

26 August 2019

Tomypak Holdings Berhad

An Underwhelming 1H19

1H19 CNL of RM6.5m missed our CNL expectation of RM7.6m, mainly due to lower-than-expected top-line and higher-than-expected raw material costs incurred. No dividends, as expected. Post-results, we cut our FY19-20E earnings and estimate CNL to RM14.0-11.4m on more conservative top-line and rising cost environment as observed in recent quarters. Maintain UNDERPERFORM with lower TP of RM0.270.

1H19 core net losses (CNL) missed expectations at RM6.5m vs. our full-year FY19E CNL of RM7.6m. The deviation from our estimate was due mainly to lower-than-expected top-line, which came in at 42% of our estimate, and higher-than-expected costs. No dividend was proposed, as expected.

Results highlight. YoY-Ytd, 1H19 recorded CNL of RM6.5m vs. 1H18 CNL of RM0.7m, which mainly attributed to: (i) weaker top-line (-8.9%) from reduction in sales, (ii) higher raw material cost, particularly for film, and aluminium wire, and (iii) higher finance cost (+51%) from higher borrowings. **QoQ**, 2Q19 recorded lower CNL at RM2.2m (-49%) vs. RM4.3m previously on a higher top-line (+19%) from both international and local customers, despite higher raw material cost, particularly for film, and aluminium wire.

Outlook. As at end of FY18, TOMYPAK has installed most of its major equipment in its new Senai factory, which is ready for operation. TOMYPAK's total capacity is currently at 40,000MT/year after investing a total capital expenditure of RM166m for the new Senai factory. Moving forward, there should be no new capacity expansion until at least FY21. For FY19, we believe the group's focus will be on ramping up sales and utilisation, which we think is crucial given that the past few loss-making quarters. *Note that the recent auditors' report indicated that material uncertainty exist which may cast doubt on the Group's ability to continue as a going concern, while the Group has clarified that there has been no recall of any loans and will continue to generate positive EBITA to continue to meet all its financial obligations on schedule.*

Cut FY19-20E earnings. In view of the weak earnings over the past three quarters, and constant cost pressures, we take more conservative top-line and cost assumptions with forecasted CNL of RM14.0-11.4m (from CNL of RM7.6-3.9m) for FY19-20.

Maintain UNDERPERFORM with a lower Target Price of RM0.270 (from RM0.430). Our lower TP is post lowering our earnings and rolling forward to FY20E BVPS of RM0.31 on a lower PBV of 0.88x which is at through levels (vs. PBV of 0.91x FY19E BVPS of RM0.47) following consecutive loss-making quarters causing erosion to book value while profitability and earnings improvement are elusive. In light of the auditor's report and convincing improvements yet in sight, we believe our UNDERPERFORM call is warranted as bottom-line remains in the red. Our valuation for TOMYPAK is the lowest among plastic packagers under our coverage (from average to -1.0SD for PER valuations, and up to -2.0SD on PBV valuations). We will only consider upgrading our earnings and valuations upon earnings improvement in coming quarters.

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: **RM0.490**
Target Price: **RM0.270** ↓

Expected Capital Gain: **-RM0.220 -44.9%**
Expected Div. Yield: **RM0.000 0.0%**
Expected Total Return: **-RM0.220 -44.9%**

KLCI Index 1,609.33

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	418.9
Market Cap (RM m)	205.3
Par value per share (RM)	0.50
52-week range (H)	0.77
52-week range (L)	0.43
Free Float	53%
Beta	0.6
3-mth avg daily vol:	246,873

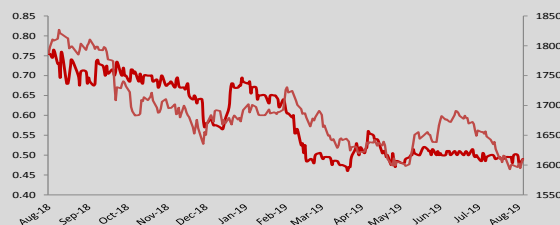
Major Shareholders

New Orient Resources Sdn Bhd	23.6%
Lim Hun Swee	18.6%
Zalaraz Sdn Bhd	5.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	168.4	164.2	173.4
EBIT	(7.9)	(11.8)	(10.6)
PBT	(11.6)	(16.3)	(14.4)
Net Profit	(1.9)	(14.0)	(11.4)
Core PATAMI	(0.5)	(14.0)	(11.4)
Consensus (NP)	N.A.	-0.1	5.0
Earnings Revision (%)	N.A.	-84	-195
Core EPS (sen)	-0.1	-2.5	-2.0
Core EPS growth (%)	-104	2902	-19
NDPS (sen)	0.3	0.0	0.0
NTA per Share (RM)	0.3	0.3	0.3
Price to NTA (x)	1.4	1.5	1.6
Core PER (x)	N.A.	N.A.	N.A.
Debt-to-Equity ratio (x)	0.4	0.6	0.7
Return on Asset (%)	-0.7	-4.7	-3.7
Return on Equity (%)	-1.0	-7.5	-6.5
Net Div. Yield (%)	0.6	0.0	0.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-3.0%	2.1%	-34.2%
Relative (%)	-0.2%	1.6%	-23.1%

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OTHER POINTS

Results Highlights								
FYE Dec (RM'm)	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY-Ytd
Revenue	41.1	34.4	19%	30.4	35%	75.4	82.8	-8.9%
Operating Profit	-2.6	-2.6	0%	-3.1	-15%	-5.2	-1.5	255%
Finance Income	0.0	0.0	-32%	0.0	-68%	0.0	0.0	-20%
Finance Cost	-0.8	-0.9	11%	-0.7	27%	-1.8	-1.2	51%
Other Expense	0.0	-0.1	-100%	0.0	n.a.	-0.1	0.0	n.a.
Pretax Profit	-3.4	-3.6	4%	-3.7	-7%	-7.0	-2.6	170%
Income Tax Expense	0.7	0.7	6%	2.3	-69%	1.4	2.6	-45%
Minority Interest	0.0	0.0	0%	0.0	500%	0.0	0.00	n.a.
Net Profit	-2.7	-2.9	7%	-1.4	96%	-5.5	0.0	n.m.
Core Net Profit (CNP)	-2.2	-4.3	49%	-1.8	24%	-6.5	-0.7	789%
Core EPS (sen)	-0.52	-1.04	49%	-0.42	24%	-1.56	-0.18	790%
NDPS (sen)	0.00	0.00	n.a.	0.00	n.a.	0.00	0.30	-100%
Operating Margins %	-6.3%	-7.5%		-10.1%		-6.9%	-1.8%	
CNP Margins %	-5.3%	-12.6%		-5.8%		-8.7%	-0.9%	
Effective Tax Rate %	21.4%	19.4%		62.9%		20.3%	99.9%	

Source: Company,

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	0.800	153.2	Y	04/2020	11.4%	5.2%	314.3%	200.0%	N.A.	107.0	36.4	1.0	0.9	0.8%	1.3%	0.805	UP
SCIENTEX BHD	8.27	4,261.2	Y	07/2019	26.0%	14.7%	-4.2%	18.4%	14.5	15.1	13.4	2.4	2.0	14.5%	2.9%	8.15	MP
SLP RESOURCES BHD	1.30	412.0	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	16.3	17.3	16.5	2.3	2.1	12.6%	3.5%	1.45	OP
THONG GUAN INDUSTRIES BHD	2.40	421.9	Y	12/2019	3.4%	2.9%	0.8%	2.7%	9.1	9.0	8.8	0.9	0.8	9.5%	3.8%	2.40	MP
TOMYPAK HOLDINGS	0.490	205.3	Y	12/2019	-2.5%	5.6%	-3.3%	-123.3%	N.A.	N.A.	N.A.	1.4	1.5	-7.5%	0.0%	0.270	UP
Simple Average					10.2%	6.7%	60.2%	20.6%	13.3	37.1	18.8	1.6	1.5	6.0%	2.3%		

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%

**** The Expected Total Return might contain rounding discrepancy.**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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