Tomypak Holdings Berhad

Revving Up the Engine

We initiate coverage on TOMYPAK with an MARKET PERFORM rating and fully diluted TP of RM1.00. With new key management since FY14, turnaround efforts have proven successful in FY15-16 with improved margins while growth going forward is driven by their bullish capacity expansion plans (+89% from FY17-21). Backed by reputable clients ensuring resilient demand as well as lower taxation on RA benefits, we expect decent FY17-18E CNP growth of 25-24%. All in, we believe TOMYPAK is fairly valued based on Fwd. PER 19.2x on FY18E FD EPS of 5.3 sen.

The second largest flexible food packaging converter in Malaysia. TOMYPAK is the second largest converter for flexible food packaging in Malaysia, servicing reputable clientele such as Nestle, Ajinomoto, etc., with local and international exposure. As a consumer products packager, TOMYPAK's production lines focus more on downstream processes, making it a direct comparable to DAIBOCI, while SLP and SCGM are more focused on upstream production (i.e. extrusion).

Savvy management team taking the company to greater heights. TOMYPAK commenced its turnaround in 2014 with the appointment of new management, namely; (i) Lim Hun Swee as the Group's new Managing Director (MD), and (ii) Tan See Yin, Executive Director. With turnaround efforts to reduce wastage and investment into advanced metalising machine, EBIT margins improved to 14.8-11.2% in FY15-16 (from 5.8% in FY14).

Stable growth prospects mainly driven by capacity expansion plans as TOMYPAK has 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 11-23% in FY17-18E, while historical revenue growth has been rather flattish at 2.4% to -1.5% in FY15-16.

Earnings growth of 25-24% in FY17-18E, third highest among peers. TOMYPAK's 2-year forward average earnings (24%) is the third highest among its peers, and higher than its direct competitor, DAIBOCI (21%). FY17 is poised to be a turnaround year mainly driven by the group's bullish capacity expansion plans, and backed by stable EBIT margins (12-12% in FY17-18E), lower effective tax rates (12-13% in FY17-18E, vs. 21% in FY16A) from Reinvestment Tax Allowance (RA), and riding off a weaker FY16 due to higher operating cost and the absence of the RA.

Initiating coverage with a MARKET PERFORM call and fully diluted TP of RM1.00 based on a Fwd. PER 19.2x applied to FY18E FD EPS of 5.3 sen. We applied a Fwd. PER of 19.2x is based on a slight premium to its direct comparable, DAIBOCI, which is trading at 18.2x 5-year average Fwd PER as TOMYPAK has better core net margins, earnings growth, slightly better dividend yields, and lower net gearing of 0.06x. However, this target PER is slightly below SLP (21.5x Fwd. PER) and SCGM (19.9x Fwd. PER) as they are 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) beneficiary of a strengthening USD. However, based on our fully diluted Target Price of RM1.00, we believe TOMYPAK is fairly valued with 4.1% total returns at current levels, warranting a MARKET PERFORM call.

MARKET PERFORM ↔

Price:	**RM0.995**	
Target Price:	**RM1.00**	↔

Expected Capital Gain:	*RM0.005*	*+0.5%*
Expected Divd. Yield:	*RM0.035*	*+3.6%*
Expected Total Return:	*RM0.040*	*+4.1%*

KLCI Index **1,785.57**

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Issued shares	417.7
Market Cap (RM m)	415.7
Par value per share (RM)	0.50
52-week range (H)	1.06
52-week range (L)	0.62
Free Float	81%
Beta	0.3
3-mth avg daily vol:	1,208,980

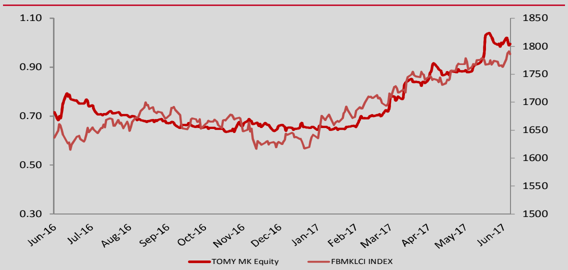
Major Shareholders

NEW ORIENT RESOURCES	10.1%
HUN SWEE LIM	6.5%
ZALARAZ SDN BHD	2.0%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	210.9	233.6	288.0
EBIT	23.7	27.8	34.6
PBT	23.2	27.0	33.8
Net Profit	**18.4**	**23.8**	**29.4**
Core PATAMI	**19.0**	**23.8**	**29.4**
Consensus (NP)	-	28.0	31.5
Earnings Revision	-	-	-
Core EPS (sen)	3.4	4.3	5.3
Core EPS growth (%)	-17.9	25.1	23.8
NDPS (sen)	2.9	2.9	3.5
NTA per Share (RM)	0.3	0.4	0.5
Price to NTA (x)	2.9	2.5	2.0
PER (x)	29.2	23.3	18.9
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	8.0	8.1	8.4
Return on Equity (%)	11.7	11.6	11.9
Net Div. Yield (%)	2.9	2.9	3.6

Share Price Performance



	1 mth	*3 mths*	*12 mths*
Absolute (%)	*1.7%*	*-5.0%*	*43.0%*
Relative (%)	*0.8%*	*-7.6%*	*34.4%*

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EXECUTIVE SUMMARY

We initiate coverage on TOMYPAK with a MARKET PERFORM call and fully diluted TP of RM1.00. We like TOMYPAK for its strong earnings growth of 25-24% to RM23.8-29.4m in FY17-18E driven by bullish capacity expansion plans. Key investment highlights include: (i) reputable client base, (ii) internationally certified product standards, (iii) effective turnaround plans with the inclusion of new management team since end-FY14, (iv) bullish capacity expansion plans of 89% to 36,000MT p.a. up to FY21, and (v) a net beneficiary of a strengthening USD. We value TOMYPAK at 19.2x Fwd. PER on CY18E FD EPS of 5.3 sen based on a fully diluted basis, which is at a slight premium to its direct comparable DAIBOCI's trading at 18.2x 5-year average Fwd PER post accounting for: (i) better core net margins of 10% compared to DAIBOCI's 8%, (ii) higher earnings growth rate of 25-24% in FY17-18E (vs. DAIBOCI's 15-27%), (iii) slightly better dividend yields of 2.9 -3.6%, and (iv) low net gearing of 0.06x in FY17E (vs. DAIBOCI's 0.14x in FY17E). Our applied Fwd. PER of 19.2x for TOMYPAK is also slightly lower than our applied PER for SLP (21.5x Fwd. PER) and SCGM (19.9x Fwd. PER) which are both predominantly upstream consumer packagers and are faring better than TOMYPAK in terms of: (i) better EBIT and core net margins, (ii) higher earnings growth, and (iii) higher ROE's. Our fully diluted TP of **RM1.00** offers 4.1% total returns.

Note: We are assuming a maximum scenario for 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.

INVESTMENT MERITS

The second largest converter for flexible food packaging in Malaysia. TOMYPAK is a leading converter for flexible food packaging in Malaysia, and the second largest (the largest being DAIBOCI), supplying flexible packaging products primarily to multinational companies (MNC's) in the food and beverage industry, both in Malaysia and internationally (South-East Asia). As such, TOMYPAK is classified under the consumer packaging segment, similar to SLP, SCGM and DAIBOCI. However, TOMYPAK's production line focuses on more downstream processes (i.e. printing, lamination, slitting and bagging), making it a direct comparable to DAIBOCI, while SLP and SCGM are more focused on upstream production (i.e. extrusion, vacuum forming and die-cut).

Reputable clients ensuring business sustainability. Among TOMYPAK's main reputable FMCG clientele are Nestle (M) Bhd, and Ajinomoto, while other names include Kraft Foods Group, MAMEE, Yeo's and Hup Seng. We understand that the Group's major clients contribute to c.40-50% of revenue, while we reckon that the Group's major clients consist of 3-4 clients in total, amongst them being Nestle. Going forward, having access to large MNCs will enable the Group to expand its customer base both locally and via exports, enhancing earnings performance. Another point to note is that MNC clients often require a high degree of product specification in terms of packaging and is unlikely to switch to alternate plastic packaging manufacturer, providing earnings sustainability to TOMYPAK in the long run. Additionally, MNC's high standards of quality production are also a testament to TOMYPAK's ability to serve other reputable clients going forward.

TOMYPAK Products

Source: Company

High-quality products backed by international product certifications. TOMYPAK has maintained its strong product quality over the years with a commendable list of international certifications which include: (i) Food Safety System Certification 22000 (FSSC 22000) in 2015, (ii) HACCP Certification by Lloyd's Register since 2003, (iii) Raw Materials compliance to global food-safety standards such as US Food & Drug Administration, European Community (EC) Requirements, Singapore Food Act, and Malaysia Food Act, and (iv) advanced laboratory test equipment complies to global test methods such as ASTM to support R&D and Quality Control activities. Evidently, the group does not skim on product quality, which has been essential in its ability to maintain its reputable client base over the years.

Savvy management team taking the company to greater heights. TOMYPAK commenced its turnaround in 2015 with the entry of a new major shareholder and the appointment of four new directors, namely; (i) Lim Hun Swee as the Groups new Managing Director (MD), (ii) Tan See Yin, Executive Director, (iii) Yong Kwet On, Non Independent Non-Executive Director, and (iv) To' Puan Rozana, Independent Non-Executive Director. This was on the back of the resignation of three directors back then, which also included former Managing Director and founder of the Group, Mr. Chow Yuen Liong, who we understand was then suffering health complications then and had since passed away. However, the new management team has big plans for the Group which involve progressive developments from immediately improving operational efficiency, to bullish capacity expansion plans over the next few years. The Group's new Managing Director, Lim Hun Swee who has over 20 years of managerial experience in manufacturing and sales, served as the founder and MD of In-Comix Food Industries Sdn Bhd, and is instrumental in spearheading the Group's expansion at the new plant, and upgrading and enhancement of operations. He is assisted by a team of savvy management, which include; among others, Tan See Yin, Executive Director who is well versed with over 20 years of experience in strategic planning, financial management, fund raising, business development and restructuring (*refer to Board of Directors Profile in Appendix).*

To further accelerate the commitment towards their plans going forward, the Group set up an Investment and Development Committee (previously known Development Committee) in 2015 to have close oversight of its expansion programme and manage key risk related to the Group's expansion process. The Development Committee comprises mostly of top level Board members with relevant experience in implementing similar sizeable projects, which allow for quick and effective decision making and managing risks associated with the major expansion programme.

Members of BOD and Development Committee

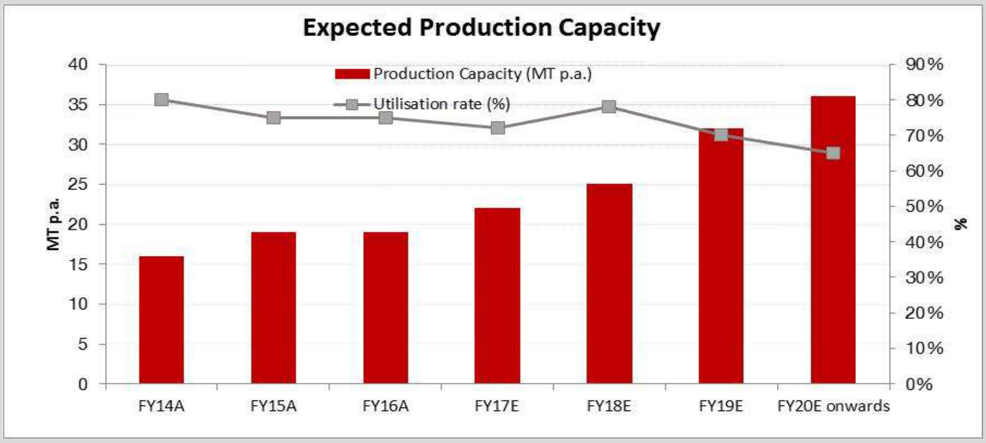
Members of the Board of Directors	Designation
Tan Sri Dato' Seri Arshad Bin Ayub	Chairman, Independent Non-Executive Director
Chin Cheong Kee	Independent Non-Executive Director
Lim Hun Swee	Executive Director, Appointed as Managing Director (on 1
Tan See Yin	Executive Director
Yong Kwet On	Non-Independent Non-Executive Director
To' Puan Rozana	Chairman of Audit a Committee
Members of the Investment and Development Committee	**Designation**
Yong Kwet On	Chairman of Development Committee
Lim Hun Swee	Member
Tan See Yin	Member
Chin Cheong Kee	Member
Liew Chek Leong	Member, Executive Director of Tomypak Flexible Packaging

Source: Company

Taking active steps to turnaround the company. Since 2014, the Group has been engaging in initiatives to improve the production processes such as; (i) wastage reduction for the existing Tampoi plant - by reducing wastage on the production floor, lowering the cost of production, (ii) through investment into advanced production machinery (i.e. the group managed to enhance production capabilities by acquiring an advanced metalizing machine in FY15 that helped increase capacity to 19k MT p.a., from 16k MT p.a.) without having to undergo major revamps. As a result from these efforts alone, EBIT margins improved to 14.8-11.2% in FY15-16 (from 5.8% in FY14).

Stable growth prospects mainly driven by bullish capacity expansion plans. 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 11-23% in FY17-18, while historical revenue growths have been rather flattish at 2.4% to -1.5% in FY15-16. Additionally, we expect core net margins to be fairly stable with marginal YoY improvements in the near term to 10-10% in FY17-18E (from 11%-9% in FY15-16A). Note that in terms of capacity, TOMYPAK's capacity is still smaller (19,000MT currently) as opposed to its peers (24,000-304,000MT p.a), and will remain the smallest even post capacity expansion (at 36,000MT p.a. vs. its peers of 38,000-340,000MT p.a.) as other plastic packagers are ramping up capacity as well.

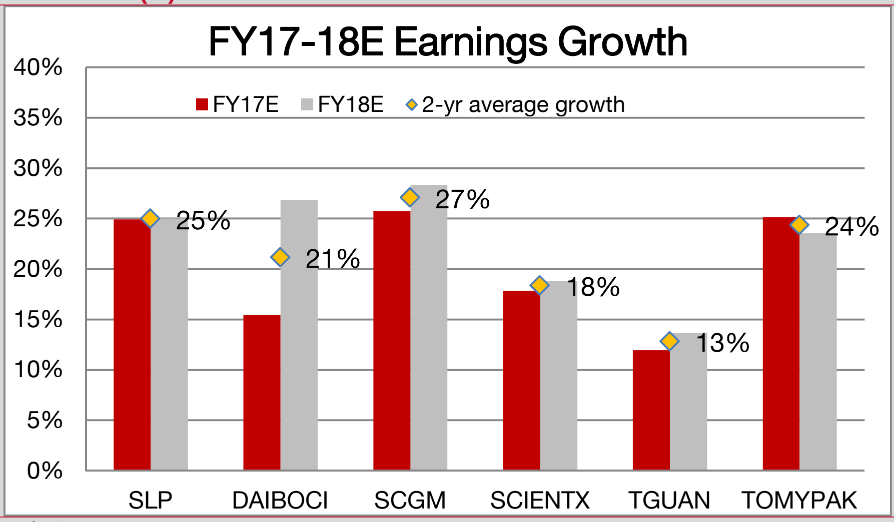
TOMYPAK Expected Production Capacity



Source: Kenanga Research, Company

Earnings growth of 25-24% in FY17-18E third highest among peers. TOMYPAK's YoY earnings growth is on the higher end at 25-24% in FY17-18E vs. consumer packagers of 22-27% in FY17-18E, and industrial packagers of 15-16%. A comparison of packaging companies suggests that TOMYPAK's 2-year Forward average earnings (24%) is the third highest amongst its peers, and higher than its direct competitor, DAIBOCI's (21%). TOMYPAKs 2-year forward average earnings falls slightly behind consumer packagers SLP (25%) and SCGM (27%), as both these companies are also aggressively increasing capacity and ramping up on sales while enjoying improving margins from higher margin products going forward. TOMYPAK's strong growth prospects going forward is mainly driven by the bullish capacity expansion plans (+89% to 36,000MT p.a. by FY20-21E), backed by stable EBIT margins (12-12% in FY17-18E), lower effective tax rates (12-13% in FY17-18E, vs. 21% in FY16) from Reinvestment Tax Allowances (RA) and riding off a weaker FY16 due to higher operating cost and the absence of the RA.

Forward Earnings Growth Rate (%)



Source: Kenanga Research, Company

Artist Impression of New Senai Factory

Source: Company

Senai Factory

Source: Company

Benefitting from a stronger USD. The Group's revenue is well diversified with 53% of top-line coming from countries in South-East Asia (SEA), minimising geographical concentration risk. TOMYPAK's export revenue is derived mostly in USD, while raw material costs (primarily consist of printing ink and resin) make up c.60-65% of total cost, is also sourced in USD, providing a natural hedge. In line with potential US rate hikes and economic recovery strengthening the USD over the long run, we expect TOMYPAK to be a net beneficiary based on our sensitivity analysis as shown below. We are currently assuming a USD/MYR exchange rate of RM4.25 in FY17-18 in line with other plastic packagers under our coverage. Additionally, our sensitivity analysis does not account for potential increase in demand from existing overseas clients due to a weaker Ringgit.

TOMYPAK Sensitivity Analysis

USD/MYR	Revenue		Core Net Profit	
	FY17E	FY18E	FY17E	FY18E
4.46 (+5%)	239.8	295.7	24.2	29.9
4.25 (Base Case)	233.6	288.0	23.8	29.4
4.04 (-5%)	227.4	280.3	23.3	28.9

USD/MYR	Revenue		Core Net Profit	
	FY17E	FY18E	FY17E	FY18E
4.46 (+5%)	3%	3%	2%	2%
4.25 (Base Case)	0%	0%	0%	0%
4.04 (-5%)	-3%	-3%	-2%	-2%

Source: Kenanga Research

Enhancing stock liquidity via share split and bonus issue. On 6th April 17, TOMYPAK announced: (i) a 1-to-2 share split, and (ii) proposed bonus issue on the basis of 1 bonus share for every 4 subdivided shares (up to 111.6m new shares). The share split will help boost the stocks liquidity and marketability to a wider group of investors due to a lower entry price, while the bonus will also improve liquidity whilst rewarding existing shareholders with new shares. We expect the proposals which were completed recently to provide positive share price sentiment in the near term.

FINANCIAL ANALYSIS

FY17 poised to be a turnaround year. In light of the growing top-line from bullish capacity expansion, coupled with slight YoY core net margin improvements from increased efficiency and lower effective tax rates, we expect TOMYPAK to see strong earnings growth of 25-24% in FY17-18E (from -18% in FY16), and a slight improvement in core net margins to 10% in both FY17-18, (from 9% in FY16).

CAPEX of RM52-40m in FY17-18E. We are expecting the Group to spend RM52-40m on capex in FY17-18E for the construction of the Senai plant, as well as new printing, lamination and ancillary equipment. The Group has raised RM54m via rights issue of which RM37m was utilised in FY16 for the plant. All in, the Group intends to spend c.RM150m for the entire expansion at Senai plant (Phase 1, 2 and 3) which will be up to FY21. As such, we expect TOMYPAK to spend an additional RM35-40m in FY17-18E for the expansion which will be sourced from either internally generated funds or borrowings.

We expect net gearing to remain low at 0.1-0.0x in FY17-18E as additional funds will mostly be utilised from the group's cash pile (of RM31m currently), and upon warrants conversion, minimising the need to increase borrowings significantly. Additionally, we like the fact that any **additional borrowings would not overly strain earnings** from significantly higher financing cost as TOMYPAK enjoys low effective financing rates of c.2% from borrowings in USD, which is on the lower-end compared to other plastic packagers under our coverage of 2.4-5.1%.

Capex Utilisation and Assumptions

Details of the expected utilisation of proceeds	Actual utilisation @ Dec-16	Balance unutilised	Expected utilisation
	RM'm	RM'm	RM'm
Construction of a new factory building	25.0	8.4	**33.4**
Purchase of machineries, equipment and other ancillary facilities	6.9	8.9	**15.8**
Working capital	5.0	0.0	**5.0**
Estimated expenses in relation to the Corporate Exercise	0.6	0	**0.6**
Total	**37.4**	**17.3**	**54.7**

Capex Allocation Assumptions *(based on Kenanga Estimates) Financed By:*	FY16A	FY17E (Phase 1)	FY18E (Phase 2)
Rights Issue Proceeds (Completed 2016)	37.4	17.3	
Additional Borrowings/ internally generated funds		35	40
Total	**37.4**	**52.3**	**40.0**
Cumulative Capex spent on Senai Plant			**129.7**

Source: Kenanga Research, Company

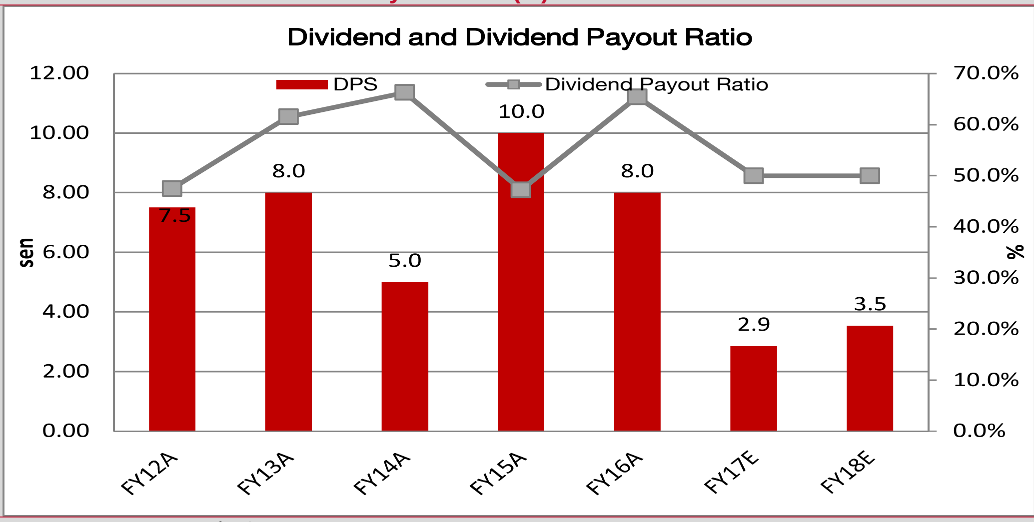
Lower effective tax rates from Reinvestment Tax Allowances (RA). Due to incentives from the large amount of capex spent in FY17-18E, we expect TOMYPAK to enjoy lower effective tax rates of 12-13% in FY17-18E.

DIVIDEND POLICY

40% dividend policy in place. The Group has a minimum 40% dividend policy in place, which should provide some comfort to investors. However, TOMYPAK has been consistently paying above the required policy amount, of between 47-66% over the past five years, with dividend payments on a quarterly basis. Going forward, we are expecting a pay-out ratio of 50% in FY17-18, which is on the lower end of its historical pay-out as we expect the Group to utilise more cash for capacity expansion plans.

Dividend pay-out in line with plastic packager peers as the majority under our coverage have formal dividend policies in place: (i) SCGM and SLP both have a similar dividend payout policy of 40%, and (ii) SCIENTX has a 30% dividend policy. TGUAN does not have a formal dividend policy, but pays close to c.28-29% of its net earnings as dividends. TOMYPAK's dividend pay-out ratio is lower only to DAIBOCI *(not under our coverage)* that has a 60% dividend policy. Even so, TOMYPAK's current dividend yield is more attractive and better than most at 2.9-3.6% in FY17-18E, vs. 2.2-2.6% for consumer packagers, and 2.7-3.1% for industrial packagers in FY17-18E.

TOMYPAK Historical Dividend and Dividend Payout Ratio (%)



Source: Bloomberg, Kenanga Research, Company
Note; FY17E and FY18E Dividend per Share (DPS) is on a higher share base of 415.6m shares, post diluting for Bonus and Share Split. FY12-16A is based on actual dividend payouts

COMPANY OUTLOOK

Bullish capacity expansion plans the main growth driver going forward. TOMYPAK has embarked on a 10-year expansion plan in FY15 to cater for the growing demand for flexible packaging products, in line with other plastic packagers under our coverage (i.e. SCIENTX, SCGM, and SLP). The Group is planning to build a new 265,000sf factory in Senai, Johor, which will be able to accommodate up to 36,000MT p.a. capacity upon full utilisation, an 89% increase from its existing plant in Tampoi, Johor with 19,000MT p.a. production capacity. We understand that this plant has received its CCC recently.

Phase 1 of the expansion plans will increase the Group's production capacity by 32% or up to 25,000MT p.a. (from 19,000MT p.a.), likely by 1H18. Phase 2 and 3 will see the addition of new production lines at the new Senai factory, raising capacity by an additional 28% to 32,000MT p.a.in FY19, and up to 36,000MT p.a. in FY20-21.

We expect gradual margin improvements from ongoing initiatives. Going forward, with major capex plans underway, the group will be investing in more new and advanced machineries, which should help lower the cost of production as existing machinery may be older and less efficient. TOMYPAK is also looking to invest in a more sophisticated R&D department in the longer run (post FY19) for the latest computerised testing equipment and technology, and to enable the Group to handle more advanced inspection and quality control. We believe this will accrete to more significant margin improvements over the longer run.

INDUSTRY OUTLOOK

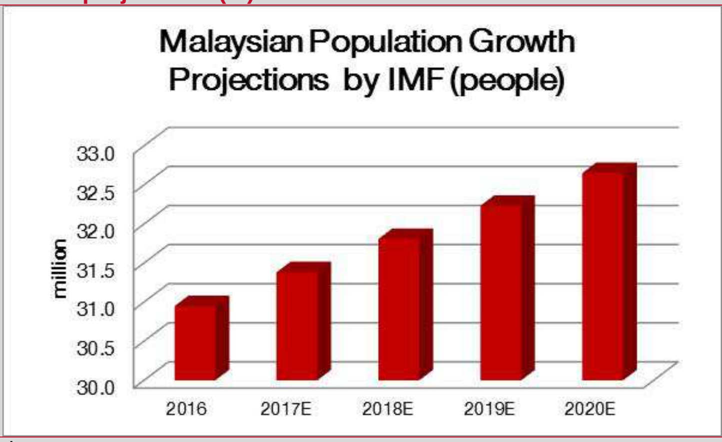
Catering to the resilient F&B industry. We are confident on TOMYPAK's market segmentation of catering to the resilient and ever growing F&B industry. Major listed clients such as Nestle, Ajinomoto, Oriental Food Berhad and Hup Seng Berhad had a 3-year weighted average historical growth rate of 2.3% from (2013 to 2016). As c.50% of revenue is derived from local sales, we believe consumer flexible packaging demand will remain resilient with projected population growth in Malaysia at 1.4% p.a based on IMF projections, providing sustainable growth for the F&B segment. Based on a report by packaging research authority Smithers Pira (*Flexible Packaging Market Sees Rapid Growth dated July 2015*), food is projected to account for 75% of global consumer flexible packaging. Smithers Pira forecasted for flexible packaging to grow at 3.5% annually up to 2018 while the Asian Pacific market is expected to grow at a faster pace.

Main Clients Revenue Growth Rate (%)

Company	Market Cap	FY13	FY14	FY15	FY16	FY16 YoY revenue growth rate (%)	3 Year historical average revenue growth rate (%)
Nestle (Malaysia)	18731.9	4787.9	4808.9	4838.0	5063.5	4.7%	1.9%
Ajinomoto	1065.2	332.9	345.4	340.4	400.2	17.6%	6.7%
Hup Seng Industries	936.0	251.4	262.2	286.9	285.6	-0.4%	4.5%
Oriental Food Industries	388.8	212.1	226.9	237.0	244.9	3.3%	5.2%
Total						**6.3%**	**4.6%**
Weighted Average						**5.1%**	**2.3%**

Source: Bloomberg, Kenanga Research, Company

Malaysian population growth rate projections (%)



Source: CEIC, Kenanga Research

RISKS

Filling up new capacity. TOMYPAK's substantial capacity expansion of 89% from FY17-21 could experience issues in completely utilising its available capacity. However, the company should be able to mitigate the risk with local and export F&B demand from reputable MNC clients, while the Group will be able to enjoy better economies of scale compared to smaller competitors.

Major client risk exposure. Major clients make up c.40-50% of top-line, while we reckon that the Group's major clients consist of 3-4 clients in total, amongst them being Nestle. As such, a decline or change in any of the major client's business strategy may severely affect TOMYPAK's earnings.

Declining need for flexible F&B packaging. With increasing need for more sustainable and biodegradable materials worldwide, we believe increased regulations imposed on F&B companies to use more environment friendly materials or substitutes for food packaging may hamper demand for TOMYPAK's products over the long term.

Rising crude oil prices could lead to higher resin prices, thus lowering margins. Nevertheless, with increased supply of resin production coming mostly from China, we believe resin prices should remain relatively stable over the long term.

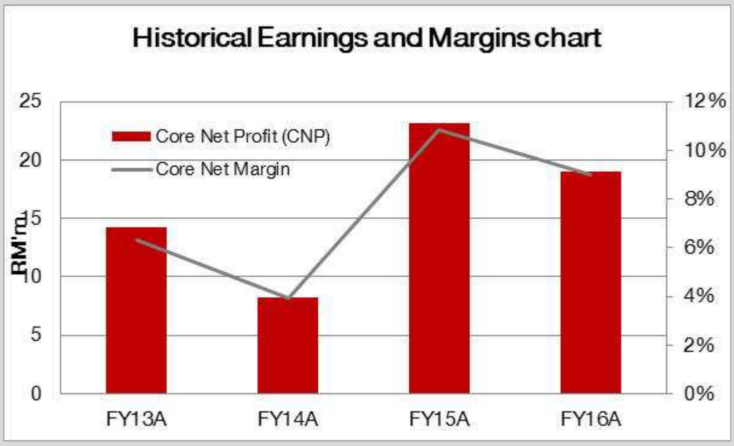
FOREX risk with 53% export exposure while TOMYPAK's export sales are mostly denominated in USD; this exposes the company's earnings to movements in the dollar. Based on our sensitivity analysis, a 5% decline in USD/MYR to 4.04 could lower FY17-18E revenue by 3% and CNP by 2-2%.

HISTORICAL FINANCIAL ASSESSMENT

FY14 a transition year with a new management team. The Group encountered a setback in FY14 with earnings declining 42% to RM8.3m on the back of: (i) weaker local demand (-6.8% YoY), but mostly due to, (ii) higher costs from energy and labour, while we believe this was also related to existing inefficiency in the production process. However, it is important to note that FY14 was a transition year for the Group with the resignation of three board members and the inclusion of a new management team (in Nov-14). As such, we rather focus on the Group's results post FY14. Evidently so, the Group has managed to turn around earnings significantly in FY15 (+180% YoY) on the back of improved margins.

FY16 earnings were down YoY due to higher cost. TOMYPAK's earnings declined by 18% YoY in FY16 due to a slight decline in top-line (-1.5% YoY) from slightly lower export sales, but principally due to an increase in cost of production arising from increased cost of imported raw materials (mostly printing ink cost), higher energy and labour cost. However, since the new management has stepped in, net margins have improved significantly to 11-9% in FY15-16 vs. 6-4% in FY13-14 from better sales mix and cost reduction initiatives. Recent 1Q17 results (announced on 18th May-17) saw earnings jump by 83% to RM6.4m on improvement in topline (+5%), but mostly from better margins improved production cost and low effective tax rates (6.4%).

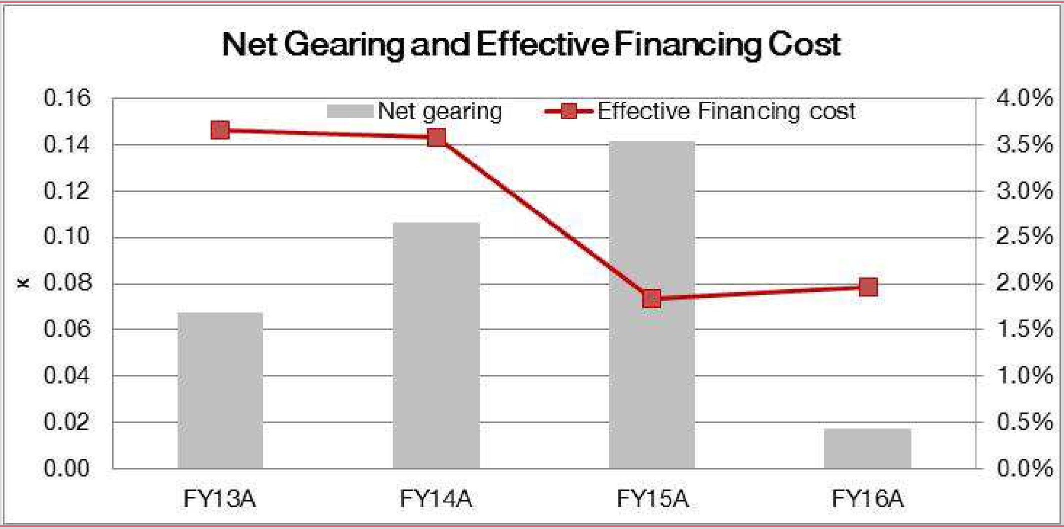
Historical Earnings and Core Net Margins



Source: Company, Kenanga Research

Healthy balance sheet with net gearing constantly low below 0.15x. The Group has managed its gearing well, with net gearing remaining below 0.15x over the past four years, and has utilised mostly internal funds for capex purposes. Additionally, effective borrowing cost has also remained low as the Group has a USD-denominated borrowing facility and as such pay low borrowing rates of between 2-4% since FY13.

Net Gearing



Source: Company, Kenanga Research

PEER COMPARISONS

High earnings growth rates and decent yields vs. peers. We expect TOMYPAK to see fairly high 2-year forward average earnings growth rates of 24%, which is on the high end vs. consumer packagers (+24%) and industrial packagers (+16%), as the Group is coming from a low base in FY16 backed by bullish growth plans. Dividend yields (2-year forward average of 3.2%) are also on the high end vs. all plastic packagers.

Margins on the lower end for consumer packagers, but improving gradually. Generally, consumer packagers tend to command higher margins vs. industrial packagers due to the products being more niche, allowing it to command higher pricing, whilst industrial packaging products tend to be more generic, resulting in lower product margins. Among consumer packagers, TOMYPAK's core net margins fall on the lower end at 10% vs. other consumer packagers' 2-year average of 14%. We expect margins to pick up gradually in the longer run as the groups expansion plans and turnaround efforts (i.e. reduce wastage and higher efficiency from new machinery) come to fruition.

Faring better than direct comparable DAIBOCI fundamentally. DAIBOCI and TOMYPAK are direct comparables as they both engage in the same niche segment within consumer packaging, which is flexible food packaging, while both their main clients are primarily reputable MNCs. Both companies work on mostly prepressed film, and focus more on the downstream processes of printing, lamination, slitting and bagging *(refer to Appendix for production process),* as opposed to SLP and SCGM, which are mostly focused on the upstream process (i.e. extrusion, vacuum forming and die-cut) with slight exposure to downstream, explaining TOMYPAK and DAIBOCI's lower margins. That said, TOMYPAK appears to be faring better than DAIBOCI on most fronts, such as better margins, higher earnings growth, slightly better dividend yields and lower net gearing. *(refer to table below)*

Peer Comparison

Consumer Packagers	EBIT Margins (%)			Core Net Margins (%)			Earnings Growth (%)			Div Yield (%)			Net Gearing (x)	ROE (%)		
	FY16A	FY17E	FY18E	FY16A	FY17E	FY18E	FY16A	FY17E	FY18E	FY16A	FY17E	FY18E	FY17E	FY16A	FY17E	FY18E
SLP	17%	24%	25%	17%	20%	20%	13%	25%	25%	1.7	2.3	2.9	Net Cash	19%	20%	21%
DAIBOCI	9%	10%	11%	7%	7%	8%	-8%	15%	27%	2.0	2.3	2.4	0.14	13%	17%	18%
SCGM	20%	17%	19%	15%	13%	18%	29%	26%	28%	2.4	2.1	2.7	0.11	18%	15%	12%
Average Consumer	**15%**	**17%**	**18%**	**13%**	**13%**	**15%**	**11%**	**22%**	**27%**	**2.0**	**2.2**	**2.6**		**17%**	**17%**	**17%**
2-yr Fwd Average			**18%**			**14%**			**24%**			**2.4**				**17%**
Industrial Packagers																
SCIENTX	9%	9%	11%	11%	10%	10%	66%	18%	19%	1.9	2.1	2.4	0.13	24%	20%	17%
TGUAN	9%	8%	9%	7%	7%	8%	55%	12%	14%	2.8	3.3	3.7	Net Cash	13%	15%	15%
Average Industrial	**9%**	**9%**	**10%**	**9%**	**8%**	**9%**	**61%**	**15%**	**16%**	**2.4**	**2.7**	**3.1**		**19%**	**17%**	**16%**
2-yr Fwd Average			**9%**			**9%**			**16%**			**2.9**				**17%**
TOMYPAK	**11%**	**12%**	**12%**	**9%**	**10%**	**10%**	**-18%**	**25%**	**24%**	**2.9**	**2.9**	**3.6**	**0.06**	**12%**	**12%**	**12%**
2-yr Fwd Average			**12%**			**10%**			**24%**			**3.2**				**12%**

Source: Bloomberg, Kenanga Research

VALUATION & RECOMMENDATION

Initiating coverage with a MARKET PERFORM call and a fully diluted TP of RM1.00 based on a Fwd. PER 19.2x applied to CY18E FD EPS of 5.3 sen after fully accounting for dilution from its proposed share split, bonus issue, and outstanding warrants conversion. Our Fwd. PER of 19.2x is based on a slight premium to direct comparable DAIBOCI, which is trading at 18.2x 5-year average Fwd PER post accounting for TOMYPAK's; (i) better core net margins of 10% compared to DAIBOCI's 8%, (ii) higher earnings growth rate of 25-24% in FY17-18E (vs. DAIBOCI's 7-8%), (iii) slightly better dividend yields of 2.9 -3.6%, and (iv) low net gearing of 0.06x (vs. DAIBOCI's 0.14x).

Our applied Fwd. PER of 19.2x for TOMYPAK is also slightly lower than SLP (21.5x Fwd. PER) and SCGM (19.9x Fwd. PER) which are both predominantly upstream consumer packagers and are faring better than TOMYPAK in terms of: (i) better EBIT and core net margins, (ii) higher earnings growth, and (iii) higher ROEs *(refer to Peer Comparison Table).*

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 FY21, and (iv) beneficiary of a strengthening USD. However, based on our fully diluted Target Price of RM1.00, we believe TOMYPAK is fairly valued at current levels, commanding 4.1% total returns.

Note: We are assuming a maximum scenario for 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.

APPENDIX

TOMYPAK Holdings Bhd is one of the leading converters for flexible food packaging materials in Malaysia since 1979. The Group was listed on the main board of the Malaysian Stock Exchange in 1996. Tomypak is the first HACCP (Hazard Analysis Critical Control Point for food safety) certified flexible packaging materials company in Malaysia since 2003. In addition to their HACCP certification, they have the Halal Logo Certification and also comply with Global food safety compliance, i.e. FDA, ED, other food acts.

Tomypak's strength is derived from its more than 370 experienced and dedicated employees working harmoniously together with excellent team work. The Group is focused on consistent quality delivery to ensure long term relationships, trust and continuous support from customers.

TOMYPAK has 5 types of product packaging services namely:

1. **Premium Packaging:** Powdered beverages
2. **High Barrier Metalized Packaging:** Seasoning and powdered beverages
3. **Hot Fill Packaging:** Mayonnaise, Sauces
4. **General Packaging:** Confectionary, Instant Noodles, Snacks
5. **Specialty:** Pet Food, Detergent

Their main list of clientele includes international brands ie. Nestle, Maggi, Kraft Foods, Mamee, Milo, Unilever, Hup Seng, Boh, Yeo's and Ajinomoto.

Board of Directors' Profile

Name	Position	Background
Tan Sri Dato' Seri Arshad Bin Ayub	Chairman & Independent Non-Executive Director	• Chairman since 10/3/1996 • Sits on the Board of Directors of several private limited companies amongst others, PFM Capital Holdings Sdn Bhd, Ladang MOCCIS Sdn Bhd, Bistari Johor Berhad and Zalaraz Sdn Bhd. Owns a group of companies involved in property development. • Also appointed as Chairman of the Audit, Remuneration and Nomination Committee of the Group.
Lim Hun Swee	Managing Director	• Appointed as Managing Director of the Group on 1 January 2015 • More than 20 years managerial experience in manufacturing, sales and marketing. • Responsible for the overall management of the Group and in providing overall direction and leadership in the day-to-day operations which include amongst others, new products development, upgrading and enhancement of the operations of the Group, modernisation and expansion of the company's plant and facilities to achieve further growth and profitability. • Sits on the Board of Director of Johore Tin Berhad.
Yong Kwet On	Non-Independent Non-Executive Director	• Appointed on 18 November 2014 • More than 37 years' experience in Technology and ICT Industry. • Involved in two successful international IPO listings, one on SESDAQ Singapore Stock Exchange and the other on AIM London Stock Exchange. • A member of the Nominations Committee, Remuneration Committee, Risk Management Committee and Development Committee of the Group since 13 February 2015. • He is a substantial shareholder of the Group through his substantial interest in New Orient Resources Sdn Bhd.
Tan See Yin	Non-Independent Non-Executive Director	• Appointed on 18 November 2014 • Graduated from University of Malaya in 1979 in Bachelor of Accounting (Hon) and is a member of the Malaysian Institute of Accountant. • Appointed as a member of the Risk Management Committee of the Group on 20 Aug 2015 and a member of the Development Committee on 13 February 2015 • Currently, he is also the Lead Independent Director, Chairman of the Audit Committee and member of the Nomination and Remuneration Committees of a Malaysian company listed on the Catalist Board of Singapore Exchange.

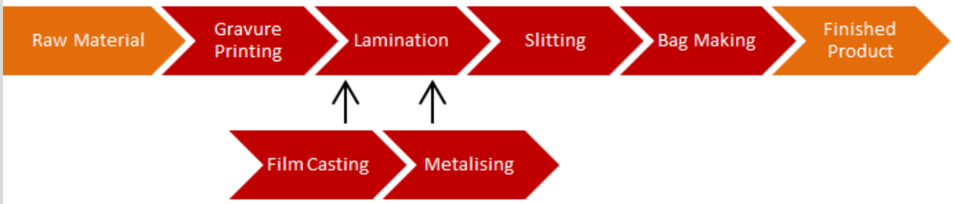
Source: Company; Kenanga Research

Board of Directors' Profile (Continued)

Name	Position	Background
Chin Cheong Kee @ Chin Song Kee	Non-Independent Non-Executive Director	• Appointed as an Independent Non-Executive Director of Tomypak since 13 February 2009. • Graduated with the professional examinations of the Institute of Chartered Secretaries of Administrators, United Kingdom. • Career began in 1974 where-upon he spent six years in three international accounting firms as audit senior /supervisor. • 2 decades of experience in the areas of accounting, auditing, treasury, taxation, risk management and company secretarial work in diverse industries. • a member of the Audit, Remuneration Committee, Nomination and Development Committee.
To' Puan Rozana Binti Tan Sri Redzuan	Independent Non-Executive Director	• Appointed as an Independent Non-Executive Director of Tomypak since 1 April 2015. • Presently sits on the board of various private companies that are in activities such as mining, IT-related business and property development. • Member of the Chartered Association of Certified Accountants (ACCA) and Malaysian Institute of Accountants (MIA). • Sits on the Board of Director of BSL Corporation Berhad. • Appointed as a member of the Audit and Remuneration Committee, a member of the Nomination Committee of the Group.

Source: Company; Kenanga Research

Production Process



Source:, Kenanga Research

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Income Statement

FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	209.0	214.1	210.9	233.6	288.0
EBITDA	23.9	43.3	36.2	44.4	56.4
Depreciation	(11.7)	(11.7)	(12.5)	(16.6)	(21.8)
Operating Profit	12.2	31.6	23.7	27.8	34.6
Total Fin.Costs	(0.9)	(0.5)	(0.7)	(1.0)	(1.0)
PBT	11.6	31.3	23.2	27.0	33.8
Taxation	(3.3)	(8.1)	(4.8)	(3.2)	(4.4)
Minority Interest	0.0	0.0	(0.0)	0.0	0.0
Net Profit	8.3	23.2	18.4	23.8	29.4
Core Net Profit	8.3	23.2	19.0	23.8	29.4

Balance Sheet

FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	71.1	84.2	141.3	176.7	195.0
Prepaid Leases	0.0	0.0	0.0	0.0	0.0
Other FA	0.0	0.0	0.0	0.0	0.0
Inventories	35.9	32.8	31.5	34.9	43.0
Receivables	47.3	62.6	64.4	71.3	88.0
Other CA	0.0	0.0	0.9	0.9	0.9
Cash	12.7	11.7	30.9	37.6	52.8
Total Assets	167.1	191.2	269.0	321.4	379.6
Payables	20.3	23.8	36.2	35.5	42.8
ST Borrowings	24.1	23.2	14.2	24.2	24.2
Other ST Liability	2.1	2.5	0.2	1.6	1.6
LT Borrowings	0.4	6.3	19.9	24.9	24.9
Other LT Liability	9.1	9.4	9.8	12.8	13.4
Minorities Int.	0.0	0.0	0.0	0.0	0.0
Net Assets	**111.1**	**125.9**	**188.7**	**222.4**	**272.6**
Share Capital	54.7	54.7	82.5	152.2	187.8
Reserves	56.3	71.2	106.2	70.1	84.8
Equity	**111.1**	**125.9**	**188.7**	**222.4**	**272.6**

Cashflow Statement

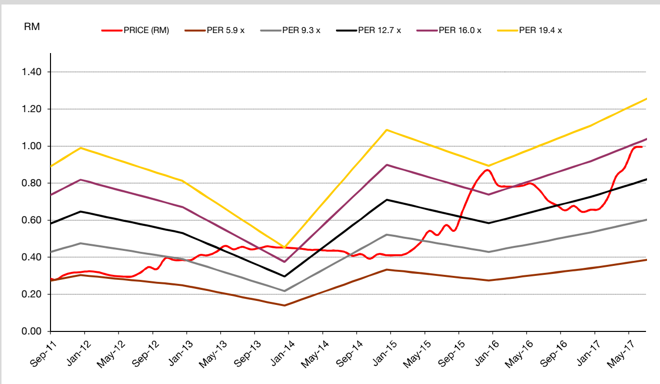
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Operating CF	20.9	27.9	41.2	34.8	35.3
Investing CF	0.0	(24.3)	(68.8)	(52.0)	(40.0)
Financing CF	(9.1)	(4.6)	46.8	23.4	19.9
Change In Cash	11.7	(1.0)	19.2	6.1	15.2
Free CF	20.9	3.6	(27.6)	(17.2)	(4.7)

Financial Data & Ratios

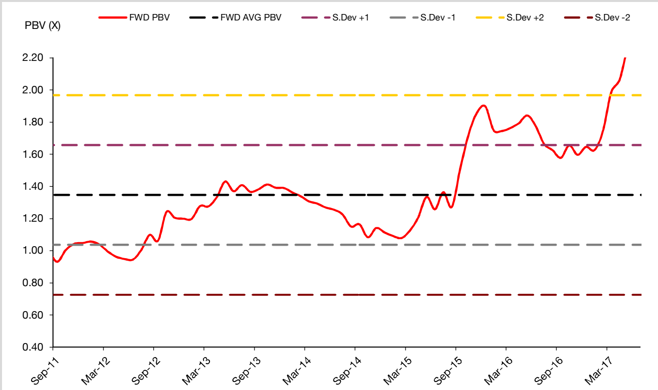
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018
Growth (%)					
Revenue	(6.9)	2.4	(1.5)	10.7	23.3
EBITDA	(41.0)	81.1	(16.4)	22.4	27.1
Operating Profit	(41.0)	159.2	(25.1)	17.3	24.5
Pre-tax Income	(41.8)	169.9	(25.8)	16.4	25.2
Core Net Income	(42.0)	180.7	(17.9)	25.1	23.8
Profitability (%)					
EBITDA Margin	11.4	20.2	17.2	19.0	19.6
Operating Margin	5.8	14.8	11.2	11.9	12.0
PBT Margin	5.5	14.6	11.0	11.6	11.7
Core Net Margin	3.9	10.8	9.0	10.2	10.2
Eff. Tax Rate	(28.8)	(26.0)	(20.8)	(12.0)	(13.0)
ROE	7.4	19.5	11.7	11.6	11.9
ROA	4.9	12.9	8.0	8.1	8.4
DuPont					
C.Net Margin (%)	3.9	10.8	9.0	10.2	10.2
Assets Turnover	1.3	1.2	0.9	0.8	0.8
Leverage Factor	1.5	1.5	1.5	1.4	1.4
ROE (%)	7.4	19.5	11.7	11.6	11.9
Leverage					
Debt/Asset (x)	0.1	0.2	0.1	0.2	0.1
Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2
Net Cash/(Debt)	11.8	17.8	3.2	11.6	(3.6)
Net Debt/Equity	0.1	0.1	0.0	0.1	(0.0)
Valuations					
Core EPS (sen)	2.0	5.6	4.6	5.7	7.1
Core FD EPS	1.5	4.2	3.4	4.3	5.3
NDPS (sen)	1.3	2.6	2.9	2.9	3.5
FD BVPS (RM)	0.2	0.2	0.3	0.4	0.5
Core PER (x)	50.0	17.9	21.7	17.4	14.0
Core FD PER (x)	67.3	24.0	29.2	23.3	18.9
Net Div. Yield (%)	1.3	2.6	2.9	2.9	3.6
P/BV (x)	5.0	4.4	2.9	2.5	2.0
EV/EBITDA (x)	5.0	2.9	3.9	9.6	7.3

Source: Kenanga Research

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

NAME	Price (8/6/17) (RM)	Mkt Cap (RMm)	PER (x) FY16/17	PER (x) FY17/18	PER (x) FY18/19	Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm) FY15/16	Net Profit (RMm) FY16/17	Net Profit (RMm) FY17/18	FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.35	4,037.7	17.2	14.6	12.3	2.1%	20.4	2.4	248.0	292.3	347.3	17.8%	18.8%	8.50	MARKET PERFORM
SLP RESOURCES BHD	2.40	593.6	21.7	17.3	13.9	2.3%	19.4	3.9	29.3	36.6	45.7	25.0%	24.9%	3.72	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.29	547.9	14.7	13.2	11.6	3.3%	12.4	1.9	53.6	60.0	68.2	11.9%	13.7%	5.41	OUTPERFORM
SCGM BHD	4.19	608.39	27.4	23.9	18.6	2.1%	18.2	3.6	20.2	25.4	32.7	25.9%	28.7%	4.48	MARKET PERFORM
TOMYPAK HOLDINGS	1.00	415.65	29.2	23.3	18.9	2.9%	11.7	2.5	19.0	23.8	29.4	25.1%	23.8%	1.00	MARKET PERFORM
Simple Average			**22.1**	**18.6**	**15.1**										
Weighted Average			**19.6**	**16.5**	**13.6**										

Source: Bloomberg, Kenanga Research
**Note that SCGM Ex-All TP is RM3.05 (post dilution Bonus Issue and Full Dilution from Warrants), TEAP is RM3.14*
**Note that SLP Ex-All TP is RM3.10 (post dilution from Placement and Bonus Issue), TEAP is RM2.00*

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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