

01 June 2018

## Tomypak Holdings Berhad 1Q18 Below Expectations

1Q18 core earnings of RM1.1m came in below our (7%) and consensus (6%) expectations, mainly due to weaker-than-expected margins, as top-line came in within. 1Q18 dividend of 0.3 sen was also below at 15%. FY18-19E CNP is lowered by 41-35% to RM9.3-13.1m on lower margin assumptions. Maintain UNDERPERFORM on lower TP of RM0.510 (from RM0.555).

1Q18 core net profit of RM1.1m came in below expectations for the fourth quarter in a row, at 7% and 6% of our and consensus FY18 estimates, respectively. Top-line is within, at 20% of our expectation but the bulk of the weakness was due to poor CNP margin of 2.1% in 1Q18 (vs. our expectation of 6.1%). This was due to higher-than-expected raw material cost and factory overheads. 1Q18 dividend of 0.3 sen was also below our FY18 estimate of 2.00 sen at 15%.

**Results Highlights. YoY-Ytd**, top-line was down (-6%) on lower sales volume and marginally lower average selling prices due to competitive market conditions. Additionally, EBIT margin was down by 9.9ppt, on higher raw material cost and factory overheads, while finance cost increased (+125%) on higher drawdown of loan for equipment at the new plant. All in, CNP declined by 84%. **QoQ**, top-line was up by 15%, likely on better sales while EBIT was back in the black to RM1.6m (vs. RM3.4m losses) as 4Q17 experienced; (i) high raw material cost, (ii) start-up cost for the new factory, and (iii) provision for obsolete stock and year-end stock adjustment. As a result, CNP improved to RM1.1m (vs. RM4.4m losses). \*Note that 4Q17 results are based on the unaudited FY17 financial results as per the Bursa announcement dated 27<sup>th</sup> Feb 2018, but there may be deviations to the audited results as the Group had announced on 30 April 2018 an increase to FY17 net profit from an additional tax benefit of RM4.1m for the year.

**Outlook.** We expect capacity to increase gradually up to 36,000MT p.a. by FY20-21 (from c.25,000MT p.a. in FY17A) upon completion of 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 FY20 onwards. As such, we are expecting capex of RM40-30m in FY18-19 for now.

**Lower FY18-19E CNP by 41-35% to RM9.3-13.1m.** Considering the higher cost in recent quarters, we are slashing FY18-19E CNP margin to 3.6-4.1% (from 6.1-6.3%), closer to current level of 2.1% on higher operating cost. We may look to revise up our earnings upon better cost management and margin improvements in coming quarters.

**Maintain UNDERPERFORM but lower our TP to RM0.510 (from RM0.555).** We are switching our valuation method to PBV (from PER based on FY19E FD EPS and 15.2x applied Fwd. PER) due to earnings volatility in light of missed earnings expectations over four quarters and record low earnings in the previous quarter. As such, we opt to de-rate our TP to 1.0x PBV on FY19 FD BVPS of 0.51x (-2.0SD to the 5-year average) as strong profitability and earnings improvements are questionable at this juncture. Our valuations are based on FY19 to better encapsulate TOMYPAK's value once the bulk of Phase 1 expansion is completed. Despite TOMYPAK's bullish expansion plans of +44% up to FY20-21, we believe valuations are stretched, warranting an UNDERPERFORM call as recent quarters have been recording weaker-than-expected margins. As such, we opt to be conservative with our valuations, but may look to upgrade our earnings and valuations upon more concrete margin improvements.

**Risks to our call include:** (i) lower-than-expected resin cost, (ii) better product demand, (iii) stronger-than-expected product margins, and (iv) foreign currency risk from weakening Ringgit.

## UNDERPERFORM ↔

Price: RM0.770  
Target Price: RM0.510 ↓

Expected Capital Gain: -0.260 -33.8%  
Expected Divd. Yield: 0.012 1.5%  
Expected Total Return: -0.248 -32.2%

KLCI Index 1740.62

### Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Shares Outstanding	419.3
Market Cap (RM m)	322.9
Par value per share (RM)	0.50
52-week range (H)	1.08
52-week range (L)	0.75
Free Float	54%
Beta	0.8
3-mth avg daily vol:	865,695

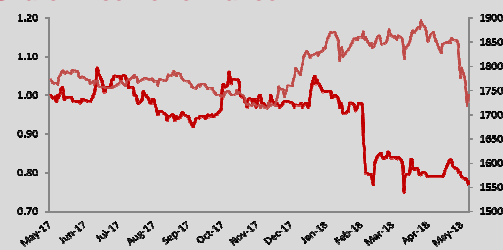
### Major Shareholders

New Orient Resources Sdn Bhd	24.4%
Hun Swee Lin	16.2%
Zalaraz Sdn Bhd	5.2%

### Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	204.3	257.7	319.0
EBIT	11.1	11.4	18.3
PBT	9.8	10.7	17.5
<b>Net Profit</b>	<b>13.6</b>	<b>9.3</b>	<b>13.1</b>
<b>Core PATAMI</b>	<b>11.6</b>	<b>9.3</b>	<b>13.1</b>
Consensus (NP)	n.a.	17.6	22.9
Earnings Revision	n.a.	-41%	-35%
Core FD EPS (sen)	2.1	1.7	2.4
Core FD EPS growth (%)	-39.0	-20.1	41.8
NDPS (sen)	2.6	1.2	1.6
FD NTA per Share (RM)	0.3	0.4	0.5
Price to FD NTA (x)	2.2	1.7	1.5
Core FD PER (x)	37.0	46.3	32.7
Debt-to-Equity ratio (x)	0.3	0.2	0.2
Return on Asset (%)	4.9	2.9	3.6
Return on Equity (%)	7.1	4.2	4.9
Net Div. Yield (%)	3.4	1.5	2.0

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-2.5%	-10.5%	-21.7%
Relative (%)	4.4%	-10.7%	-20.3%

Marie Vaz

[msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

+603-2172 2638

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**OTHER POINTS**

Note: We are assuming a maximum scenario for our valuations which is on our Fully Diluted (FD) share base, which include: (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)	1Q18	4Q17	QoQ	1Q17	YoY
<b>Revenue</b>	52.4	45.4	15%	55.9	-6%
Operating Profit	1.6	-3.4	n.m.	7.3	-78%
Other Income	0.0	0.0	-100%	0.0	-100%
Finance Cost	-0.5	-0.5	7%	-0.2	125%
<b>Pretax Profit</b>	<b>1.1</b>	<b>-3.9</b>	<b>n.m.</b>	<b>7.1</b>	<b>-84%</b>
Tax	0.0	0.0	n.a.	-0.4	-100%
MI	0.0	0.0	-60%	0.0	-115%
<b>Net Profit</b>	<b>1.1</b>	<b>-3.9</b>	<b>n.m.</b>	<b>6.6</b>	<b>-83%</b>
<b>Core Net Profit</b>	<b>1.1</b>	<b>-4.4</b>	<b>n.m.</b>	<b>6.8</b>	<b>-84%</b>
EPS (sen)	0.26	-0.93	-128%	1.58	-83%
Core EPS (sen)	0.26	-1.06	-125%	1.63	-84%
NDPS (sen)	0.30	0.14	112%	0.79	-62%
EBIT Margins %	3.1%	-7.5%		13.0%	
Core Net Profit Margins %	2.1%	-9.8%		12.2%	
Effective Tax Rate %	0.0%	n.m		-6.1%	

Source: Company, Kenanga Research

\*Note that our EPS, Core EPS and NDPS is based on our enlarged share base assumption of 419.7m 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.

\*4Q17 numbers are based on FY17 Bursa announcement dated 27th Feb 2018

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Peer Comparison															
NAME	Price (31/5/18)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY18/19 NP Growth	FY19/20 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY17/18	FY18/19	FY19/20	(%)	(%)	(x)	FY17/18	FY18/19	FY19/20	(%)	(%)	(RM)	
<b>PLASTICS UNDER COVERAGE</b>															
SCIENTEX BHD	7.06	3,451.8	14.1	12.3	11.3	2.5%	16.6	1.7	255.2	293.3	317.8	14.9%	8.4%	7.35	UNDERPERFORM
SLP RESOURCES BHD	0.96	304.3	16.6	11.7	10.1	3.4%	10.2	1.4	18.3	26.0	30.0	42.1%	15.5%	1.30	OUTPERFORM
THONG GUAN INDUSTRIES BHD	2.53	344.6	9.7	12.2	11.8	2.8%	9.7	1.1	48.1	38.2	39.4	-20.6%	3.1%	2.25	UNDERPERFORM
SCGM BHD	1.67	321.9	15.7	18.6	16.9	2.7%	13.7	1.7	22.6	19.3	21.1	-14.6%	9.3%	1.45	MARKET PERFORM
TOMYPAK HOLDINGS	0.770	322.9	37.0	46.3	32.7	1.5%	7.1	1.7	11.6	9.3	13.1	-19.8%	40.9%	0.510	UNDERPERFORM
<b>Simple Average</b>			<b>18.6</b>	<b>20.0</b>	<b>16.6</b>										
<b>Weighted Average</b>			<b>15.6</b>	<b>14.9</b>	<b>13.1</b>										

Source: Bloomberg, Kenanga Research

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

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Chan Ken Yew  
Head of Research