

03 September 2018

Tomypak Holdings Berhad 1H18 Below Expectations

1H18 Core Net Loss of RM0.7m missed our expectations on lower-than-expected sales and higher cost. No dividends were declared in 2Q18, leaving 1H18 dividend of 0.3 sen below our estimate (at 25%). Post-results, we trimmed FY18-19E CNP by 75-78% to RM2.3-2.8m on lower revenue contribution and weaker margins. Maintain UNDERPERFORM and lower TP to RM0.495 (from RM0.510) on a lower FY19 FD BVPS.

1H18 CNL missed expectations. 1H18 core net loss of RM0.7m missed our estimate of RM9.3m Net Profit. The negative deviation is due to lower-than-expected revenue this quarter on lower-than-expected sales from two international clients, higher-than-expected raw material and labour costs. As a result, no dividend was declared in 2Q18 while 1H18 dividend of 0.3 sen came below our estimated FY18 dividend of 1.2 sen (25%).

Results highlights. YoY-Ytd, revenue declined by 25% on lower overseas revenue due to reduction of sales from two major international customers and marginally lower average selling price from different product mix. Notably, the Group made a LBT of RM2.6m compared to profit of RM10.5m in 1H17 stemming from: (i) higher material cost, (ii) higher operating expense, likely from higher fixed cost incurred on to its new Senai factory, and (iii) higher interest expense (+129%) from borrowings to finance the purchase of new production equipment. However, the impact to bottom-line was mitigated with a CNL of RM0.7m due to recognition of tax income and deferred tax. **QoQ,** top-line declined by 42% as both local and overseas revenue contribution weakened on production stoppages in its factories from servicing equipment. Coupled with higher operating and material costs, the group sunk into the red with LBT of RM3.7m. CNL was lower than its LBT at RM1.2m again due to recognition of tax income and deferred tax.

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, while Phase 2 and 3 will see capacity growing gradually from FY20 onwards. We are expecting capex of RM40-30m in FY18-19.

Lower FY18-19E CNP by 75-78% to RM2.3-2.8m. Considering lower than expected top-line from: (i) the decline of sales from two international clients in 2Q18, (ii) higher raw material cost, and (iii) higher overheads, we are trimming FY18-19E CNP by 75-78% and CNP margin to 1.3-1.2% (from 3.6-4.1%). Going forward, the Group is optimistic on increased orders in 2H18 from one of the two international clients. We may look to revise up our earnings upon better cost management and improvements in earnings.

Maintain UNDERPERFORM but lower our TP to RM0.495 (from RM0.510). Our TP is based on 1.0x PBV on reduced FY19E FD BVPS of RM0.495 (from BVPS of RM0.510) on an unchanged a -2.0SD to the 4-year average, as profitability and earnings improvements are questionable at this juncture. Note that we are ascribing a PBV valuation method (vs. PER) due to earnings volatility in light of persistent missed earnings expectations since 2Q17. Our valuations are based on FY19 as we believe this better encapsulates TOMYPAK's value once the bulk of Phase 1 expansion is completed. However, we believe valuations are stretched warranting an UNDERPERFORM call as we have priced in most positives, including its capacity expansion plans of +44% up to FY20-21, as well as accounting for weakness from sales and margin compressions, while the near-term outlook for earnings stability remains challenging. We opt to be conservative with our valuations, but may upgrade our earnings and valuations upon concrete margin improvements.

UNDERPERFORM ↔

Price: RM0.760
Target Price: RM0.495 ↓

Expected Capital Gain: -RM0.265 -34.9%
Expected Divd. Yield: RM0.003 0.4%
Expected Total Return: -RM0.262 -34.5%

KLCI Index 1,819.66

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Shares Outstanding	419.4
Market Cap (RM m)	318.7
Par value per share (RM)	0.50
52-week range (H)	1.08
52-week range (L)	0.68
Free Float	54%
Beta	0.7
3-mth avg daily vol:	640,495

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	185.6	232.1
EBIT	11.1	3.9	5.1
PBT	9.8	2.6	3.3
Net Profit	13.6	2.3	2.8
Core PATAMI	11.6	2.3	2.8
Consensus (NP)	n.a.	12.1	16.8
Earnings Revision	n.a.	-75%	-78%
Core FD EPS (sen)	2.1	0.4	0.5
Core FD EPS growth (%)	-39.0	-79.9	21.4
NDPS (sen)	2.6	0.3	0.3
FD NTA per Share (RM)	0.3	0.4	0.5
Price to FD NTA (x)	2.2	1.7	1.5
Core FD PER (x)	36.5	182.0	150.0
Debt-to-Equity ratio (x)	0.3	0.2	0.2
Return on Asset (%)	4.9	0.8	0.8
Return on Equity (%)	7.1	1.1	1.1
Net Div. Yield (%)	3.4	0.4	0.4

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.9%	-1.9%	-20.0%
Relative (%)	-3.7%	-5.5%	-22.8%

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OTHER POINTS

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.

Note: We are assuming a maximum scenario for our valuations which is on our Fully Diluted (FD) share base, which include: (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)	2Q18	1Q18	QoQ	2Q17	YoY	1H17	1H18	YoY-Ytd
Revenue	30.4	52.4	-42%	56.3	-46%	110.5	82.8	-25%
Operating Profit	-3.1	1.6	n.m.	5.2	n.m.	11.0	-1.5	n.m.
Other Income/Expense	0.0	0.0	n.a.	0.1	-42%	0.1	0.0	-58%
Finance Cost	-0.7	-0.5	29%	-0.3	133%	-0.5	-1.2	129%
Pretax Profit	-3.7	1.1	n.m.	5.0	n.m.	10.5	-2.6	n.m.
Tax	2.8	-0.3	n.m.	-0.3	n.m.	-0.4	2.6	-703%
MI	0.0	0.0	n.m.	0.0	-78%	0.0	0.00	-100%
Net Profit	-0.8	0.8	n.m.	4.7	n.m.	10.1	0.0	n.m.
Core Net Profit	-1.2	0.5	n.m.	3.4	n.m.	9.0	-0.7	n.m.
EPS (sen)	-0.20	0.20	n.m.	1.13	n.m.	2.42	0.00	n.m.
Core EPS (sen)	-0.30	0.12	n.m.	0.81	n.m.	2.14	-0.18	n.m.
NDPS (sen)	0.00	0.30	n.m.	0.38	n.m.	1.17	0.30	-74%
EBIT Margins %	-10.1%	3.1%		9.3%		9.9%	-1.8%	
Core Net Profit Margins %	-4.1%	1.0%		6.1%		8.1%	-0.9%	
Effective Tax Rate %	n.m	-24.0%		-5.4%		-4.1%	n.m	

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.

*4Q17 numbers are based on FY17 Bursa announcement dated 27th Feb 2018

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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)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.40	269.9	Y	04/2019	9.3%	13.8%	-29.9%	39.8%	19.4	27.6	19.8	1.6	1.1	5.1%	1.8%	1.30	UP
SCIENTEX BHD	8.35	4,082.5	Y	07/2018	5.7%	26.6%	0.2%	14.5%	16.7	16.7	14.5	2.8	2.1	14.2%	1.8%	7.40	UP
SLP RESOURCES BHD	1.23	389.9	Y	12/2018	16.5%	8.6%	16.2%	8.8%	21.1	18.1	16.7	2.3	2.2	12.3%	2.2%	1.20	MP
THONG GUAN INDUSTRIES BHD	2.73	371.9	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	10.5	13.1	12.8	1.1	1.1	8.7%	2.6%	1.95	UP
TOMYPAK HOLDINGS	0.760	318.7	N	12/2018	-9.2%	25.1%	-79.9%	21.4%	36.5	182.0	150.0	2.2	1.7	1.1%	0.4%	0.495	UP
Simple Average					4.5%	15.4%	-22.8%	17.6%	20.8	53.1	43.2	2.0	1.7	8.3%	1.8%		

Source: Bloomberg, Kenanga Research

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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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