

26 November 2018

## Tomypak Holdings Berhad 9M18 Above Expectation

9M18 CNP of RM3.3m came above our expectation at 141% of estimate mainly due to higher-than-expected recognition of tax income and deferred tax assets. No dividends declared, as expected. Capacity expansion plans are on-going with new equipment in Senai Plant installed and operational. Post results, we upgrade FY18E CNP by 63% while we maintain our FY19 estimates. Maintain UNDERPERFORM with an unchanged TP of RM0.495.

**9M18 earnings above expectation.** Post stripping unrealised foreign exchange gain and gain on disposal of PPE, 9M18 CNP of RM3.3m came in above our estimate at 141%. Top-line was within expectation, but the positive deviation vs. our FY18 CNP estimate was due to higher-than-expected recognition of tax income and deferred tax assets. No consensus numbers were available. No dividend was declared, as expected.

**Results Highlight. YoY-Ytd,** 9M18 recorded LBT of RM3.0m compared to 9M17 PBT of RM13.9m, mainly due to: (i) weaker top-line (-18%) on lower overseas revenue from reduction in sales to two major international customers and lower average selling price on different product mix, (ii) higher raw material costs, and (iii) higher financing cost (+100%) from borrowings drawn down to finance the purchase of new production equipment. However, bottom-line managed to record CNP of RM3.3m stemming from the recognition of tax income and deferred tax asset, which saw CNP declining 73% YoY. **QoQ,** despite higher raw material costs, 3Q18 recorded CNP of RM3.8m compared to CNL of RM1.8m in 2Q18, mainly due to: (i) growth in both overseas and local sales which saw top-line increasing by 63% to RM49.6m, and (ii) higher positive tax recorded (+17%).

**Outlook.** Capacity expansion plans are on-going and we expect capacity to increase gradually up to 36,000MT p.a. by FY20-21 (from c.25,000MT p.a. in FY17A) for both Senai and Tampoi plant. Phase 1 of the capacity expansion had come on-stream from 2H17. As of September 2018, installation of most of the new equipment in Senai plant has been completed and operational with the last printing line and ancillary bag-making line targeted to be operational in December 2018. The next phase of capacity expansion is likely to begin in 1Q19 and we expect capacity to grow gradually over FY19-20 onwards. As such, we are expecting capex of RM40-30m in FY18-19.

**Upgrade earnings.** Post results, we increased our FY18E earnings by 63% to RM3.8m after taking into account the positive tax for 9M18. We make no changes to our FY19 estimates. We may look to revise up our FY19E earnings upon convincing improvements of cost management and margins going forward, as well as stronger sales number from both overseas and local markets.

**Maintain UNDERPERFORM with an unchanged TP of RM0.495.** Our TP is based on an ascribed 1.0x PBV (unchanged -2.0SD to its 4-year average) to its FY19E FD BVPS of RM0.495 as convincing profitability and earnings improvements are yet to be seen at this juncture. Note that we are ascribing a PBV valuation method (vs PER) due to its earnings volatility. Our valuations are based on FY19 to better encapsulate TOMYPAK's value. Despite the stronger-than-expected results, 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 may look to upgrade our earnings and valuations upon more concrete earnings 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: RM0.685  
Target Price: RM0.495 ↔

Expected Capital Gain: -RM0.190 -27.7%  
Expected Divd. Yield: +RM0.005 +0.7%  
Expected Total Return: -RM0.185 -27.0%

KLCI Index 1,695.88

### Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	No
Shares Outstanding	419.2
Market Cap (RM m)	287.1
Par value per share (RM)	0.50
52-week range (H)	1.06
52-week range (L)	0.66
Free Float	55%
Beta	0.6
3-mth avg daily vol:	388,957

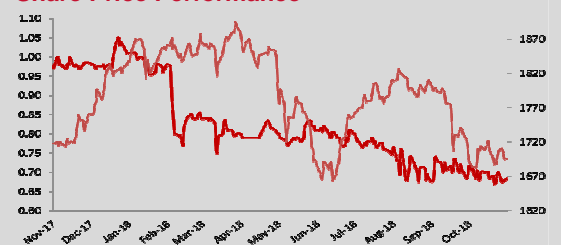
### Major Shareholders

New Orient Resources Sdn Bhd	23.6%
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	0.3	5.1
PBT	9.8	(0.9)	3.3
<b>Net Profit</b>	<b>13.6</b>	<b>3.8</b>	<b>2.8</b>
<b>Core PATAMI</b>	<b>11.6</b>	<b>3.8</b>	<b>2.8</b>
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	63%	n.a.
Core FD EPS (sen)	2.1	0.7	0.5
Core FD EPS growth (%)	-39.0	-67.3	-25.2
NDPS (sen)	2.6	0.5	0.3
FD NTA per Share (RM)	0.3	0.4	0.5
Price to FD NTA (x)	2.0	1.6	1.4
Core FD PER (x)	32.9	100.7	134.7
Debt-to-Equity ratio (x)	0.3	0.2	0.2
Return on Asset (%)	4.9	1.2	0.8
Return on Equity (%)	7.1	1.7	1.1
Net Div. Yield (%)	3.8	0.7	0.5

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-4.2%	-10.5%	-29.4%
Relative (%)	-4.5%	-4.2%	-28.1%

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**OTHER POINTS**

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**

	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY-Ytd
<b>FYE Dec (RM'm)</b>								
<b>Revenue</b>	<b>49.6</b>	<b>30.4</b>	<b>63%</b>	<b>55.6</b>	<b>-11%</b>	<b>132.4</b>	<b>160.5</b>	<b>-18%</b>
<b>Operating Profit</b>	<b>0.4</b>	<b>-3.1</b>	<b>n.m.</b>	<b>4.8</b>	<b>-91%</b>	<b>-1.0</b>	<b>15.7</b>	<b>n.m.</b>
Finance Income	0.0	0.0	-65%	0.0	-58%	0.1	0.1	-58%
Finance Cost	-0.8	-0.7	14%	-0.4	68%	-1.9	-1.0	100%
Other Expense	-0.1	0.0	n.m.	-1.0	-87%	-0.1	-1.0	-87%
<b>Pretax Profit</b>	<b>-0.5</b>	<b>-3.7</b>	<b>-88%</b>	<b>3.4</b>	<b>n.m.</b>	<b>-3.0</b>	<b>13.9</b>	<b>n.m.</b>
Income Tax Expense	2.7	2.3	17%	-0.1	n.m.	5.3	-0.5	n.m.
Minority Interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	-108%
<b>Net Profit</b>	<b>2.3</b>	<b>-1.4</b>	<b>n.m.</b>	<b>3.3</b>	<b>-32%</b>	<b>2.3</b>	<b>13.4</b>	<b>-83%</b>
<b>Core Net Profit (CNP)</b>	<b>3.8</b>	<b>-1.8</b>	<b>n.m.</b>	<b>3.0</b>	<b>24%</b>	<b>3.3</b>	<b>12.0</b>	<b>-73%</b>
EPS (sen)	0.54	-0.33		0.79		0.54	3.23	
Core EPS (sen)	0.90	-0.42		0.72		0.79	2.87	
NDPS (sen)	0.00	0.00		0.80		0.30	1.90	
Operating Margins %	0.8%	-10.1%		8.6%		-0.8%	9.8%	
CNP Margins %	7.6%	-5.8%		5.5%		2.5%	7.5%	
Effective Tax Rate %	-594.5%	-62.9%		-2.3%		-174.0%	3.6%	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					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.			
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	1.27	244.8	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	17.6	48.8	31.8	1.6	1.1	2.6%	1.0%	1.15	UP
SCIENTEX BHD	9.09	4,444.3	Y	07/2019	22.4%	4.3%	5.9%	13.0%	15.9	15.0	13.9	2.6	2.0	15.2%	2.7%	8.50	MP
SLP RESOURCES BHD	1.17	370.8	Y	12/2018	7.0%	9.8%	36.6%	-4.9%	20.3	14.8	15.6	2.2	2.0	14.2%	2.7%	1.35	OP
THONG GUAN INDUSTRIES BHD	2.53	344.7	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	9.7	12.2	11.8	1.0	1.1	8.7%	2.8%	1.95	UP
TOMYPAK HOLDINGS	0.685	287.1	N	12/2018	-9.2%	25.1%	-67.3%	-25.2%	32.9	100.7	134.7	2.0	1.6	1.7%	0.7%	0.495	UP
<b>Simple Average</b>					<b>6.0%</b>	<b>11.2%</b>	<b>-21.9%</b>	<b>8.1%</b>	<b>19.3</b>	<b>38.3</b>	<b>41.6</b>	<b>1.9</b>	<b>1.5</b>	<b>8.5%</b>	<b>2.0%</b>		

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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