

28 August 2017

Tomypak Holdings Berhad 1H17 Below Our Expectation

1H17 core earnings of RM9.2m came in below our expectation, at 39% on weaker margins in 2Q17. 1H17 dividend of 1.18 sen is also below at 40%. We expect TOMYPAK to grow by 89% up to 36,000MT p.a. by FY20-21. We lower earnings by 12-10% to RM20.9-26.6m in FY17-18E on lower margins. Maintain MARKET PERFORM but lower TP to RM0.92 upon lowering earnings, based on an unchanged Fwd. PER 19.2x on FY18E FD EPS of 4.8 sen.

1H17 core net profit of RM9.2m is below our expectation, achieving 39% of our FY17 estimate. No consensus available. Topline is within at 46%, but we believe 2Q17 was an exceptionally weak quarter, on higher raw material cost and product mix, which affected margins. 2Q17 dividend of 0.8 sen was declared while total 1H17 dividend of RM4.9m implies 1.18 sen which is also below our estimate (40% of our estimate of 2.9 sen) post accounting for the enlarged share base post the share split and bonus issue which was completed on 2nd June 17. 1H17 dividend pay-out represent a 47% pay-out ratio vs. our expectations of 50%.

Results Highlights. QoQ, topline was down by 3% due to lower demand from overseas customers this quarter, while margin was also affected, down 4.5ppt on higher raw material cost. All in, CNP was down by 57% after excluding RM1.3m unrealised gain. **YoY-Ytd**, topline was down by 2% due to similar reasons mentioned above, on the back of flattish EBIT margins, dragged down by a weaker 2Q17. However, CNP margins were up slightly (+0.6ppt), increasing CNP by 6% due to lower effective tax rates from the reinvestment allowance.

Outlook. TOMYPAK plans to increase capacity by 89% up to 36,000MT p.a. by FY20-21 (from 19,000MT p.a. currently) by constructing a new plant in Senai. Phase 1 of the capacity expansion will come on-stream from 2H17 to 1H18, while Phase 2 and 3 will see capacity growing gradually from FY19 up till FY20-21. As such, we expect revenue to grow by 1-23% in FY17-18E, while historical revenue growth has been rather flattish at 2.4% to -1.5% in FY15-16.

Lower earnings by 12-10% in FY17-18E to RM20.9-26.6m (from 23.8-29.4m) mostly on higher raw material cost (+6%), which include resin, and ink cost, while we expect product margins to improve in coming quarters on better export sales. All in, we lower net margins to 8.9-9.3% (from 10.2-10.2%). We still expect strong earnings growth in FY17-18E of 9.9-27.5% driven by the group's bullish capacity expansion plans, backed by improving EBIT margins, lower effective tax rates (12-13% in FY17-18E, vs. 21% in FY16) from Reinvestment Tax Allowance (RA), and riding off a weaker FY16 due to higher operating cost and the absence of the RA.

Maintain MARKET PERFORM but we lower our fully diluted TP to RM0.92 (from RM1.00) based on a lower FY18E FD EPS of 4.8 sen (from 5.3 sen) upon lowering earnings and an unchanged Fwd. PER 19.2x, which is slightly below SLP (20.5x Fwd. PER) and SCGM (19.9x Fwd. PER) as they are both faring better than TOMYPAK in terms of margins, earnings growth and ROEs. We like TOMYPAK for its: (i) reputable client base, (ii) resilient demand in the F&B industry, (iii) bullish expansion plans of 89% up to FY20-21, (iv) effective turnaround and management since FY14, and (v) being a beneficiary of a strengthening USD. However, based on our fully diluted Target Price of RM0.92, we believe TOMYPAK is fairly valued warranting a MARKET PERFORM call.

Risks to our call include; (i) higher-than-expected resin cost, (ii) weaker product demand, (iii) foreign currency risk from strengthening Ringgit, and (iv) new entrants/competition biting into its market share.

MARKET PERFORM ↔

Price:	RM0.99	
Target Price:	RM0.92	↓
Expected Capital Gain:	-RM0.070	-7.6%
Expected Divd. Yield:	RM0.032	+3.2%
Expected Total Return:	-RM0.038	-4.4%

KLCI Index 1,769.17

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Issued shares	419.3
Market Cap (RM m)	415.2
Par value per share (RM)	0.50
52-week range (H)	1.08
52-week range (L)	0.62
Free Float	54%
Beta	0.2
3-mth avg daily vol:	652,329

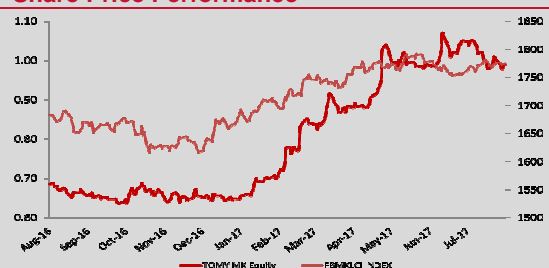
Major Shareholders

New Orient Resources Sdn Bhd	24.9%
Hun Swee Lin	16.2%
Zalaraz Sdn Bhd	5.1%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	210.9	233.6	288.0
EBIT	23.7	24.5	31.4
PBT	23.2	23.8	30.6
Net Profit	18.4	20.9	26.6
Core PATAMI	19.0	20.9	26.6
Consensus (NP)	n.a.	-	-
Earnings Revision	n.a.	-12%	-10%
Core EPS (sen)	3.4	3.7	4.8
Core EPS growth (%)	-17.9	9.9	27.5
NDPS (sen)	2.9	2.5	3.2
NTA per Share (RM)	0.3	0.4	0.5
Price to NTA (x)	2.9	2.5	2.0
Core PER (x)	29.0	26.4	20.7
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	8.0	7.1	7.6
Return on Equity (%)	11.7	10.2	10.9
Net Div. Yield (%)	2.9	2.5	3.2

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-2.9%	-2.9%	47.7%
Relative (%)	-2.1%	0.3%	42.5%

Marie Vaz
msvaz@kenanga.com.my
+603-2172 2638

28 August 2017

OTHER POINTS

Note: We are assuming a maximum scenario for our valuations which is on our Fully Diluted (FD) share base, which includes (i) full conversion of warrants, (ii) full exercise of outstanding ESOS options, (iii) completion of Share Split and (iv) completion of Bonus Issue

Results Highlights

FYE Dec (RM'm)	2Q17	1Q17	QoQ	2Q16	YoY	1H16	1H17	YoY-Ytd
Revenue	52.3	53.9	-3%	56.8	-8%	108.2	106.2	-2%
Operating Profit	4.3	6.9	-37%	6.7	-35%	11.4	11.2	-2%
Other Income	0.1	0.0	156%	0.1	25%	0.1	0.1	23%
Finance Cost	-0.3	-0.2	24%	-0.2	63%	-0.3	-0.5	72%
Pretax Profit	4.1	6.7	-38%	6.6	-37%	11.2	10.8	-4%
Tax	-0.1	-0.4	-87%	-1.5	-96%	-2.6	-0.5	-81%
MI	0.0	0.0	-31%	0.0	350%	0.0	0.0	n.m.
Net Profit	4.1	6.3	-35%	5.1	-21%	8.6	10.3	20%
Core Net Profit	2.7	6.4	-57%	4.9	-44%	8.7	9.2	6%
EPS (sen)	0.98	1.51	-35%	1.23	-21%	2.08	2.48	20%
Core EPS (sen)	0.66	1.55	-57%	1.19	-44%	2.09	2.21	6%
NDPS (sen)	0.38	0.79	-52%	0.61	-37%	1.14	1.18	3%
EBIT Margins %	8.3%	12.8%		11.8%		10.6%	10.5%	
Core Net Profit Margins %	5.2%	11.9%		8.7%		8.0%	8.6%	
Effective Tax Rate %	-1.4%	-6.4%		-22.1%		-23.2%	-4.5%	

Source: Company, Kenanga Research

*Note that our EPS, Core EPS and NDPS is based on our enlarged share base assumption of 415.6m after accounting for; (i) the share split, and (i) bonus issue of one for every four shares. This does not include the full conversion of warrants and full exercise of ESOS.

This section is intentionally left blank

28 August 2017

Peer Comparison															
NAME	Price (25/8/17)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/B V	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/ 17	FY17/ 18	FY18 /19	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.65	4,182.8	17.8	16.6	12.7	1.8%	23.9	2.6	248.0	265.8	347.3	7.2%	30.7%	8.50	MARKET PERFORM
SLP RESOURCES BHD	1.96	621.2	21.2	21.5	16.1	1.9%	19.4	3.3	29.3	28.9	38.7	-1.3%	34.0%	2.63	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.26	564.4	14.6	13.1	11.5	3.3%	12.4	1.9	53.6	60.0	68.2	11.9%	13.7%	5.40	OUTPERFORM
SCGM BHD	2.96	573.1	27.9	20.4	16.5	2.4%	13.7	2.2	22.6	30.9	38.1	36.6%	23.6%	3.35	MARKET PERFORM
TOMYPAK HOLDINGS	0.99	415.2	29.0	26.4	20.7	2.5%	11.7	2.5	19.0	20.9	26.6	9.9%	27.3%	0.92	MARKET PERFORM
Simple Average			22.1	19.6	15.5										
Weighted Average			19.5	17.8	13.8										

Source: Bloomberg, Kenanga Research

28 August 2017

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 report has been prepared by Kenanga Investment Bank Berhad pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

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 12, 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

This report may be accessed at <http://www.bursamids.com/>.



Chan Ken Yew
Head of Research