

24 November 2017

Tomypak Holdings Berhad 9M17 Below Expectations

9M17 core earnings of RM12.0m came in below our expectation (57%) and consensus (55%) on weak top-line and margins. 9M17 dividend of 1.71 sen is also below at 68%. FY17-18E CNP is lowered by 22-7% to RM16.2-24.8m. Downgrade to UNDERPERFORM (from MP) with a lower TP of RM0.815 (from RM0.890).

9M17 core net profit of RM12.0m came in below expectations for the second quarter in a row, at 57% and 55% of our and consensus full-year expectations, respectively. Top-line was slightly below at 68% of our expectation, but we believe the bulk of the weakness was due to poor CNP margins of 7.6% in 9M17 (vs. our expectations of 9.0%). This was due to higher-than-expected cost (c. RM1.3m) for repairs, maintenance and refurbishment of the plants, and an expensed-off cylinder. Additionally, we believe our margin assumptions for the group's product mix and cost structure may have been slightly bullish. 3Q17 dividend of 0.8 sen was declared while total 9M17 dividend of RM7.1m implies 1.71 sen, which is below our FY17 estimates of 2.5 sen at 68%, accounting for the enlarged share base post the share split and bonus issue that was completed on 2nd June 2017).

Results Highlights. YoY-Ytd, top-line was flattish (-1%), while the group's EBIT margin was down by 1.2ppt on higher cost of repairs, maintenance and refurbishment of the plants, and an expensed-off cylinder. All these coupled with higher finance cost (+121%) from the acquisition of new equipment resulted in 12% decline in PBT. However, bottom-line increased by 2% due to lower effective tax rates of 3.6% (vs. 9M16 of 23.6%) from the reinvestment allowance (RA). QoQ, top-line was flattish (+1%), but CNP margin improved slightly to 5.4% (from 5.2%) on lower effective tax rates of 0.5% (vs. 1.4% in 2Q17). All in, CNP was up 4%.

Outlook. We expect capacity to increase gradually by 89% up to 36,000MT p.a. by FY20-21 (from 19,000MT p.a. currently) upon construction 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 FY19 until FY20-21.

Lower FY17-18E CNP by 22-7% to RM16.2-24.8m after toning down our top-line growth assumptions as we had expected stronger sales in 2H17 from increased capacity at the new plant. We also trimmed our CNP margin assumptions closer to current levels of 7.6% on higher expenses and cost assumptions (i.e. raw material cost). All in, we are expecting CNP margins of 7.5-8.6% in FY17-18E (vs. 8.9-9.3% previously). We are also increasing our dividend pay-out assumptions to 53%, closer to current levels.

Downgrade to UNDERPERFORM (from MP) on a lower TP of RM0.815 (from RM0.890). Our TP is based on a lower FY18E FD EPS of 4.5 sen (from 4.8 sen) and a lower Fwd. PER of 18.3x (from 18.7x due to weaker CNP margins). We are pegging TOMYPAK below SCGM (19.6x Fwd. PER) and SLP (18.7x Fwd. PER) as both are upstream consumer manufacturers which are faring better in terms of margins, earnings growth and ROEs. Although TOMYPAK's bullish capacity expansion plans of 89% up to FY20-21 is a positive, we believe valuations are stretched currently, warranting an UNDERPERFORM call as recent quarters have been uninspiring with weaker-than-expected margins. As such, we opt to be conservative by pricing in earnings risk for now, but we may look to upgrade our earnings and call 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: **RM0.990**
Target Price: **RM0.815** ↓

Expected Capital Gain: **-RM0.175 -17.7%**
Expected Divd. Yield: **RM0.021 +2.1%**
Expected Total Return: **-RM0.154 -15.6%**

KLCI Index **1,721.27**

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main / ACE Market
Shariah Compliant	No
Issued shares	419.4
Market Cap (RM m)	415.2
Par value per share (RM)	0.50
52-week range (H)	1.08
52-week range (L)	0.63
Free Float	54%
Beta	0.5
3-mth avg daily vol:	383,905

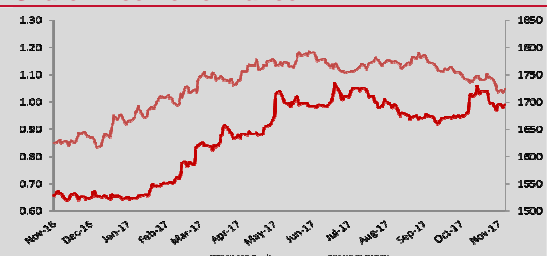
Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	210.9	217.0	288.0
EBIT	23.7	19.2	29.3
PBT	23.2	18.4	28.5
Net Profit	18.4	16.2	24.8
Core PATAMI	19.0	16.2	24.8
Consensus (NP)	n.a.	22.0	28.1
Earnings Revision	n.a.	-22%	-7%
Core EPS (sen)	3.4	2.9	4.5
Core EPS growth (%)	-17.9	-14.7	53.1
NDPS (sen)	2.9	2.1	3.2
NTA per Share (RM)	0.3	0.4	0.5
Price to NTA (x)	2.9	2.5	2.1
Core PER (x)	29.0	34.0	22.2
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	8.0	5.6	7.2
Return on Equity (%)	11.7	8.0	10.3
Net Div. Yield (%)	2.9	2.1	3.2

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	1.8%	6.7%	57.0%
Relative (%)	1.2%	1.5%	51.2%

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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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