

28 February 2018

Tomypak Holdings Berhad FY17 Below Expectations

FY17 core earnings of RM7.6m came in below our (47%) and consensus (41%) expectations mostly on margin compressions and a weak top-line. FY17 dividend of 1.83 sen is also below at 87%. FY18E CNP is lowered by 33% to RM16.3m on lower top-line and margin assumptions, and we introduce FY19E CNP of RM20.9m. Maintain UNDERPERFORM on a lower TP of RM0.510 (from RM0.800).

FY17 core net profit of RM7.6m came in below expectations for the third quarter in a row, at 47% and 41% of our and consensus FY17 estimates. Top-line was slightly below at 94% of our expectations but the bulk of the weakness was due to poor CNP margins of 3.7% in FY17 (vs. our expectations of 7.5%). This was due to higher-than-expected raw material cost, start-up cost for the new plant and additional maintenance cost this quarter. 4Q17 dividend of 0.8 sen was declared while total FY17 dividend of RM7.7m implies 1.83 sen, which is below our FY17 estimates of 2.10 sen at 87%, accounting for the enlarged share base post the share split and bonus issue that was completed on 2nd June 17.

Results Highlights. YoY-Ytd, top-line was down (-3%) on lower sales volume and lower average selling prices due to competitive market conditions. Additionally, EBIT margin was down by 6.7ppt, on higher; (i) raw material cost, (ii) overheads and start-up cost for the new factory (i.e. utilities, raw material, labour, cost for trial production runs), (iii) maintenance cost of old equipment, (iv) factory expenses, (v) write-off of cylinder cost, (vi) transportation and operating cost at the new factory, and (vii) provision for obsolete stock and year end stock adjustment, while finance cost increased (+115%) on higher drawdown of loan for equipment at the new plant. All in, CNP declined by 58%. **QoQ**, top-line declined by 14% on similar reasons mentioned above. EBIT fell into the red, recording RM3.4m losses mostly due to; (i) higher raw material cost, (ii) start-up cost for the new factory and (iii) provision for obsolete stock and year end stock adjustment. As a result, 4Q17 saw a net loss of RM4.4m.

Lower FY18E CNP by 33% to RM16.3m and introduce FY19E CNP. We are toning down our top-line assumptions due to challenging market conditions in light of competitive pricing, lowering our utilisation rates to 70% vs. 75% in FY18, on a lower ASP (-2% YoY). Additionally, we trimmed our CNP margin assumptions to 6.2% (from 8.6% in FY18E) after taking into account higher start-up cost in coming months, but we expect margins to improve by 2Q18. We introduce FY19 CNP of RM20.9m, on the back of 6.4% CNP margins as we choose to remain conservative for now.

Maintain UNDERPERFORM but lower TP to RM0.510 (from RM0.800). Our TP is based on a lower FY18E FD EPS of 2.9 sen (from 4.5 sen) and a lower Fwd. PER of 17.5x (from 18.3x) due to weaker CNP margins. We are pegging TOMYPAK below SCGM (19.2x Fwd. PER) and SLP (18.7x Fwd. PER) as both are upstream consumer manufacturers that are faring better in terms of margins, earnings growth and ROEs. Despite TOMYPAK's bullish expansion plans of 89% up to FY20-21, we believe valuations are stretched, warranting an UNDERPERFORM call as recent quarters have been recording 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: RM0.890
Target Price: RM0.510 ↓

Expected Capital Gain: -RM0.380 -42.7%
Expected Divd. Yield: RM0.020 +2.3%
Expected Total Return: -RM0.360 -40.4%

KLCI Index 1,871.46

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Issued shares	419.6
Market Cap (RM m)	373.4
Par value per share (RM)	0.50
52-week range (H)	1.08
52-week range (L)	0.68
Free Float	54%
Beta	0.5
3-mth avg daily vol:	335,044

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)	2017A	2018E	2019E
Turnover	204.3	264.6	327.6
EBIT	12.3	19.5	28.6
PBT	10.0	18.8	27.8
Net Profit	9.5	16.3	20.9
Core PATAMI	7.6	16.3	20.9
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-33%	n.a.
Core EPS (sen)	1.4	2.9	3.7
Core EPS growth (%)	-60.1	115.1	27.8
NDPS (sen)	1.8	2.1	2.5
NTA per Share (RM)	0.5	0.5	0.6
Price to NTA (x)	2.0	1.9	1.6
Core PER (x)	65.4	30.4	23.8
Debt-to-Equity ratio (x)	0.3	0.2	0.2
Return on Asset (%)	2.8	4.8	5.3
Return on Equity (%)	4.0	6.8	7.3
Net Div. Yield (%)	2.1	2.3	2.8

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	15.5%	38.1%	22.9%
Relative (%)	12.5%	33.5%	12.4%

Marie Vaz

msvaz@kenanga.com.my

+603-2172 2638

28 February 2018

OTHER POINTS

Outlook. We expect capacity to increase gradually by 89% up to 36,000MT p.a. by FY20-21 (from 19,000MT p.a. in FY17) 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 up till FY20-21.

Note: We are assuming a maximum scenario for our valuations which is on 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

Results Highlights

FYE Dec (RM'm)	4Q17	3Q17	QoQ	4Q16	YoY	FY16	FY17	YoY-Ytd
Revenue	45.4	52.7	-14%	51.2	-11%	210.9	204.3	-3%
Operating Profit	-3.4	4.5	n.m.	9.1	-138%	26.9	12.3	-54%
Other Income	0.0	-1.0	n.m.	-1.5	-101%	-3.0	-0.8	-72%
Finance Cost	-0.5	-0.4	6%	-0.2	104%	-0.7	-1.4	115%
Pretax Profit	-3.9	3.1	n.m.	7.4	-153%	23.2	10.0	-57%
Tax	0.0	0.0	n.m.	-1.1	-100%	-4.8	-0.5	-90%
MI	0.0	0.0	n.m.	0.0	-112%	0.0	0.0	-54%
Net Profit	-3.9	3.1	n.m.	6.3	-162%	18.4	9.5	-48%
Core Net Profit	-4.4	2.8	n.m.	6.4	-170%	18.2	7.6	-58%
EPS (sen)	-0.94	0.75	n.m.	1.52	-162%	4.43	2.30	-48%
Core EPS (sen)	-1.07	0.68	n.m.	1.53	-170%	4.37	1.83	-58%
NDPS (sen)	0.14	0.53	-73%	0.67	-79%	1.76	1.85	5%
EBIT Margins %	-7.5%	8.6%		17.8%		12.7%	6.0%	
Core Net Profit Margins %	-9.8%	5.4%		12.4%		8.6%	3.7%	
Effective Tax Rate %	0.0%	-0.5%		-14.9%		-20.8%	-5.0%	

Source: Company, Kenanga Research

*Note that our EPS, Core EPS and NDPS is based on our enlarged share base assumption of 419.7m after accounting for; (i) the share split, and (i) bonus issue of one for every four shares. This does not include the full conversion of warrants and full exercise of ESOS.

This section is intentionally left blank

28 February 2018

Peer Comparison

NAME	Price (27/2/18)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.60	4,204.8	15.0	12.7	12.2	2.4%	16.6	2.0	251.9	346.3	358.7	37.5%	3.6%	8.40	MARKET PERFORM
SLP RESOURCES BHD	1.40	443.7	15.2	23.9	14.9	2.4%	19.4	2.4	29.3	18.5	29.7	-36.6%	60.1%	1.75	MARKET PERFORM
THONG GUAN INDUSTRIES BHD	3.62	493.3	13.9	12.5	11.7	2.8%	9.7	1.4	48.1	53.4	56.9	11.0%	6.6%	4.05	OUTPERFORM
SCGM BHD	2.30	443.4	21.7	20.2	15.4	2.5%	13.7	2.2	22.6	24.3	31.7	7.4%	30.7%	2.65	MARKET PERFORM
TOMYPAK HOLDINGS	0.89	373.4	65.4	30.4	23.8	2.4%	11.7	1.8	7.6	16.3	20.9	114.5%	28.2%	0.51	UNDERPERFORM
Simple Average			26.2	19.9	15.6										
Weighted Average			18.6	15.2	13.3										

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

28 February 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