

27 February 2019

Tomypak Holdings Berhad FY18 Below Expectation

FY18 CNL of RM0.5m missed our expectation of RM3.8m CNP mainly due to lower-than-expected sales in 4Q18 and higher-than-expected raw material costs. Similarly, FY18 dividend of 0.3 sen came in below our estimate at 60%. Post result, we cut our FY19E CNP by 67% on more conservative top-line and cost assumptions. Maintain UNDERPERFORM with TP of RM0.495.

FY18 core net losses (CNL) missed expectation. FY18 CNL of RM0.5m missed our estimate of RM3.8m net profit. We believe the deviation from our estimates was mainly due to lower-than-expected top-line, which came in at 90% of our estimates and also likely due to higher raw material costs. No consensus numbers were available. As a result, no dividend was declared in 4Q18, while FY18 dividend of 0.3 sen came below our estimated FY18 dividend of 0.5 sen, at 60% of our estimate.

Results highlight. YoY-Ytd, FY18 recorded LBT of RM11.6m compared to FY17 PBT of RM9.9m, mainly due to: (i) weaker top-line (-18%) on lower overseas revenue contribution and lower average selling price on different product mix, which may have caused it to be unable to cover its factory overheads, (ii) higher raw material costs, and (iii) higher financing cost (+96%) from borrowings drawn down to finance the purchase of new production equipment. However, recognition of higher tax income of RM9.8m likely due to reinvestment allowance and deferred tax (vs. RM3.7m tax income in FY17) narrowed bottom-line losses to RM0.5m. **QoQ**, top-line declined by 27% mainly from weaker overseas revenue contribution, coupled with higher raw material cost causing the group to sink into the red with LBT of RM8.6m (vs LBT of RM0.5m in 3Q18). 4Q18 CNL was lower than its LBT at RM3.7m, again due to higher recognition of tax income and deferred tax.

Outlook. As at end of FY18, TOMYPAK has installed all its major equipment in its new Senai factory and is ready for operation. TOMYPAK's total capacity is currently at 40,000MT/year after investing a total capital expenditure of RM166m for the new Senai factory. Moving forward, management has indicated that there should not be any new capacity expansion until at least FY21. Thus, we assume maintenance capex of RM10m for both FY19 and FY20. For FY19, we believe the group's focus will be on ramping up sales and utilisation to c.67% by FY21 (vs. 46% as at January 2019). We believe this is crucial given that the lower revenue contribution in 4Q18 had caused it to fall into the red.

Cut FY19E earnings. Post results, we reduced our FY19E earnings by 67% to RM1.3m after taking a more conservative top-line and cost assumptions due to the disappointing earnings in FY18. We introduce FY20E CNP of RM4.7m, on the back of CNP margin of 2%.

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 have yet to be seen. Our UNDERPERFORM call is warranted as recent quarters have been recording weaker-than-expected margins with bottom-line sinking into the red. As such, we stand by our valuations, which is the lowest among plastic packagers under our coverage (from average to -1.0SD to PER valuations, and up to -2.0SD PBV valuations), but may consider upgrading our earnings and valuations upon more consistent earnings and margins 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: RM0.600
Target Price: RM0.495 ↔

Expected Capital Gain: -RM0.105 -17.5%
Expected Divd. Yield: +RM0.001 +0.2%
Expected Total Return: -RM0.104 -17.3%

KLCI Index 1,719.00

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	419.0
Market Cap (RM m)	251.4
Par value per share (RM)	0.50
52-week range (H)	0.97
52-week range (L)	0.53
Free Float	56%
Beta	0.5
3-mth avg daily vol:	574,000

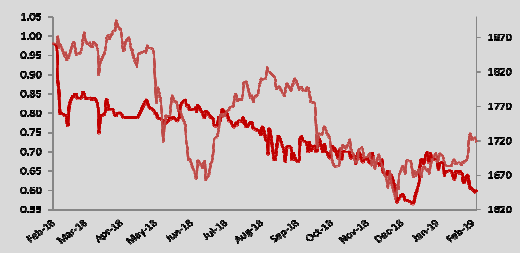
Major Shareholders

New Orient Resources Sdn Bhd	22.6%
Hun Swee Lin	16.2%
Zalaraz Sdn Bhd	5.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	168.4	207.7	234.6
EBIT	(7.9)	4.5	8.2
PBT	(11.6)	1.5	5.9
Net Profit	(1.9)	1.3	4.7
Core PATAMI	(0.5)	1.3	4.7
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-67%	n.a.
Core FD EPS (sen)	-0.1	0.2	0.8
Core FD EPS growth (%)	-104.6	-336.3	273.2
NDPS (sen)	0.3	0.1	0.6
FD NTA per Share (RM)	0.3	0.5	0.6
Price to FD NTA (x)	1.7	1.2	1.1
Core FD PER (x)	n.a.	267.2	71.6
Debt-to-Equity ratio (x)	0.4	0.3	0.2
Return on Asset (%)	-0.7	0.3	1.2
Return on Equity (%)	-1.0	0.5	1.6
Net Div. Yield (%)	0.5	0.2	0.9

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-10.4%	-10.4%	-32.6%
Relative (%)	-11.5%	-11.4%	-24.4%

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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

FYE Dec (RM'm)	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY-Ytd
Revenue	36.0	49.6	-27%	45.4	-21%	168.4	205.9	-18%
Operating Profit	-6.9	0.4	n.m.	-3.6	92%	-7.9	12.2	n.m.
Finance Income	0.0	0.0	14%	0.0	-16%	0.1	0.1	-53%
Finance Cost	-0.9	-0.8	18%	-0.5	86%	-2.8	-1.4	96%
Other Expense	-0.9	-0.1	562%	0.0	n.m.	-1.0	-1.0	2%
Pretax Profit	-8.6	-0.5	1787%	-4.0	113%	-11.6	9.9	n.m.
Income Tax Expense	4.5	2.7	65%	4.2	6%	9.8	3.7	162%
Minority Interest	0.0	0.0	n.m.	0.0	167%	0.0	0.0	-79%
Net Profit	-4.1	2.3	n.m.	0.2	n.m.	-1.9	13.7	n.m.
Core Net Profit (CNP)	-3.7	3.8	n.m.	-0.3	1036%	-0.5	11.7	n.m.
EPS (sen)	-0.98	0.54		0.05		-0.44	3.27	
Core EPS (sen)	-0.89	0.90		-0.08		-0.11	2.80	
NDPS (sen)	0.00	0.00		0.20		0.30	2.10	
Operating Margins %	-19.0%	0.8%		-7.9%		-4.7%	5.9%	
CNP Margins %	-10.4%	7.6%		-0.7%		-0.3%	5.7%	
Effective Tax Rate %	-52.1%	-594.5%		-105.2%		-84.0%	37.7%	

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.			
STOCKS UNDER COVERAGE																	
SCGM BHD	1.19	229.4	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	16.5	45.8	29.8	1.5	1.0	2.6%	1.6%	1.15	MP
SCIENTEX BHD	8.80	4,526.3	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	1.27	402.5	N	12/2019	12.5%	5.4%	-6.7%	5.5%	15.9	16.9	16.1	2.1	2.1	13.5%	3.0%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.36	321.5	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	9.0	11.3	11.0	0.9	1.0	8.7%	3.0%	1.95	UP
TOMYPAK HOLDINGS	0.600	251.4	Y	12/2019	23.4%	12.9%	n.m.	273.2%	N.A.	267.2	71.6	1.7	1.2	0.5%	0.2%	0.495	UP
Simple Average					13.6%	7.9%	-21.42%	69.9%	14.2	71.1	28.4	1.8	1.5	8.1%	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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