

17 January 2019

Tomypak Holdings Berhad Senai Factory Visit

We visited TOMYPAK's manufacturing plant in Senai, Johor and came away feeling comforted with the progress of its capacity expansion plan. Total capacity of 40,000 MT/year came in higher than our expected capacity of 32,000 MT for FY19. Hence, we increased our FY19E earnings by 35% on higher utilization and capacity assumptions. However, UNDERPERFORM call with TP of RM0.495 are maintained as we believe valuations are still stretched.

Higher-than-expected total capacity. We visited TOMYPAK's new factory yesterday, located in Senai, Johor and came away feeling comforted with the progress of its capacity expansion plan. The Senai factory is the group's second factory with a current capacity of 34,000 MT/year (265,000sf), vs. the first factory at Tampoi, Johor (6,000 MT/year on 150,000sf). This brings TOMYPAK's total capacity to 40,000 MT/year which is higher than our estimated capacity of 32,000 MT/year for FY19. We had initially expected slightly slower expansion progress, but management decided to expedite the expansion plans. Going forward, we do not expect new capacity expansion till FY21 while we believe management is strongly focused on increasing existing utilisation rates of 46%.

Lower capex moving forward. Having invested a total capital expenditure of RM166m for the new Senai factory over the past three years, the production lines consist of a film casting line, rotogravure printing lines, a flexo printing line, dry lamination lines, extrusion lamination lines, vacuum metalizing line and 16 slitters. Moving forward, we expect lower capex of RM10m for FY19 (vs. RM30m previously) as management indicated that there is no more new addition to equipment while capex will be more on maintenance.

Margin compression still a concern. The recent 9M18 results saw margin being compressed from 7.5% in 9M17 to 2.5% in 9M18. The main reasons for the compression were attributed to: (i) lower average selling price arising from steep competition, (ii) higher raw material costs, (iii) higher depreciation expenses from purchases of new equipment in Senai factory, and (iv) higher financing costs from increased borrowings drawn down to finance the purchase of new equipment. We do not foresee any significant improvement in margins for FY19 as we believe raw material prices will remain volatile. However, we may seek to upgrade our margins assumption upon stronger signs of margin improvement in coming quarters.

Upgrade FY19 Earnings. For FY19, management indicated that efforts are being made to expand its revenue stream in both local and overseas markets. As such, we conservatively estimate a slightly higher FY19 utilisation rate at 50% on capacity of 40,000MT/year (vs. 49% utilisation on 32,000MT/year capacity previously). We increased our FY19E earnings by 35% to RM3.8m (assuming 50% utilisation on 40,000 MT/year capacity) but make no changes to our FY18 estimates (45% utilisation on 28,000 MT/year capacity).

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 an unchanged FY19E FD BVPS of RM0.495 as stable 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 volatile earnings. We believe valuations are stretched, warranting an UNDERPERFORM call as recent quarters have seen weaker-than-expected margins. Despite the recent news that its largest shareholder is reportedly seeking to offload his entire 22.81% stake and is looking at an exit price of RM1/share (implying a Fwd. FY19E PER of 146x), we do not think that TOMYPAK warrant this valuation as this is at a steep premium over our plastic packaging peers' implied FY19/20 PER of 9-29x. TOMYPAK's CNP margin is one of the weakest among plastic packagers under our coverage (2% vs. 3-13%). Moreover, compared to the recent proposed acquisition of DAIBOCI by SCIENTX, the implied valuation is again higher than DAIBOCI's 18x implied Fwd. PER (based on FY19 consensus earnings) despite DAIBOCI's net margin being better than TOMYPAK's (6% vs.2%, respectively).

UNDERPERFORM ↔

Price: **RM0.675**
Target Price: **RM0.495** ↔

Expected Capital Gain: **-RM0.180 -26.7%**
Expected Divd. Yield: **RM0.005 0.7%**
Expected Total Return: **-RM0.175 -26.0%**

KLCI Index 1,673.08

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	418.9
Market Cap (RM m)	282.8
Par value per share (RM)	0.50
52-week range (H)	1.05
52-week range (L)	0.53
Free Float	56%
Beta	0.6
3-mth avg daily vol:	503,170

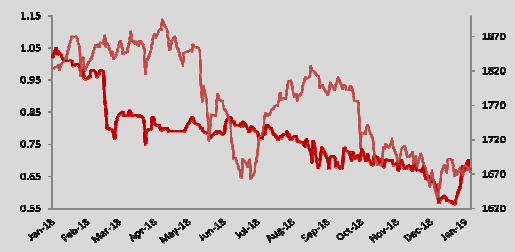
Major Shareholders

New Orient Resources SdnBhd	22.6%
Hun Swee Lim	16.2%
ZalarazSdnBhd	5.2%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	204.3	185.6	268.1
EBIT	11.1	0.3	7.1
PBT	9.8	(0.9)	4.5
Net Profit	13.6	3.8	3.8
Core PATAMI	11.6	3.8	3.8
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	0%	35%
Core FD EPS (sen)	2.1	0.7	0.7
Core FD EPS growth, %	-39.0	-67.3	1.0
NDPS (sen)	2.6	0.5	0.5
FD NTA per Share (RM)	0.3	0.4	0.5
Price to FD NTA (x)	1.9	1.5	1.4
Core FD PER (x)	32.5	99.2	98.2
Debt-to-Equity ratio (x)	0.3	0.2	0.3
Return on Asset (%)	4.9	1.3	1.1
Return on Equity (%)	7.1	1.7	1.5
Net Div. Yield (%)	3.8	0.7	0.7

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	10.7%	-6.2%	-35.1%
Relative (%)	8.7%	-2.4%	-26.6%

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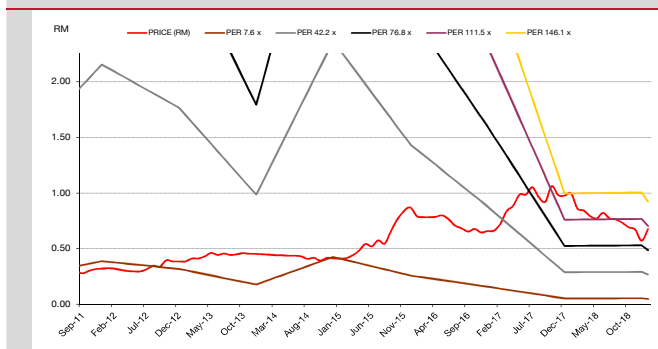
OTHER POINTS

Risks to our call include; (i) lower-than-expected resin cost, (ii) better product demand, (iii) stronger-than-expected product margins, and (iv) weakening Ringgit.

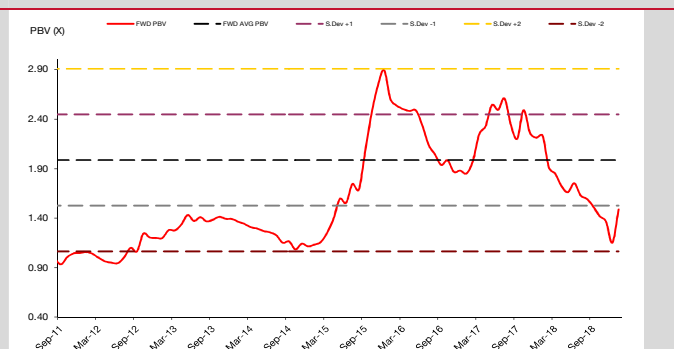
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	214.1	210.9	204.3	185.6	268.1	Growth (%)					
EBITDA	43.3	36.2	25.6	18.4	27.5	Revenue	2.4	(1.5)	(3.1)	(9.2)	44.5
Depreciation	(11.7)	(12.5)	(14.5)	(18.0)	(20.3)	EBITDA	81.1	(16.4)	(29.3)	(28.3)	49.6
Operating Profit	31.6	23.7	11.1	0.3	7.1	Operating Profit	159.2	(25.1)	(53.2)	(97.0)	2,041.6
Total Fin. Costs	(0.5)	(0.7)	(1.3)	(1.5)	(2.9)	Pre-tax Income	169.9	(25.8)	(57.8)	(109.7)	(569.6)
PBT	31.3	23.2	9.8	(0.9)	4.5	Core Net Income	180.7	(17.9)	(39.0)	(67.3)	1.0
Taxation	(8.1)	(4.8)	3.8	4.7	(0.6)	Profitability (%)					
Minority Interest	0.0	(0.0)	0.0	0.0	0.0	EBITDA Margin	20.2	17.2	12.5	9.9	10.2
Net Profit	23.2	18.4	13.6	3.8	3.8	Operating Margin	14.8	11.2	5.4	0.2	2.7
Core Net Profit	23.2	19.0	11.6	3.8	3.8	PBT Margin	14.6	11.0	4.8	(0.5)	1.7
						Core Net Margin	10.8	9.0	5.7	2.0	1.4
						Eff. Tax Rate	(26.0)	(20.8)	n.m.	n.m.	(14.0)
						ROE	19.5	11.7	7.1	1.7	1.5
						ROA	12.9	8.0	4.9	1.3	1.1
						DuPont Analysis					
						C.Net Margin (%)	10.8	9.0	5.7	2.0	1.4
						Assets Turnover	1.2	0.9	0.7	0.6	0.8
						Leverage Factor	1.5	1.5	1.4	1.4	1.3
						ROE (%)	19.5	11.7	7.1	1.7	1.5
						Leverage					
						Debt/Asset (x)	0.2	0.1	0.2	0.2	0.2
						Debt/Equity (x)	0.2	0.2	0.2	0.2	0.3
						Net Cash/(Debt)	(17.8)	(3.2)	(12.2)	(45.5)	(62.6)
						Net Debt/Equity	0.1	0.0	0.1	0.2	0.2
						Valuations					
						Core EPS (sen)	5.5	4.5	3.9	0.9	0.9
						Core FD EPS	4.2	3.4	2.1	0.7	0.7
						NDPS (sen)	2.6	2.9	2.6	0.5	0.5
						FD BVPS (RM)	0.2	0.3	0.3	0.4	0.5
						Core PER (x)	12.2	14.9	17.5	74.6	73.9
						Core FD PER (x)	16.3	19.8	32.5	99.2	98.2
						Net Div. Yield (%)	3.9	4.3	3.8	0.7	0.7
						P/BV (x)	3.0	2.0	1.9	1.5	1.4
						EV/EBITDA (x)	2.1	2.7	12.6	17.9	12.6

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
SCGM BHD	1.21	233.2	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	16.8	46.5	30.3	1.5	1.0	2.6%	1.5%	1.15	MP
SCIENTEX BHD	8.80	4,305.3	Y	07/2019	22.4%	4.3%	5.9%	13.0%	15.4	14.5	13.5	2.5	2.0	15.2%	2.8%	8.50	MP
SLP RESOURCES BHD	1.20	380.4	N	12/2018	7.0%	9.8%	36.6%	-4.9%	20.8	15.2	16.0	2.3	2.1	14.2%	2.6%	1.35	OP
THONG GUAN INDUSTRIES BHD	2.33	317.5	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	8.9	11.2	10.9	0.9	1.0	8.7%	3.1%	1.95	UP
TOMYPAK HOLDINGS	0.675	282.8	Y	12/2018	-9.2%	44.5%	-67.3%	1.0%	32.5	99.2	98.2	1.9	1.5	1.7%	0.7%	0.495	UP
Simple Average					6.0%	15.1%	-21.9%	13.3%	18.9	37.3	33.8	1.8	1.5	8.5%	2.1%		

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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