

08 June 2018

Tomypak Holdings Berhad Braving Margin Compression

Recent quarters have been disappointing with results missing expectation four quarters in a row, largely due to margin compressions. 1Q18 results have shown a reprieve, but TOMYPAK may not be out of the woods just yet. We may revise up our earnings and valuations upon concrete margin improvements. Maintain earnings. UNDERPERFORM on an unchanged TP of RM0.510.

Tough four quarters. 1Q18 results came below our and consensus expectations at 7% and 6% respectively, with CNP declining by 84% YoY to RM1.1m. The last four quarters (2Q17 to 1Q18) came in below expectations, mostly on higher-than-expected cost, compressing margins, with 4Q17 making all-time low with losses of RM4.4m (*as per FY17 Bursa announcement dated 27th Feb 2018). Although there was a reprieve since 4Q17's low earnings, TOMYPAK may not be out of the woods just yet.

Expecting weaker margins going forward. 1Q18 CNP margin was at 2.1%, which is a far cry from FY17A CNP margins of 5.7%, FY16A at 9.0% and FY15A at 10.8%. The margin compressions began mainly from 2Q17 onwards on higher raw material cost and factory overheads. Notably, TOMYPAK plans to increase capacity up to 36,000MT by FY20-21 and incurring additional costs while also grappling with higher raw material cost environment likely brought about by higher resin and printing ink costs.

Capacity expansion plans on track. 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.

Maintain FY18-19E CNP of RM9.3-13.1m for now. Post the recent results, we had cut earnings by 41-35% for FY18-19. Considering the higher costs in recent quarters, we are expecting FY18-19E CNP margins of 3.6-4.1%, which is lower than FY17A. We are comfortable with our margin assumptions for now, but may consider revising up our earnings should there be better cost management and margin improvements in coming quarters. We maintain our effective tax rate assumptions of 13-20% for FY18-19 on expectations of tax incentives from capacity expansion plans. FY18-19E NDPS of 1.2-1.6 sen implies 1.5-2.0% yield.

Maintain UNDERPERFORM and TP of RM0.510. Our TP is based on 1.0x PBV on FY19E FD BVPS of 0.51x (-2.0SD to the 5-year average) as stable earnings and profitability remain uncertain. Note that we recently switched our valuation method to PBV (from PER) due to earnings volatility in light of persistent missed earnings expectations over four quarters. Our valuations are based on FY19 as we believe this better encapsulates TOMYPAK's value once the bulk of Phase 1 expansion is completed. We believe valuations are stretched warranting an UNDERPERFORM call as we have priced in most positives, including TOMYPAK's bullish expansion plans of +44% up to FY20-21, as well as accounting for weakness from margin compressions, while the near-term outlook for earnings stability remains challenging. As such, we opt to be conservative with our valuations, but may 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 a strengthening Ringgit.

UNDERPERFORM ↔

Price: **RM0.790**
Target Price: **RM0.510** ↔

Expected Capital Gain: **-RM0.280 -35.4%**
Expected Divd. Yield: **RM0.012 1.5%**
Expected Total Return: **-RM0.268 -33.9%**

KLCI Index **1,785.81**

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)	331.3
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:	830,506

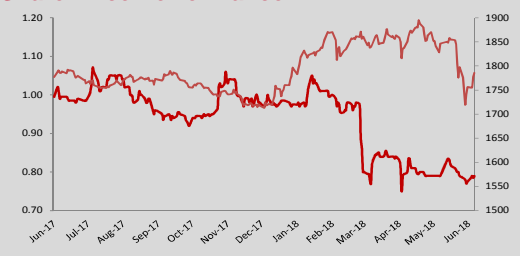
Major Shareholders

New Orient Resources Sdn Bhd	24.4%
Hun Swee Lim	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
Net Profit	13.6	9.3	13.1
Core PATAMI	11.6	9.3	13.1
Consensus (NP)	n.a.	12.1	16.8
Earnings Revision	n.a.	n.a.	n.a.
Core FD EPS (sen)	2.1	1.7	2.3
Core FD EPS growth, %	-39.0	-20.1	41.4
NDPS (sen)	2.6	1.2	1.6
FD NTA per Share (RM)	0.3	0.4	0.5
Price to FD NTA (x)	2.3	1.8	1.6
Core FD PER (x)	38.0	47.5	33.6
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 (%)	3.3	1.5	2.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.0%	1.3%	-20.2%
Relative (%)	2.3%	1.1%	-20.2%

Marie Vaz

msvaz@kenanga.com.my

+603-2172 2638

08 June 2018

OTHER POINTS

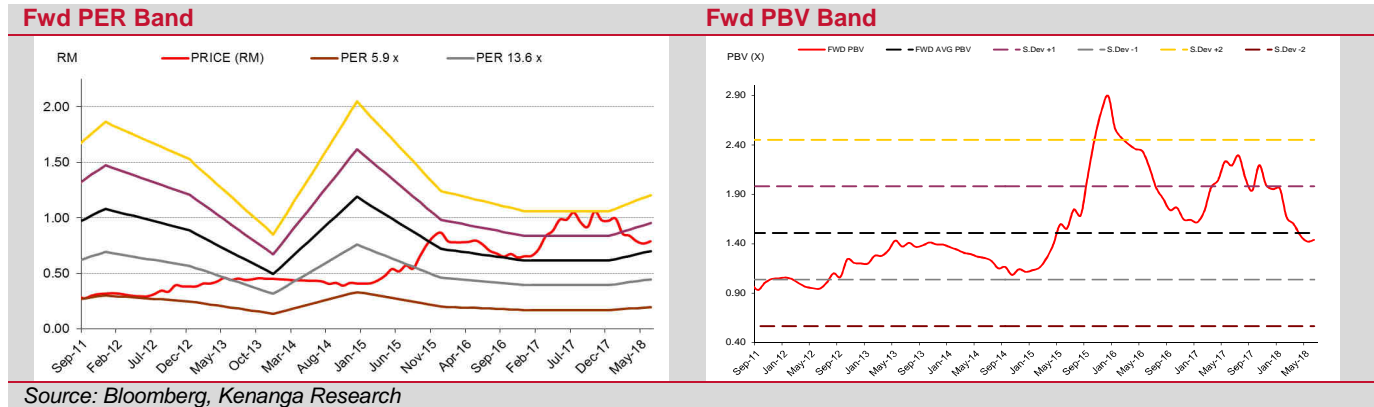
Note: We are assuming a maximum scenario for our valuations which is on our Fully Diluted (FD) share base, which include: (i) full conversion of warrants, (ii) full exercise of outstanding ESOS options, (iii) completion of Share Split, and (iv) completion of Bonus Issue.

*4Q17 results are based on the unaudited FY17 financial results as per the Bursa announcement dated 27th Feb 2018, but this may deviate from the audited results as the Group had announced on 30th April 2018 an increase to FY17 net profit from additional tax benefit of RM4.1m for the year.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM m)	2015A	2016A	2017A	2018E	2019
Revenue	214.1	210.9	204.3	257.7	319.0	Growth (%)					
EBITDA	43.3	36.2	25.6	33.2	39.0	Revenue	2.4	(1.5)	(3.1)	26.2	23.8
Depreciation	(11.7)	(12.5)	(14.5)	(21.8)	(21.9)	EBITDA	81.1	(16.4)	(29.3)	29.6	17.7
Operating Profit	31.6	23.7	11.1	11.4	17.2	Operating Profit	159.2	(25.1)	(53.2)	3.1	50.1
Total Fin.Costs	(0.5)	(0.7)	(1.3)	(1.0)	(1.0)	Pre-tax Income	169.9	(25.8)	(57.8)	8.8	53.7
PBT	31.3	23.2	9.8	10.7	16.4	Core Net Income	180.7	(17.9)	(39.0)	(20.1)	41.4
Taxation	(8.1)	(4.8)	3.8	(1.4)	(3.3)	Profitability (%)					
Minority Interest	0.0	(0.0)	0.0	0.0	0.0	EBITDA Margin	20.2	17.2	12.5	12.9	12.2
Net Profit	23.2	18.4	13.6	9.3	13.1	Operating Margin	14.8	11.2	5.4	4.4	5.4
Core Net Profit	23.2	19.0	11.6	9.3	13.1	PBT Margin	14.6	11.0	4.8	4.1	5.1
						Core Net Margin	10.8	9.0	5.7	3.6	4.1
						Eff. Tax Rate	(26.0)	(20.8)	38.3	(13.0)	(20.0)
						ROE	19.5	11.7	7.1	4.2	4.9
						ROA	12.9	8.0	4.9	2.9	3.6
						DuPont					
						C.Net Margin (%)	10.8	9.0	5.7	3.6	4.1
						Assets Turnover	1.2	0.9	0.7	0.8	0.9
						Leverage Factor	1.5	1.5	1.4	1.4	1.4
						ROE (%)	19.5	11.7	7.1	4.2	4.9
						Leverage					
						Debt/Asset (x)	0.2	0.1	0.2	0.1	0.1
						Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2
						Net Cash/(Debt)	(17.8)	(3.2)	(12.2)	(15.0)	(12.8)
						Net Debt/Equity	0.1	0.0	0.1	0.1	0.0
						Valuations					
						Core EPS (sen)	5.5	4.5	3.9	2.2	3.1
						Core FD EPS	4.2	3.4	2.1	1.7	2.3
						NDPS (sen)	2.6	2.9	2.6	1.2	1.6
						FD BVPS (RM)	0.2	0.3	0.3	0.4	0.5
						Core PER (x)	14.3	17.4	20.4	35.7	25.3
						Core FD PER (x)	19.0	23.2	38.0	47.5	33.6
						Net Div. Yield (%)	3.3	3.6	3.3	1.5	2.0
						P/BV (x)	3.5	2.3	2.3	1.8	1.6
						EV/EBITDA (x)	2.4	3.1	14.5	10.4	8.8

Source: Kenanga Research

*FY17A results are based on the Groups audited financial results as per the Annual Report



This section is intentionally left blank

08 June 2018

Peer Comparison															
NAME	Price (7/6/18)	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)	
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	7.10	3,471.4	14.2	12.3	11.4	2.4%	16.6	1.7	255.2	293.3	317.8	14.9%	8.4%	7.35	UNDERPERFORM
SLP RESOURCES BHD	0.84	266.2	14.5	10.2	8.8	3.9%	10.2	1.3	18.3	26.0	30.0	42.1%	15.5%	1.30	OUTPERFORM
THONG GUAN INDUSTRIES BHD	2.59	352.7	9.9	12.5	12.1	2.7%	9.7	1.1	48.1	38.2	39.4	-20.6%	3.1%	2.25	UNDERPERFORM
SCGM BHD	1.77	341.2	16.7	19.7	17.9	2.5%	13.7	1.8	22.6	19.3	21.1	-14.6%	9.3%	1.45	MARKET PERFORM
TOMYPAK HOLDINGS	0.790	331.3	38.0	47.5	33.6	1.5%	7.1	1.8	11.6	9.3	13.1	-20.1%	41.4%	0.510	UNDERPERFORM
Simple Average			18.7	20.4	16.8										
Weighted Average			15.7	15.2	13.3										

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

08 June 2018

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 disclaim 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 is accessible at www.bursamids.com too.



Chan Ken Yew
Head of Research