

19 August 2020

Tomypak Holdings Berhad

Return to the Black

1HFY20 CNL of RM0.4m is above expectation of FY20 CNL of RM22.8m as we anticipated weaker top-line and operating losses ahead. No dividends declared, as expected. Increase FY20-21E earnings to CNP of RM2.0-3.3m (from CNL of RM22.8-14.3m). Maintain UNDERPERFORM but on a higher TP of RM0.415 (from RM0.220) post updating our PBV to 1.25x (from 0.78x).

1QFY20 core net losses (CNL) of RM0.4.0m is deemed above our expectation, as we expected a weaker top-line due to challenges from Covid-19 (top-line came in at 56% of our FY20 estimate), while we anticipate operating losses as the Group has struggled to maintain profitability since 4QFY18. However, 2QFY20 CNP margin was stronger than expected at 7.4% on lower overheads from cost control measures (vs. our expectation of a loss). No dividends declared, as expected.

Results' highlight. 1HFY20 recorded CNL of RM0.4m vs. RM6.5m in 1HFY19 driven by: (i) improving top-line (+5.9%) on increased international sales, (ii) lower operating loss of RM1.1m (vs. RM5.2m) due to a reduction in overheads, and (iii) marginally lower financing cost of RM1.3m (vs. RM1.8m). **QoQ**, top-line was up by 45% on increased international sales on higher demand for packed food during the Covid-19 pandemic. Consequently, the Group finally recorded RM4.6m operating profit (vs. RM5.8m operating losses in 1QFY20) on lower overheads. All in, the Group was able to return to the black with a CNP of RM3.5m (vs. CNL of RM4.0m) after six consecutive loss-making quarters.

Outlook. The Group has installed most of the major equipment in its new Senai factory. TOMYPAK's total capacity is currently at c.40,000MT/year after investing a total capital expenditure of RM166m for the new Senai factory. Going forward, we do not expect any new capacity expansion until FY21. We believe the group's focus will be on ramping up sales and plant utilisation leveraging on improving demand for F&B products in light of the Covid-19 pandemic, which would be crucial given the past few loss-making quarters.

Increase FY20-21E earnings to RM 2.0-3.3m (from CNL of RM22.8-14.3m). In light of a sterling 2QFY20, we increased our top-line projections by 13-3% for FY20-21 on increased demand for TOMYPAK's products. We expect margins to improve in coming quarters (from loss making) but we do not expect margins to be as strong as in 2QFY20 as overheads would have increased post MCO phases. All in, we increase CNP margin to 1.2-1.9% (vs. CNL of RM22.8-14.3m). No dividends expected for now.

Maintain UNDERPERFORM on a higher Target Price of RM0.415 (from RM0.220). We increase our TP post updating our PBV to 1.25x @ -1SD to 5-year historical average (from 0.78x @ -2.0SD) on FY21E BVPS of RM0.33 (from RM0.28) given the improvement in earnings this quarter. However, we maintain our below average valuations given six consecutive loss-making quarters since 4QFY18, and remain cautious on margin improvements given the rising overhead cost in coming quarters. We may look to upgrade TOMYPAK further upon stable positive earnings and margins in coming quarters.

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: RM0.810
Target Price: RM0.415 ↑

Expected Capital Gain: -0.395 -48.8%
Expected Divd. Yield: 0.000 0.0%
Expected Total Return: -0.395 -48.8%

KLCI Index 1577.85

Stock Information

Bloomberg Ticker	TOMY MK Equity
Bursa Code	7285
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	424.0
Market Cap (RM m)	343.4
Par value per share (RM)	0.50
52-week range (H)	0.87
52-week range (L)	0.30
Free Float	33%
Beta	1.1
3-mth avg daily vol:	1,201,990

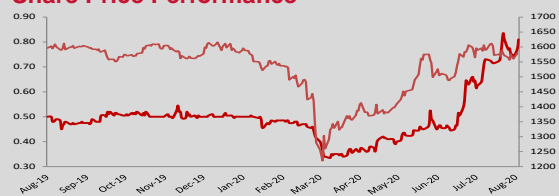
Major Shareholders

NEW ORIENT RESOURCES	23.3%
Lim Hun Swee	21.1%
ZALARAZ SDN BHD	5.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	158.1	164.2	175.2
EBIT	(7.6)	5.7	7.0
PBT	(11.8)	1.9	3.2
Net Profit/(Loss)	(11.8)	2.0	3.3
Core PATAMI/(LATAMI)	(13.2)	2.0	3.3
Consensus	n.a.	-12.9	-8.0
Earnings Revision	n.a.	n.m.	n.m.
Core FD EPS/LPS (sen)	(2.4)	0.4	0.6
Core FD EPS growth (%)	n.m.	n.m.	65
NDPS (sen)	0.0	0.0	0.0
FD NTA per Share (RM)	0.33	0.32	0.33
Price to FD NTA (x)	2.5	2.5	2.5
Core FD PER (x)	n.m.	224.8	136.5
Debt-to-Equity ratio (x)	0.4	0.6	0.6
Return on Asset (%)	n.m.	0.7	1.1
Return on Equity (%)	n.m.	1.1	1.8
Net Div. Yield (%)	0.0	0.0	0.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	29.6%	100.0%	62.0%
Relative (%)	30.8%	88.1%	63.2%

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OTHER POINTS

Results Highlights								
FYE Dec (R 'm)	2Q20	1Q20	QoQ	2Q19	YoY	1HFY20	1HFY19	YoY-Ytd
Revenue	47.3	32.6	45%	41.1	15%	79.9	75.4	5.9%
Operating Profit	4.6	-5.8	n.m.	-2.6	n.m.	-1.1	-5.2	n.m.
Finance Income	0.0	0.0	-38%	0.0	-23%	0.0	0.0	-19%
Finance Cost	-0.6	-0.7	8%	-0.8	-25%	-1.3	-1.8	-27%
Other Expense	0.0	-0.1	n.m.	0.0	n.a.	-0.1	-0.1	72%
Pretax Profit	4.0	-6.5	n.m.	-3.4	n.m.	-2.5	-7.0	n.m.
Income Tax Expense	0.0	0.0	-50%	0.7	-100%	0.0	1.4	-100%
Minority Interest	0.0	0.0	n.a.	0.0	-100%	0.0	0.02	-100%
Net Profit	4.0	-6.5	n.m.	-2.7	n.m.	-2.5	-5.5	n.m.
Core Net Profit (CNP)	3.5	-4.0	n.m.	-2.2	n.m.	-0.4	-6.5	n.m.
EPS (sen)	0.96	-1.57	n.m.	-0.64	-250%	-0.61	-1.32	n.m.
Core EPS (sen)	0.84	-0.95	n.m.	-0.52	-261%	-0.11	-1.56	n.m.
NDPS (sen)	0.00	0.00	n.a.	0.00	n.a.	0.00	0.00	n.a.
Operating Margins %	9.8%	-17.7%		-6.3%		-1.4%	-6.9%	
CNP Margins %	7.4%	-12.2%		-5.3%		-0.6%	-8.7%	
Effective Tax Rate %	0.0%	0.1%		-21.4%		0.2%	-20.3%	

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	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.	Price (RM)	
<u>STOCKS UNDER COVERAGE</u>																	
SCGM BHD	3.39	649.3	Y	04/2021	13.6%	13.4%	79.0%	22.9%	37.3	20.8	16.9	3.8	3.5	17.5%	2.1%	3.450	MP
SCIENTEX BHD	9.19	4,740.9	Y	07/2020	11.7%	13.0%	5.9%	26.3%	14.8	14.0	11.1	2.0	2.0	14.6%	2.2%	9.70	MP
SLP RESOURCES BHD	1.08	342.3	Y	12/2020	19.4%	13.5%	-9.0%	28.5%	14.4	17.8	13.8	1.7	1.6	9.5%	5.1%	1.100	MP
THONG GUAN INDUSTRIES BHD	4.93	918.1	Y	12/2020	3.9%	6.9%	12.4%	12.3%	14.8	13.1	11.7	1.7	1.6	12.4%	1.8%	4.00	UP
TOMYPAK HOLDINGS	0.810	343.4	Y	12/2020	3.9%	6.7%	n.a.	64.7%	n.a.	224.8	136.5	2.3	2.5	-12.6%	0.0%	0.415	UP
Simple Average					10.5%	10.7%	22.1%	31.0%	20.3	58.1	38.0	2.3	2.2	8.3%	2.8%		

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%

**** 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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