

29 November 2019

Tomypak Holdings Berhad

Weaker Than Expected 9MFY19

9MFY19 CNL of RM12.4m came below expectation, at 89% of our FY19E CNL of RM14.4m, mainly due to lower-than-expected top-line and higher-than-expected taxes. No dividends, as expected. As a result, we trim our FY19-20E CNL to RM16.6-12.1m on more conservative top-line and higher tax expense. Maintain UNDERPERFORM and TP of RM0.270.

9MFY19 core net losses (CNL) were worse than expected at RM12.4m vs. our full-year expectation RM14.4m CNL in FY19. The deviation from our estimate was mainly due to slightly lower-than-expected top-line (69% of our full year estimates), and higher-than-expected tax (at 0.1% taxation rate vs. our expectation of tax income of RM2.3m in line with previous years) as the group has been loss making but stands to obtain unutilised reinvestment allowance. No dividends, as expected.

Results' highlight. YoY, 9MFY19 recorded CNL of RM12.4m vs. RM3.0m CNP which was mainly due to: (i) weaker top-line (-13.9%) from reduction in sales, (ii) higher sales and marketing expenses which contributed to weaker operating profit margins (-6.3ppt), and (iii) higher finance cost (+38%) from higher borrowings. QoQ, 3QFY19 recorded a worse CNL of RM5.9m vs. CNL of RM2.2m previously on the back of a weaker top-line from lower sales volumes (-6%) as well as tax expense of RM1.4m (vs. tax income of RM0.7m).

Outlook. The Group has installed most of the major equipments in its new Senai factory and expects to move the bag-making machines over in May 2020. 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, there should not be any new capacity expansion until at least FY21. For FY19, we believe the group's focus will be on ramping up sales and utilisation, which we think is crucial given the past few loss-making quarters.

Trim FY19-20E earnings. In view of the weak earnings this quarter, we trim FY19-20E numbers to CNL of RM16.1-12.1m (from CNL of RM14.0-11.4m) on constant top-line pressures while higher expenses remain a concern for the group.

Maintain UNDERPERFORM on an unchanged Target Price of RM0.270. We make no changes to our TP which is based on PBV of 0.88x (-2.0SD to 4-year historical average) which is already at trough level on FY20E BVPS of RM0.31. For now, we maintain the trough valuations given consecutive loss-making quarters but may revise our stance should its sales and marketing efforts to push top-line sales gains traction and improve earnings.

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: RM0.520
Target Price: RM0.270 ↔

Expected Capital Gain: -RM0.25 -48.1%
Expected Divd. Yield: RM0.00 0.0%
Expected Total Return: -RM0.25 -48.1%

KLCI Index 1,583.77

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)	217.8
Par value per share (RM)	0.50
52-week range (H)	0.73
52-week range (L)	0.43
Free Float	34%
Beta	0.5
3-mth avg daily vol:	376,792

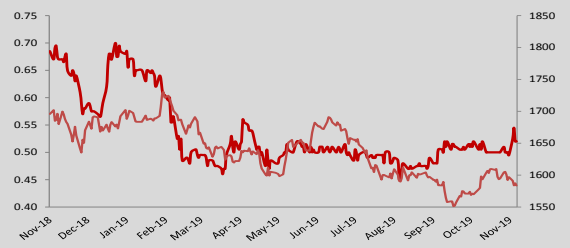
Major Shareholders

New Orient Resources Sdn Bhd	23.6%
Lim Hun Swee	20.4%
Zalaraz Sdn Bhd	5.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	168.4	157.4	168.8
EBIT	(7.9)	(11.3)	(7.7)
PBT	(11.6)	(15.8)	(11.6)
Net Profit	(1.9)	(16.6)	(12.1)
Core PATAMI	(0.5)	(16.6)	(12.1)
Consensus (NP)	N.A.	-0.1	5.0
Earnings Revision	N.A.	-19%	-7%
Core FD EPS (sen)	(0.1)	(3.0)	(2.2)
Core FD EPS growth (%)	n.m.	n.m.	-27
NDPS (sen)	0.3	0.0	0.0
FD NTA per Share (RM)	0.3	0.3	0.3
Price to FD NTA (x)	1.5	1.6	1.7
Core FD PER (x)	n.m.	n.m.	n.m.
Debt-to-Equity ratio (x)	0.4	0.6	0.7
Return on Asset (%)	(0.7)	(5.6)	(4.0)
Return on Equity (%)	(1.0)	(8.9)	(7.0)
Net Div. Yield (%)	0.6	0.0	0.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.0%	11.8%	-25.2%
Relative (%)	2.6%	12.2%	-19.1%

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OTHER POINTS

Results Highlights								
FYE Dec (RM'm)	3Q19	2Q19	QoQ	3Q18	YoY	9M19	9M18	YoY-Ytd
Revenue	38.5	41.1	-6%	49.6	-22%	114.0	132.4	-13.9%
Operating Profit	-2.9	-2.6	11%	0.4	-798%	-8.1	-1.0	672%
Finance Income	0.0	0.0	-15%	0.0	-21%	0.0	0.1	-20%
Finance Cost	-0.9	-0.8	6%	-0.8	17%	-2.6	-1.9	38%
Other Expense	-0.8	0.0	n.a.	-0.1	503%	-0.9	-0.1	552%
Pretax Profit	-4.6	-3.4	33%	-0.5	900%	-11.5	-3.0	279%
Income Tax Expense	-1.4	0.7	n.m.	2.7	n.m.	0.0	5.3	n.m.
Minority Interest	0.0	0.0	-183%	0.0	n.m.	0.0	0.0	n.m.
Net Profit	-6.0	-2.7	124%	2.3	n.m.	-11.5	2.3	n.m.
Core Net Profit (CNP)	-5.9	-2.2	169%	3.8	n.m.	-12.4	3.0	n.m.
EPS (sen)	-1.43	-0.64	123%	0.54	n.m.	-2.75	0.54	n.m.
Core EPS (sen)	-1.41	-0.52	169%	0.90	n.m.	-2.97	0.72	n.m.
NDPS (sen)	0.00	0.00	n.a.	0.00	n.a.	0.00	0.30	-100%
Operating Margins %	-7.5%	-6.3%		0.8%		-7.1%	-0.8%	
CNP Margins %	-15.3%	-5.3%		7.6%		-10.9%	2.3%	
Effective Tax Rate %	31.3%	-21.4%		-594.5%		0.1%	-174.0%	

Source: Company

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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	1.37	262.4	Y	04/2020	17.4%	21.7%	45.8%	47.9%	N.A.	27.4	18.5	1.7	1.5	5.8%	1.5%	1.200	MP
SCIENTEX BHD	9.35	4,817.7	Y	07/2020	16.9%	8.6%	16.5%	22.9%	15.1	13.0	10.6	2.7	2.3	20.0%	2.3%	9.45	MP
SLP RESOURCES BHD	1.31	415.2	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	16.4	17.5	16.6	2.3	2.1	12.6%	4.0%	1.45	OP
THONG GUAN INDUSTRIES BHD	3.39	622.4	Y	12/2019	3.4%	2.9%	28.3%	2.8%	13.0	10.1	9.9	1.3	1.2	12.0%	2.7%	4.10	OP
TOMYPAK HOLDINGS	0.520	217.8	Y	12/2019	-6.5%	7.2%	-3.0%	-137.2%	N.A.	N.A.	N.A.	1.5	1.6	-8.9%	0.0%	0.270	UP
Simple Average					8.8%	9.2%	16.2%	-11.6%	14.8	17.0	13.9	1.9	1.6	8.6%	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%

**** The Expected Total Return might contain rounding discrepancy.**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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