

30 November 2022

# Thong Guan Industries

## A Soft Patch, Prospects Intact

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TGUAN's 9MFY22 results missed our expectation, weighed down by high-cost inventories. TGUAN continues to see resilient demand for its nano stretch films in the US and Europe. It is now also trying to market its products directly to the end-users in those market. We cut our FY22F earnings by 5% but maintain our FY23F numbers. We keep our TP of RM3.99 (which is based on FY23F earnings) and OUTPERFORM call.

**Below expectation.** 9MFY22 core profit of RM82.8m came in below expectations at only 72% and 73% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast came from high-cost inventories that hurt margins.

YoY, 9MFY22 core net profit improved 17.8% in tandem with the revenue growth of 20.6%. The plastic product division's revenue improved by 20% due to higher sales volume and ASPs for its premium products and food wrap. The F&B segment revenue also grew by 24% on the resilient sales of tea and coffee products and FMCG products in Sabah. Its operating profit grew by 13% due to better product mix and operational cost efficiency despite the labour shortage situation.

QoQ, 3QFY22 revenue declined by 6% due to weaker sales volume (conventional stretch film, food wrap, courier bags and food and beverages) on the back of slowdown in the global economy. After stripping off the forex gain of RM2.5m, core net profit fell 26.2%, weighed down by high-cost inventories.

The key takeaways from its results briefing are as follows:

1. TGUAN guided for resilient demand for its nano stretch film especially from the US and Europe. TGUAN is making efforts to market its products directly to mid and small end-users in Europe and USA compared to depending on third-party distributors. Thus far, it has secured two customers in Europe (a building material company and a major FMCG player).
2. The commission of its 9th and 10th nano stretch film lines have been delayed to 1HFY23 (from 4QFY22) due to supply-chain issues faced by the equipment makers. Meanwhile, its three new blown film lines will go online as planned in Dec 2022. The three new lines will produce oil bags, sugar bags, flour bags, shrink film and lamination films largely used in the industrial, F&B and FMCG sectors.
3. Its food wraps (that makes up 6% of 9MFY22 total revenue) has done well on the reopening of the economy with higher demand from the hospitality sector particularly restaurants. The ASP for food wraps has also held up despite the falling cost of PVC resin, resulting in margin improvement that should swing the division back into the black from losses in FY21.

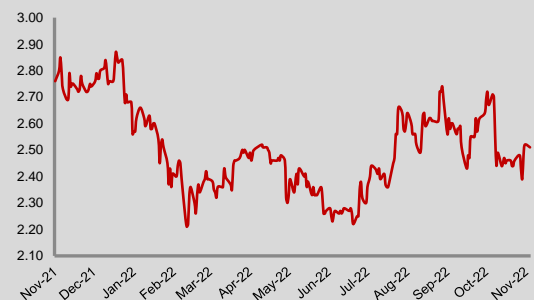
**Forecasts.** We cut our FY22F net profit by 5% to reflect higher inventory cost in 3QFY22.

We like TGUAN for: (i) the sweet spot the local plastic packaging industry is currently in, i.e. weakening cost of input resin while selling prices for products are holding up due to production curbs globally, especially in Europe, due to high energy cost or energy supply constraints, (ii) its earnings stability underpinned by a more diversified product portfolio, and (iii) its growth prospects backed by capacity expansion for its premium products (nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags).

**OUTPERFORM** ↔

Price: **RM2.51**  
Target Price: **RM3.99** ↔

### Share Price Performance



KLCI	1,476.96
YTD KLCI chg	-5.8%
YTD stock price chg	-10.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	979.5
Shares Outstanding	390.2
52-week range (H)	2.90
52-week range (L)	2.10
3-mth avg daily vol:	454,052
Free Float	50%
Beta	0.8

### Major Shareholders

Foremost Equals SdnBhd	38.1%
Eastspring Inv Bhd	5.1%
Eastspring Invest Sm	2.7%

### Summary Earnings Table

FY Dec (RMm)	2021A	2022F	2023F
Turnover	1214.9	1426.4	1752.2
EBIT	123.4	147.1	187.4
PBT	125.2	146.6	186.3
<b>Net Profit (NP)</b>	92.9	110.0	139.8
<b>Core NP*</b>	94.4	110.0	139.8
Consensus (NP)		113.5	147.0
Earnings Revision		-5%	0
Core EPS (sen)	24.5	28.5	36.2
EPS growth (%)	23.7%	16.5%	27.1%
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	10.7	9.2	7.2
BVPS (RM)	2.0	2.2	2.5
PBV (x)	1.3	1.2	1.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.1	2.1	2.1

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We maintain our TP of RM3.99 based on 11x FY23F PER, at a discount to the sector's average historical forward PER of 13x to reflect TGUAN's low share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain OUTPERFORM

**Risks to our call include:** (i) sustained higher resin cost, (ii) the demand for packaging materials hurt by a global recession, and (iii) prolonged labour shortages.

### Results Highlights

FYE Dec (RM m)	3QFY22	2QFY22	QoQChg	3QFY21	YoYChg	9MFY22	9MFY21	YoY Chg
Revenue	356.5	379.3	-6%	296.8	20%	1,068.8	886.3	21%
EBIT	35.3	38.2	-8%	30.7	15%	104.9	92.8	13%
PBT	34.2	37.7	-9%	31.0	11%	103.2	94.0	10%
Taxation	-6.9	-7.7	-0.1	-7.2	0.0	-21.0	-20.4	3%
PATAMI	27.1	29.5	-8%	22.4	21%	81.2	69.7	16%
Core PATAMI (CNP)	24.6	33.3	-26%	21.5	15%	82.8	70.3	18%
Core EPS (sen)	6.4	8.6	-26%	5.6	15%	21.5	18.2	18%
NDPS (sen)	1.25	1.25	0%	1.25	0%	3.8	3.25	15%
Effective tax rate (%)	20.2	20.5		23.4		20.3	21.7	
Operating margin (%)	9.9	10.1		10.4		9.8	10.5	
PBT Margin (%)	9.6	9.9		10.4		9.7	10.6	
Core Net Profit Margin (%)	6.9	8.8		7.2		7.7	7.9	

Source: Company, Kenanga Research

### Segmental Breakdown

FYE Dec (RM m)	3QFY22	2QFY22	QoQChg	3QFY21	YoY Chg	9MFY22	9MFY21	YoY Chg
<b>Turnover</b>								
Plastic products	327.5	348.0	-6%	273.8	20%	983.6	817.6	20%
F&B, other consumable products	29.0	31.3	-8%	23.0	26%	85.2	68.7	24%
<b>Group Turnover</b>	<b>356.5</b>	<b>379.3</b>	<b>-6%</b>	<b>296.8</b>	<b>20%</b>	<b>1,068.8</b>	<b>886.3</b>	<b>21%</b>
<b>Segment Results</b>								
Plastic products	32.6	34.8	-6%	29.9	9%	97.3	90.2	8%
F&B, other consumable products	1.7	2.9	-42%	1.1	55%	6.0	3.9	54%
<b>Group PBT</b>	<b>34.2</b>	<b>37.7</b>	<b>-9%</b>	<b>31.0</b>	<b>11%</b>	<b>103.2</b>	<b>94.0</b>	<b>10%</b>
<b>PBT Margin</b>								
Plastic products	9.9%	10.0%		10.9%		10%	11.0%	
F&B, other consumable products	5.8%	9.2%		4.7%		7%	5.6%	
<b>Group PBT Margin</b>	<b>9.6%</b>	<b>9.9%</b>		<b>10.4%</b>		<b>10%</b>	<b>10.6%</b>	

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
BOILERMECH HOLDINGS BHD	OP	0.750	0.830	10.67%	387.0	Y	03/2023	3.5	5.2	7.6%	45.9%	0.2	0.1	1.5	7.1%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.28	1.63	27.34%	360.3	Y	12/2022	11.3	15.3	-31.7%	36.3%	11.4	8.3	1.4	13.0%	6.0	4.7%
HIL INDUSTRIES BHD	OP	1.10	1.13	2.73%	365.1	Y	12/2022	8.8	11.8	-2.3%	34.6%	12.5	9.3	0.9	7.2%	2.0	1.8%
HPP HOLDINGS BHD	OP	0.445	0.460	3.37%	172.9	Y	05/2023	3.5	4.2	63.1%	18.2%	12.6	10.7	1.3	11.2%	2.0	4.5%
KUMPULAN PERANGSANG	OP	0.770	0.770	0.00%	413.8	Y	12/2022	6.7	7.7	-13.2%	14.4%	11.5	10.0	0.4	3.4%	2.4	3.1%
SELANGOR BHD																	
SCIENTEX BHD	MP	3.30	3.33	0.91%	5,118.3	Y	07/2023	35.2	36.9	31.9%	4.9%	9.4	8.9	1.6	17.8%	7.4	2.3%
SLP RESOURCES BHD	MP	0.990	0.92	-7.07%	313.8	Y	12/2022	6.2	7.2	11.4%	16.4%	16.1	13.8	1.6	10.4%	5.5	5.6%
THONG GUAN INDUSTRIES BHD	OP	2.51	3.99	58.96%	979.5	Y	12/2022	28.6	36.4	16.5%	27.1%	8.8	6.9	1.1	13.6%	5.5	2.2%
<b>Simple Average</b>								13.0	15.6	10.4%	24.7%	10.3	8.5	1.2	10.5%		3.3%

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	★	★
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
	<b>SPECIFIC</b>	Migrant Worker Welfare	★	★	★
Waste Disposal/Pollution Control	★	★	★		
Work Site Safety	★	★	★		
Usage of Biodegradable Materials	★	★	★		
Supply Chain Auditing	★	★	★		
Energy Efficiency	★	★	★	★	
<b>OVERALL</b>		★	★	★	

☆ denotes half-star  
★ -10% discount to TP  
★★ -5% discount to TP  
★★★ TP unchanged  
★★★★ +5% premium to TP  
★★★★★ +10% premium to TP

**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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