

29 August 2019

Thong Guan Industries Bhd

1H19 Within Expectation

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1H19 CNP of RM26.1m came within our expectation at 53%. No dividend was declared which is expected to be paid in 2H19. The Group highlights that trade tensions may dampen sales in the future and will continue to seek new customers and markets. Maintain FY19-20E CNP of RM48.9-50.2m. Reiterate MP but increase TP to RM2.45 post rolling forward to FY20E.

Within expectation. 1H19 Core Net Profit (CNP) of RM26.1m came within our estimate at 53%. Consensus was not available as the company is not widely tracked. No dividend, as we expect dividends to be paid out in 2H19 based on historical trends. Note that TGUAN tends to declare the bulk of its dividend in 4Q.

Results' highlight. YoY-Ytd, 1H19 top-line increased by 6% on better export sales from stretch film. Meanwhile EBIT margin also improved by 2.2ppt on better product mix due to better margin from premium films. All in, bottom-line increased by 43% despite marginally higher effective tax rate of 15.5% (vs. 13.9%). **QoQ,** top-line was similarly up by 6% on increased sales of stretch film. However, CNP declined by 14% on the back of lower EBIT margin (-0.4ppt) and on slightly higher financing cost (+12%).

Outlook. The on-going trade war between the US and China is likely to affect global trade and may dampen the sales growth for TGUAN. Moving forward, TGUAN will continue to seek new customers and markets for its products. The Group is also constantly investing in R&D to improve sales and margins for existing products (i.e. stretch film) and aims to target more MNCs. The group is focusing on continued expansion into high-margin production lines to sustain the plastic segment's margins going forward.

Maintain FY19-20E CNP of RM48.9-50.2m. At current levels, FY19-20 dividends of 8.6-8.8 sen imply 3.6-3.6% yields based on a 24% payout ratio in line with historical trends.

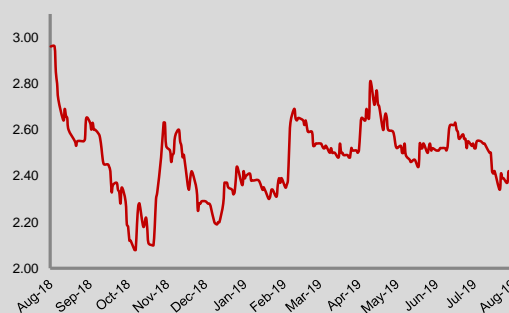
Maintain MARKET PERFORM but increase Target Price to RM2.45 (from RM2.40). Our TP is increased post rolling forward our valuations to FY20E FD EPS of 27.2 sen (from 26.6 sen) based on an unchanged ascribed PER of 9.0x (-1.0SD). The valuations remain below profitable plastic packaging peers under our coverage (from average to -1.0SD for PER valuation) due to the peers' better margins (15% EBIT margins). Nonetheless, we may look to lift our valuations should we see better earnings and margin consistency.

Risks to our call include: (i) volatile plastic resin prices, (ii) foreign currencies fluctuations, and (ii) higher/lower-than-expected margin.

MARKET PERFORM ↔

Price: RM2.42
Target Price: RM2.45 ↑

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	10.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK EQUITY
Market Cap (RM m)	425.4
Shares Outstanding	175.8
52-week range (H)	2.85
52-week range (L)	2.07
3-mth avg daily vol:	152,506
Free Float	53%
Beta	1.1

Major Shareholders

Foremost Equals Sdn Bhd	42.3%
Employees Provident Fund Board	2.6%
Neoh Choo Ee & Company Sdn Bhd	2.0%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	861.6	891.3	916.8
EBIT	56.7	58.9	60.1
PBT	52.0	58.2	59.7
Net Profit (NP)	43.7	48.9	50.2
Core NP*	48.0	48.9	50.2
Consensus (NP)	N.A.	48.9	52.1
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	35.2	35.8	36.8
FD Core EPS (sen)	26.1	26.6	27.2
FD EPS growth (%)	12.9	1.8	2.6
NDPS (sen)	8.0	8.6	8.8
FD BVPS (RM)	2.7	2.9	3.2
FD Core PER (x)	9.3	9.1	8.9
FD Price/BV (x)	0.9	0.8	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	3.3	3.6	3.6

29 August 2019

OTHER POINTS**Results Highlights**

FYE Dec (RM'm)	2Q19	1Q19	QoQ Change	2Q18	YoY- Change	1H19	1H18	YoY-Ytd Change
Turnover	229.7	217.2	6%	205.7	12%	446.9	420.9	6%
Operating Income	15.6	15.6	0%	10.4	50%	31.2	20.1	55%
Interest income	1.1	0.9	22%	0.7	66%	2.1	1.3	56%
Finance costs	(1.2)	(1.1)	8%	(0.8)	56%	(2.3)	(1.3)	72%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	15.6	15.4	1%	10.4	50%	31.0	20.1	54%
Taxation	(2.3)	(2.6)	-12%	(1.7)	33%	(4.8)	(2.8)	72%
Profit after tax	13.3	12.9	4%	8.7	54%	26.2	17.3	52%
Minority interest	0.4	(0.1)	-924%	(0.0)	-1047%	0.4	(0.2)	-315%
Net profit	13.8	12.8	7%	8.6	60%	26.6	17.1	55%
Core net profit	12.0	14.1	-14%	9.1	32%	26.1	18.2	43%
Core EPS (sen)	8.0	10.3		6.7		17.3	13.4	
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
NTA/share (RM)	3.38	3.72		3.53		3.38	3.53	
Operating margin	6.8%	7.2%		5.1%		7.0%	4.8%	
Pretax margin	6.8%	7.1%		5.0%		6.9%	4.8%	
Core net profit margin	5.2%	6.5%		4.4%		5.8%	4.3%	
Effective tax rate	14.4%	16.6%		16.4%		15.5%	13.9%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM'm)	2Q19	1Q19	QoQ Change	2Q18	YoY- Change	1H19	1H18	YoY-Ytd Change
Turnover								
Plastic products	214.3	201.6	6%	191.2	12%	415.9	391.9	6%
F&B, other consumable products	15.4	15.6	-1%	14.5	6%	31.0	29.0	7%
Group Turnover	229.7	217.2	6%	205.7	12%	446.9	420.9	6%
Segment Results								
Plastic products	14.7	14.8	-1%	12.1	22%	29.6	22.1	34%
F&B, other consumable products	0.8	0.6	40%	(1.7)	-149%	1.5	(2.0)	-171%
Group PBT	15.6	15.4	1%	10.4	50%	31.0	20.1	54%
PBT Margin								
Plastic products	6.9%	7.4%		6.3%		7.1%	5.6%	
F&B, other consumable products	5.5%	3.9%		-11.8%		4.7%	-7.0%	
Group PBT Margin	6.8%	7.1%		5.0%		6.9%	4.8%	

Source: Company, Kenanga Research

29 August 2019

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)	
<u>STOCKS UNDER COVERAGE</u>																	
SCGM BHD	0.790	151.3	Y	04/2020	11.4%	5.2%	314.3%	200.0%	N.A.	105.7	36.0	1.0	0.9	0.8%	1.3%	0.805	UP
SCIENTEX BHD	8.34	4,297.3	Y	07/2019	26.0%	14.7%	-4.2%	18.4%	14.6	15.2	13.5	2.4	2.0	14.5%	2.9%	8.15	MP
SLP RESOURCES BHD	1.28	405.7	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	16.0	17.1	16.2	2.2	2.1	12.6%	3.5%	1.45	OP
THONG GUAN INDUSTRIES BHD	2.42	425.4	Y	12/2019	3.4%	2.9%	0.8%	2.7%	9.3	9.1	8.9	0.9	0.8	9.5%	3.6%	2.45	MP
TOMYPAK HOLDINGS	0.465	194.8	Y	12/2019	-2.5%	5.6%	-3.3%	-123.3%	N.A.	N.A.	N.A.	1.3	1.0	-6.1%	0.0%	0.270	UP
Simple Average					10.2%	6.7%	60.2%	20.6%	13.3	36.8	18.6	1.6	1.4	6.3%	2.3%		

Source: Bloomberg, Kenanga Research

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29 August 2019

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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