

Tomypak Holdings Berhad Neutral on FY17 Earnings Deviation

TOMYPAK announced a positive deviation to FY17A audited profit after tax to RM13.6m (+43%), mainly due to increase in reinvestment tax allowances. We were surprised but remain neutral as FY17 results would still be well below our initial estimates (at 72%) due to other cost pressures, while our outlook remains unchanged. Maintain FY18-19E CNP of RM15.6-20.2m. Maintain UP but increase our TP to RM0.555 (from RM0.450) upon rolling forward to FY19E valuations.

Positive deviation to FY17A earnings. TOMYPAK announced a positive deviation in its audited results, where the Group's profit after tax is increased by 43% to RM13.6m vs. RM9.5m that was reported in the 4Q17 unaudited results (announced on 27th Feb 18). This brings FY17A core net profit to RM11.6m. The deviation to earnings was mainly due to tax benefits arising from an increase in reinvestment tax allowances at one of its subsidiaries, which was underprovided during the release of the unaudited results.

Surprised but not bullish on the news. We were fairly surprised due to the significant boost to FY17A results, with tax benefits of RM3.8m vs. a tax expense of RM0.5m during the 4Q17 unaudited results. However, we are not overly excited as the positive deviation still implies that FY17A results is below our initial expectations of RM16.2m, at 72% (vs. 47% during 4Q17 unaudited results).

Neutral despite FY17 CNP margin being better than expected. FY17A CNP margin is only slightly better post the tax benefits at 5.7% vs. 3.7% during 4Q17 unaudited results. This is still weaker than FY16A CNP margin of 8.6%. As such, we do not expect any significant changes to our FY18-19E margins and earnings for now. We believe our FY18-19E CNP margin outlook is reasonable as we are expecting marginal YoY improvements to 6.1-6.3% in FY18-19 vs. FY17A due to higher-than-expected start-up cost for the new plant in FY17A and additional maintenance cost in 4Q17.

Outlook. We expect capacity to increase gradually up to 36,000MT p.a. by FY20-21 (from c.25,000MT p.a. in FY17A) upon completion 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 FY20 onwards. As such, we are expecting capex of RM40-30m in FY18-19 for now.

Maintain FY18-19E CNP of RM15.6-20.2m. We believe our earnings estimates are decent for now; while our mild CNP margin improvements in FY18-19 are premised on; (i) higher-than-expected cost in FY17A (i.e. from maintenance and start-up), (ii) while we expect better margins in 2H18 upon the commissioning of new machinery in the Senai plant mostly by 1H18. This is on the back of 13-25% effective tax rates in FY18-19 which we believe is fair considering Phase 1 expansion in FY18.

Maintain UNDERPERFORM but increase TP to RM0.555 (from RM0.450). Our TP is increased post rolling forward our valuation base to FY19E FD EPS of 3.6 sen (from 2.8 sen) to better encapsulate TOMYPAK's value once the bulk of Phase 1 expansion is completed in FY18. This is on an unchanged Fwd. PER of 15.2x, which is below SCGM (16.0x Fwd. PER) and SLP (16.1x Fwd. PER) as both are upstream consumer manufacturers that are faring better in terms of margins, earnings growth and ROE. Despite TOMYPAK's bullish expansion plans of +44% 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 with our valuations, but we may look to upgrade our earnings and valuations upon more concrete margin improvements.

UNDERPERFORM ↔

Price: RM0.790
Target Price: RM0.555 ↑

Expected Capital Gain: -RM0.235 -29.7%
Expected Divd. Yield: RM0.020 +2.5%
Expected Total Return: -RM0.215 -27.2%

KLCI Index 1,870.37

Stock Information

| | |
|--------------------------|----------------|
| Bloomberg Ticker | TOMY MK Equity |
| Bursa Code | 7285 |
| Listing Market | Main Market |
| Shariah Compliant | No |
| Issued shares | 419.3 |
| Market Cap (RM m) | 331.3 |
| Par value per share (RM) | 0.50 |
| 52-week range (H) | 1.08 |
| 52-week range (L) | 0.75 |
| Free Float | 54% |
| Beta | 0.7 |
| 3-mth avg daily vol: | 737,338 |

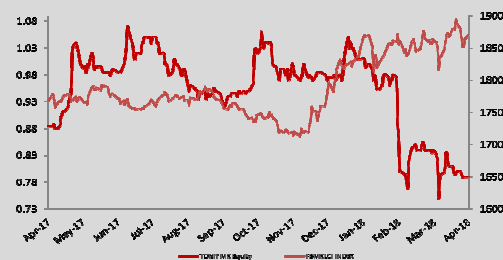
Major Shareholders

| | |
|------------------------------|-------|
| 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 | 257.7 | 319.0 |
| EBIT | 11.1 | 18.7 | 27.7 |
| PBT | 9.8 | 18.0 | 26.9 |
| Net Profit | 13.6 | 15.6 | 20.2 |
| Core PATAMI | 11.6 | 15.6 | 20.2 |
| Consensus (NP) | n.a. | 17.9 | 23.2 |
| Earnings Revision | n.a. | n.a. | n.a. |
| Core FD EPS (sen) | 2.1 | 2.8 | 3.6 |
| Core FD EPS growth (%) | -38.9 | 34.5 | 29.1 |
| NDPS (sen) | 2.6 | 2.0 | 2.4 |
| NTA per Share (RM) | 0.5 | 0.5 | 0.5 |
| Price to NTA (x) | 1.7 | 1.8 | 1.5 |
| Core PER (x) | 37.9 | 28.2 | 21.8 |
| Debt-to-Equity ratio (x) | 0.3 | 0.2 | 0.2 |
| Return on Asset (%) | 4.9 | 4.9 | 5.5 |
| Return on Equity (%) | 7.1 | 7.0 | 7.5 |
| Net Div. Yield (%) | 3.3 | 2.5 | 3.0 |

Share Price Performance

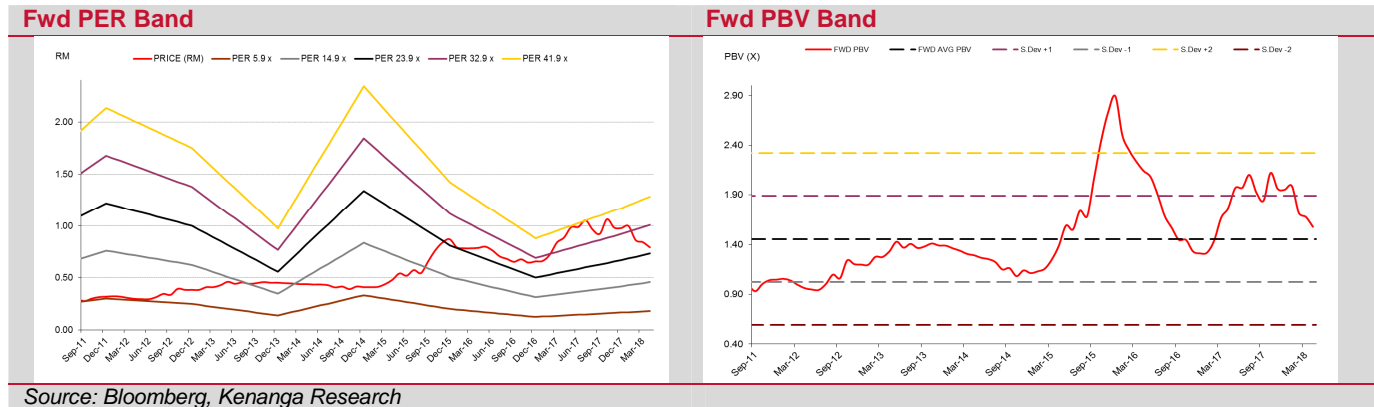


| | 1 mth | 3 mths | 12 mths |
|--------------|-------|--------|---------|
| Absolute (%) | -6.0% | -8.1% | -10.6% |
| Relative (%) | 94.0% | 91.9% | 89.4% |

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Peer Comparison

| NAME | Price (2/5/18) | 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 | 7.61 | 3,720.7 | 15.2 | 13.2 | 12.2 | 2.3% | 16.6 | 1.8 | 255.2 | 293.3 | 317.8 | 14.9% | 8.4% | 7.35 | UNDERPERFORM |
| SLP RESOURCES BHD | 1.01 | 320.1 | 17.4 | 12.3 | 10.6 | 3.3% | 10.2 | 1.5 | 18.3 | 26.0 | 30.0 | 42.1% | 15.5% | 1.30 | MARKET PERFORM |
| THONG GUAN INDUSTRIES BHD | 2.46 | 335.0 | 9.4 | 8.6 | 8.1 | 4.0% | 9.7 | 1.0 | 48.1 | 52.6 | 56.0 | 9.4% | 6.6% | 3.20 | OUTPERFORM |
| SCGM BHD | 1.50 | 289.1 | 14.1 | 16.7 | 15.2 | 3.0% | 13.7 | 1.5 | 22.6 | 19.3 | 21.1 | -14.6% | 9.3% | 1.45 | MARKET PERFORM |
| TOMYPAK HOLDINGS | 0.790 | 331.3 | 37.9 | 28.2 | 21.8 | 2.5% | 7.1 | 1.8 | 11.6 | 15.6 | 20.2 | 34.8% | 29.1% | 0.555 | UNDERPERFORM |
| Simple Average | | | 18.8 | 15.8 | 13.6 | | | | | | | | | | |
| Weighted Average | | | 16.4 | 14.1 | 12.7 | | | | | | | | | | |

Source: Bloomberg, Kenanga Research

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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