q19's 10.7%. The group said sales of its stretch films softened qoq in 3Q22, a common trend seen among stretch film producers in 3Q22 after their distributors stockpiled in 2Q22. This resulted in Thong Guan's 3Q22 revenue falling 6% qoq. It also did not help that its food-and-beverage (F&B) segment's sales declined by 7.6% qoq, while the segment's pretax profit plunged 41.8% qoq, suggesting signs of cost pressures. Overall, Thong Guan's 3Q22 core net profit fell 18.5% qoq, which is not too bad when compared with its local competitor BP Plastic Holding's (BPP MK; Hold; TP RM1.34) 59% qoq drop in 3Q22 core net profit.

### Likely better quarters ahead

We are of the view that Thong Guan's lapse in 3Q22 should not persist in 4Q22F, since the weakened stretch film sales should be temporary. Many stretch film distributors had bought ahead in 2Q22 to hedge the spike in resin prices in Apr 2022. Thong Guan also said it had hired new foreign workers in 3Q22, which should help increase the production of its other products, such as garbage bags and e-commerce bags.

### Reiterate Add with RM4.54 TP

In our view, Thong Guan's prevailing valuation of 6.3x CY23F P/E is a bargain for a company that we forecast to register a CY21-24F net profit CAGR of 24.1%. The group performed better than its local peers by being able to weather 3Q22 relatively well, in our view. This is thanks to its high-value stretch films being well received in Europe and the US, when many of its competitors are focused on Asia. Our RM4.54 TP values Thong Guan at 11.3x CY23F P/E, equivalent to 1 s.d. above its 5-year mean. Downside risks include a decline in the demand for stretch films amid inflationary pressures. Potential re-rating catalyst: higher-than-expected sales.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	961	1,215	1,458	1,895	2,180
Operating EBITDA (RMm)	126.3	157.3	178.2	236.6	272.4
Net Profit (RMm)	76.9	96.7	112.0	153.7	177.5
Core EPS (RM)	0.20	0.25	0.29	0.40	0.46
Core EPS Growth	(41.4%)	25.7%	15.8%	37.3%	15.5%
FD Core P/E (x)	9.31	9.99	8.58	6.25	5.41
DPS (RM)	0.06	0.08	0.09	0.12	0.14
Dividend Yield	2.40%	3.02%	3.50%	4.80%	5.54%
EV/EBITDA (x)	6.62	5.57	5.27	3.99	3.49
P/FCFE (x)	9	392	484	1,453	13
Net Gearing	(22.0%)	(14.7%)	(6.3%)	(5.5%)	(4.8%)
P/BV (x)	1.49	1.31	1.17	1.02	0.89
ROE	12.6%	14.0%	14.4%	17.4%	17.6%
CGS-CIMB/Consensus EPS (x)			0.99	1.06	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results Comparison**

FYE Dec (RM m)	3QFY22	3QFY21	yoy % chg	2QFY22	qoq % chg	3QFY22 cum	3QFY21 cum	yoy % chg	Prev. FY22F	Comments
Revenue	356.5	296.8	20.1	379.3	(6.0)	1,068.8	886.3	20.6	1458.0	Within expectation
Operating costs	(315.4)	(259.9)	21.3	(332.2)	(5.1)	(940.5)	(772.7)	21.7	(1279.8)	-
<b>EBITDA</b>	<b>41.1</b>	<b>36.9</b>	<b>11.3</b>	<b>47.1</b>	<b>(12.7)</b>	<b>128.3</b>	<b>113.6</b>	<b>12.9</b>	<b>178.2</b>	<b>Within expectation</b>
EBITDA margin (%)	11.5	12.4	(0.9)	12.4	(0.9)	12.0	12.8	(0.8)	12.2	
Depn & amort.	(8.3)	(7.1)	16.7	(8.2)	1.4	(24.7)	(22.1)	11.6	(34.7)	
<b>EBIT</b>	<b>32.8</b>	<b>29.8</b>	<b>10.1</b>	<b>38.9</b>	<b>(15.7)</b>	<b>103.6</b>	<b>91.5</b>	<b>13.3</b>	<b>143.5</b>	
Interest expense	(1.7)	(0.5)	216.7	(1.0)	68.2	(3.2)	(1.4)	127.1	-	
Interest & invt inc	0.5	0.6	(24.7)	0.3	38.6	0.9	2.3	(60.8)	1.0	Net debt of RM7.5m, negligible net gearing as of
Associates' contrib	0.1	0.1	(42.4)	0.1	0.0	0.6	0.3	92.1	0.96	30 Sep 2022
Exceptionals	2.5	0.9	nm	(0.7)	nm	1.3	1.3	nm	0.0	-
<b>Pre-tax profit</b>	<b>34.2</b>	<b>31.0</b>	<b>10.6</b>	<b>37.7</b>	<b>(9.1)</b>	<b>103.2</b>	<b>94.0</b>	<b>9.8</b>	<b>145.8</b>	<b>Within expectation</b>
Tax	(6.9)	(7.2)	(4.7)	(7.7)	(10.5)	(21.0)	(20.4)	2.9	(29.2)	
Tax rate (%)	20.2	23.4	(13.8)	20.5	(0.3)	20.3	21.7	(6.3)	20.0	
Minority interests	(0.2)	(1.3)	nm	(0.5)	(56.8)	(1.0)	(3.9)	(73.4)	(4.7)	
<b>Net profit</b>	<b>27.1</b>	<b>22.4</b>	<b>21.2</b>	<b>29.5</b>	<b>(8.0)</b>	<b>81.2</b>	<b>69.7</b>	<b>16.5</b>	<b>112.0</b>	<b>Thong Guan's 9M22 core net profit made up 73% of our</b>
Core net profit	24.6	21.5	14.6	30.1	(18.5)	79.9	68.4	16.8	112.0	full-year forecast, and 70% of consensus's
EPS (sen)	7.0	5.9	20.0	7.7	(8.2)	21.0	18.2	15.4	29.2	
Core EPS (sen)	6.4	5.6	13.4	7.8	(18.7)	20.7	17.9	15.7	29.2	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 2: Segmental breakdown**


Revenue (RM m)	3Q22	3Q21	Yoy (%)	2Q22	Qoq (%)	3Q22 cum.	3Q21 cum.	Yoy (%)
Plastic packaging products	327.5	273.8	19.6%	348.0	-5.9%	983.6	817.6	20.3%
Food, beverages, and other consumable products	29.0	23.0	25.8%	31.3	-7.6%	85.2	68.7	24.1%
<b>Total</b>	<b>356.5</b>	<b>296.8</b>	<b>20.1%</b>	<b>379.3</b>	<b>-6.0%</b>	<b>1,068.8</b>	<b>886.3</b>	<b>20.6%</b>
Pre-tax profit/loss (RM m)	3Q22	3Q21	Yoy (%)	2Q22	Qoq (%)	3Q22 cum.	3Q21 cum.	Yoy (%)
Plastic packaging products	32.6	29.9	9.0%	34.8	-6.4%	97.3	90.2	7.9%
Food, beverages, and other consumable products	1.7	1.1	54.8%	2.9	-41.8%	6.0	3.9	54.3%
<b>Total</b>	<b>34.2</b>	<b>31.0</b>	<b>10.6%</b>	<b>37.7</b>	<b>-9.1%</b>	<b>103.2</b>	<b>94.0</b>	<b>9.8%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

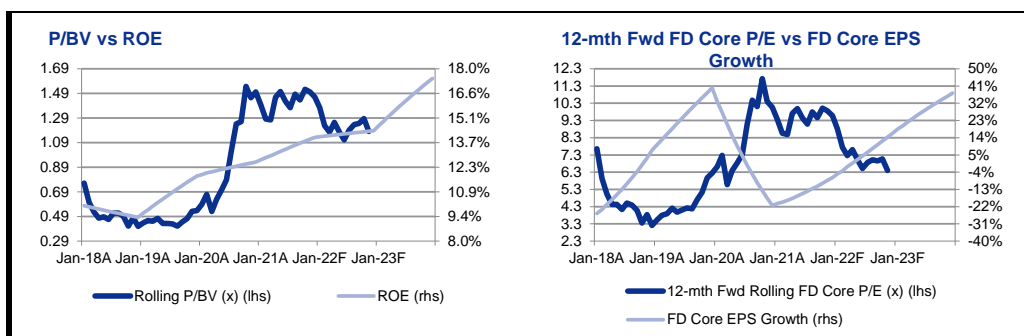
**Figure 3: Sector comparison (as of 26 Nov 2022)**

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
BP Plastics Holding	BPP MK	Hold	1.28	1.34	80	11.0	8.6	-15.4%	1.47	1.42	13.2%	12.4%	6.9	6.8	4.9%	6.3%
Scientex Packaging	SCIPACK MK	Add	2.32	2.73	182	15.4	12.2	12.0%	1.98	1.79	14.6%	15.5%	9.6	7.7	2.0%	2.5%
Thong Guan Industries	TGI MK	Add	2.51	4.54	219	8.6	6.3	22.1%	1.17	1.02	14.4%	17.4%	4.9	3.7	2.6%	3.5%
<b>Weighted average</b>						<b>11.6</b>	<b>8.9</b>	<b>12.0%</b>	<b>1.5</b>	<b>1.4</b>	<b>14.3%</b>	<b>15.9%</b>	<b>7.0</b>	<b>5.7</b>	<b>2.7%</b>	<b>3.6%</b>
<b>Simple average</b>						<b>11.7</b>	<b>9.2</b>	<b>17.1%</b>	<b>1.6</b>	<b>1.4</b>	<b>14.5%</b>	<b>16.5%</b>	<b>7.3</b>	<b>5.7</b>	<b>2.3%</b>	<b>3.0%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

ESG in a nutshell		Refinitiv ESG Scores					
		C+ ESG Score	A+ ESG Controversies Score	C+ ESG Combined Score	C- ESG Environment Pillar Score	C+ ESG Social Pillar Score	C+ ESG Government Pillar Score
<p>While plastic production is a touchy subject in the environmental space, Thong Guan Industries is doing all it can to balance the need to preserve the environment and consumers' rising demand for plastic packaging products. This 81-year-old family-run company took the initiative to transform itself in 2016 into a world-class player of plastic products and stretch films. Although the transformation's ultimate goal is to raise its margins and revenue base, Thong Guan invested in research and development (R&amp;D) to produce more environmentally-friendly plastic products that could satisfy its customers in the developed markets.</p>							
<p><b>Keep your eye on</b></p> <p>Thong Guan's capacity expansion. The company aims to build facilities that will generate another RM1bn worth of sales by FY26F, effectively doubling its turnover from FY20 levels.</p>	<p><b>Implications</b></p> <p>Our TP valuation is based on 11x CY22F P/E, which is 1 s.d. above its 5-year mean. The premium is accorded to Thong Guan's strong earnings growth.</p>						
<p><b>ESG highlights</b></p> <p>Thong Guan is the 10th largest stretch film producer in the world, according to the UK's Applied Market Information.</p>	<p><b>Implications</b></p> <p>To reach that level of sales, Thong Guan cannot simply produce sub-par plastic products that do not meet today's strict environmental standards. In 2016, the company established an R&amp;D arm that went on to conceptualise its ultra-light TG Nano Series stretch films and recyclable bags.</p>						
<p><b>Trends</b></p> <p>Starting from its FY21 annual report, Thong Guan elaborated in greater detail with its sustainability efforts. The biggest takeaway from its environmental initiatives is that it had achieved 5% renewable electricity consumption for its production plants in West Malaysia. According to the group, its plastic production plants in West Malaysia are 100% powered by green electricity sources. It has also said that all of its stretch films are 100% recyclable.</p>	<p><b>Implications</b></p> <p>Thong Guan communicates clearly its milestones and targets for the environmental pillar in the ESG dimension. This should bode well for its chances of joining the ESG-related indices and being granted a review by ESG rating firms, in our view, since these organisations would only assess public-listed companies using the publicly available data provided by the latter.</p>						

SOURCES: CGS-CIMB RESEARCH, REFINITIV

**BY THE NUMBERS**

**Profit & Loss**

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>960.6</b>	<b>1,215.0</b>	<b>1,458.0</b>	<b>1,895.4</b>	<b>2,179.7</b>
<b>Gross Profit</b>	<b>293.2</b>	<b>368.9</b>	<b>434.1</b>	<b>568.4</b>	<b>653.9</b>
<b>Operating EBITDA</b>	<b>126.3</b>	<b>157.3</b>	<b>178.2</b>	<b>236.6</b>	<b>272.4</b>
Depreciation And Amortisation	(27.4)	(30.2)	(34.7)	(39.9)	(45.9)
<b>Operating EBIT</b>	<b>98.9</b>	<b>127.1</b>	<b>143.5</b>	<b>196.7</b>	<b>226.5</b>
Financial Income/(Expense)	1.6	1.3	1.3	1.3	1.3
Pretax Income/(Loss) from Assoc.	1.0	0.5	1.0	1.0	1.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>101.6</b>	<b>129.0</b>	<b>145.8</b>	<b>199.0</b>	<b>228.9</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>101.6</b>	<b>129.0</b>	<b>145.8</b>	<b>199.0</b>	<b>228.9</b>
Taxation	(19.6)	(27.1)	(29.2)	(39.8)	(45.8)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax</b>	<b>81.9</b>	<b>101.9</b>	<b>116.6</b>	<b>159.2</b>	<b>183.1</b>
Minority Interests	(5.0)	(5.2)	(4.7)	(5.5)	(5.6)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>76.9</b>	<b>96.7</b>	<b>112.0</b>	<b>153.7</b>	<b>177.5</b>
Recurring Net Profit	76.9	96.7	112.0	153.7	177.5
<b>Fully Diluted Recurring Net Profit</b>	<b>76.9</b>	<b>96.7</b>	<b>112.0</b>	<b>153.7</b>	<b>177.5</b>

**Cash Flow**

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>126.3</b>	<b>157.3</b>	<b>178.2</b>	<b>236.6</b>	<b>272.4</b>
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	10.6	(87.8)	(69.0)	(118.1)	(76.8)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	0.0	0.0	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(19.6)	(27.1)	(29.2)	(39.8)	(45.8)
<b>Cashflow From Operations</b>	<b>117.2</b>	<b>42.5</b>	<b>80.0</b>	<b>78.7</b>	<b>149.9</b>
Capex	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	(38.1)	(38.1)	(38.1)
<b>Cash Flow From Investing</b>	<b>(40.0)</b>	<b>(40.0)</b>	<b>(78.1)</b>	<b>(78.1)</b>	<b>(78.1)</b>
Debt Raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(24.5)	(21.1)	(24.6)	(33.8)	(39.1)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow From Financing</b>	<b>(24.5)</b>	<b>(21.1)</b>	<b>(24.6)</b>	<b>(33.8)</b>	<b>(39.1)</b>
Total Cash Generated	52.7	(18.6)	(22.6)	(33.2)	32.8
<b>Free Cashflow To Equity</b>	<b>77.2</b>	<b>2.5</b>	<b>2.0</b>	<b>0.7</b>	<b>71.9</b>
<b>Free Cashflow To Firm</b>	<b>77.2</b>	<b>2.5</b>	<b>2.0</b>	<b>0.7</b>	<b>71.9</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	293.7	292.9	205.0	205.0	205.0
Total Debtors	200.0	295.7	291.6	379.1	435.9
Inventories	210.2	257.8	291.6	379.1	435.9
Total Other Current Assets	2.8	3.5	3.5	3.5	3.5
<b>Total Current Assets</b>	<b>706.7</b>	<b>850.0</b>	<b>791.7</b>	<b>966.7</b>	<b>1,080.4</b>
Fixed Assets	295.4	328.6	371.9	410.1	442.2
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	8.5	28.8	105.4	105.4	105.4
<b>Total Non-current Assets</b>	<b>303.9</b>	<b>357.4</b>	<b>477.4</b>	<b>515.5</b>	<b>547.6</b>
Short-term Debt	89.8	118.3	88.3	88.3	88.3
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	173.2	228.9	189.5	246.4	283.4
Other Current Liabilities	3.4	1.1	0.5	0.5	0.5
<b>Total Current Liabilities</b>	<b>266.5</b>	<b>348.3</b>	<b>278.3</b>	<b>335.2</b>	<b>372.2</b>
Total Long-term Debt	56.7	62.9	62.9	62.9	62.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19.1	34.4	74.1	104.9	69.8
<b>Total Non-current Liabilities</b>	<b>75.8</b>	<b>97.3</b>	<b>137.0</b>	<b>167.8</b>	<b>132.7</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>342.3</b>	<b>445.7</b>	<b>415.3</b>	<b>503.0</b>	<b>504.9</b>
Shareholders' Equity	645.3	733.9	821.2	941.1	1,079.6
Minority Interests	23.0	27.8	32.5	38.0	43.6
<b>Total Equity</b>	<b>668.3</b>	<b>761.7</b>	<b>853.7</b>	<b>979.1</b>	<b>1,123.2</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	2.7%	26.5%	20.0%	30.0%	15.0%
Operating EBITDA Growth	27.9%	24.6%	13.3%	32.8%	15.1%
Operating EBITDA Margin	13.1%	12.9%	12.2%	12.5%	12.5%
Net Cash Per Share (RM)	0.38	0.29	0.14	0.14	0.14
BVPS (RM)	1.69	1.92	2.15	2.46	2.82
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	19.3%	21.0%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	25.4%	17.0%	17.5%	17.5%	17.5%
Accounts Receivables Days	70.92	74.46	73.52	64.58	68.43
Inventory Days	108.7	100.9	97.9	92.2	97.8
Accounts Payables Days	77.98	86.74	74.59	59.95	63.54
ROIC (%)	19.1%	23.5%	21.0%	22.5%	22.0%
ROCE (%)	13.0%	14.6%	14.9%	18.5%	19.0%
Return On Average Assets	10.7%	11.5%	11.7%	14.4%	14.6%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Plastic packaging products growth (%)	1.1%	28.1%	21.3%	30.0%	15.0%
F&B and other consumable products growth (%)	24.7%	8.3%	2.9%	30.0%	15.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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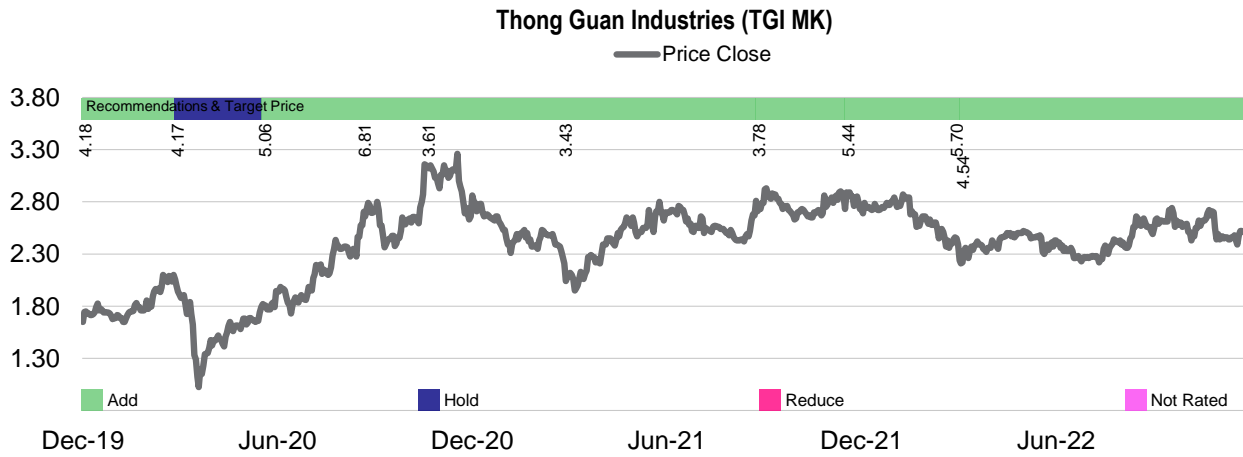
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**Add** The stock's total return is expected to exceed 10% over the next 12 months.

**Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

**Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

**Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

**Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

**Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

**Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.