

19 November 2020

Thong Guan Industries Bhd

9MFY20 Above Expectations

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9MFY20 CNP of RM56.9m came above our expectation at 82% on better-than-expected product mix. Dividend of 5.0 sen is deemed broadly within (57%) as we expect the bulk of payout in 4QFY20. Given its consistently expanding CNP margins on better product mix, we raise FY20E/FY21E CNP by 10%/9% to RM76.7m/RM85.2m. TP is raised to RM3.25 (from RM2.80, post bonus) on a higher PER of 14.5x (from 13.8x) @+1.5SD (from +0.5SD) but recommendation downgraded to MARKET PERFORM from OUTPERFORM following the strong share price rally YTD, which means valuations now appear fair, in our view.

Results above expectation. 9MFY20 CNP of RM56.9m came above our expectation at 82%. Top-line is within at 74%, but the deviation was due to better-than-expected CNP margin of 7.9% (vs. our estimate of 7.2%) on a better-than-expected product mix, which was impressive given rising resin cost during the quarter.

Results' highlight. YoY-Ytd, CNP increased by 31%. Top-line increased by 2% on strong growth from the F&B segment (+42%) while plastics reported higher PBT contribution due to better product mix, resulting in stronger plastic segment PBT margin to 11% (from 7.9%). **QoQ,** top-line improved by 8% due to greater sales of stretch films, premium packaging films and courier bags.

Outlook. The Group has remained consistent with earnings delivery and improving margins on better product mix and aims to target more export markets in the near term. It is also concentrating on continued expansion into higher-margin production lines such as the newly commissioned premium stretch film line and a new premium blown film line to sustain the plastic segment's margins going forward.

Increase FY20E/FY21E CNP by 10%/9% to RM76.7m/RM85.2m from (RM69.7m/RM78.3m) on better-than-expected margins driven by consistently better product mix despite the uncertain environment and rising resin costs. As such, we increase our CNP margin assumptions to 7.9-8.2% (from 7.2-7.5%) while top-line is left unchanged. We maintain our 24% dividend payout assumption in FY20-21 to be prudent, as the uncertain operating environment may see it preferring to conserve cash. Our payout assumption translates to FY20-21E DPS of 4.8-5.3 sen (from 4.4-4.9 sen post bonus issue, or 9.6-10.7 sen from 8.7-9.8 sen pre bonus issue).

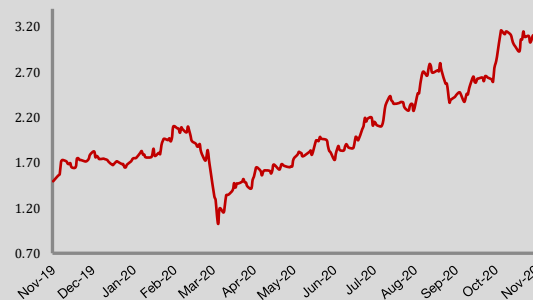
Downgrade to MARKET PERFORM (from OP) with a higher Target Price of RM3.25 (from 2.80) as we ascribed a higher FY21 PER of 14.5x (+1.5SD to 5-year historical valuations from 13.8x or +0.5SD to 5-year historical valuations) to our revised FY21E FD EPS of 22.3 sen (from 20.5 sen). We believe the higher multiple is justified as TGUAN is: (i) achieving higher CNP margins and better product mix amidst the Covid-19 pandemic, (ii) in the right segment namely F&B packaging and courier bags, and (iii) actively looking to increase sales in export markets. With its 80% utilised capacity at the highest (vs. peers of 40-75% in FY20), a healthy balance sheet and strong net cash position of RM120m (a strong quality given the challenging CY20), the Group should have no issue maintaining dividends. However, we believe the abovementioned positives have largely been reflected in the stock's share price following the rally of 93.5% YTD.

Risks to our call include: (i) volatile plastic resin prices, (ii) foreign currencies fluctuations, and (ii) lower than expected margins.

MARKET PERFORM ↓

Price: RM3.26
Target Price: RM3.25 ↑

Share Price Performance



KLCI	1,604.75
YTD KLCI chg	1.0%
YTD stock price chg	93.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	1,233.8
Shares Outstanding	378.5
52-week range (H)	3.35
52-week range (L)	0.98
3-mth avg daily vol:	1,433,105
Free Float	52%
Beta	1.2

Major Shareholders

Foremost Equals Sdn Bhd	39.3%
Employees Provident Fund Board	2.1%
Neoh Choo Ee & Company Sdn Bhd	1.9%

Summary Earnings Table

FY Dec (RMm)	2019A	2020E	2021E
Turnover	935.1	971.7	1038.9
EBIT	76.4	103.6	114.1
PBT	75.9	100.4	111.6
Net Profit (NP)	61.9	76.7	85.2
Core NP*	62.0	76.7	85.2
Consensus (NP)	n.m.	76.1	83.3
Earnings Revision		+10%	+9%
Core EPS (sen)	16.2	20.0	22.3
EPS growth (%)	29.2	23.6	11.1
NDPS (sen)	2.8	4.8	5.3
Core PER (x)	20.1	16.3	14.7
BVPS (RM)	1.6	1.7	1.9
PBV (x)	2.1	1.9	1.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	0.9	1.5	1.9

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Results Highlights

FYE Dec (RM m)	3Q20	2Q20	QoQ Change	3Q19	YoY- Change	9M20	9M19	YoY-Ytd Change
Turnover	245.8	228.0	8%	256.5	-4%	717.8	703.4	2%
Operating Income	26.9	25.2	7%	23.1	17%	74.1	54.3	36%
Interest income	0.7	1.3	-49%	1.1	-36%	3.3	3.2	4%
Finance costs	(0.5)	(0.7)	-35%	(1.1)	-59%	(2.1)	(3.4)	-38%
Associates	0.3	0.1	177%	0.1	90%	0.7	0.1	357%
Pretax profit	27.4	25.9	6%	23.2	18%	75.9	54.2	40%
Taxation	(5.6)	(4.7)	20%	(4.2)	35%	(14.0)	(9.0)	56%
Profit after tax	21.8	21.2	3%	19.0	15%	61.9	45.2	37%
Minority interest	(2.2)	(0.7)	195%	(1.7)	32%	(3.7)	(1.3)	188%
Net profit	19.6	20.5	-4%	17.3	13%	58.3	43.9	33%
Core net profit	19.9	18.7	6%	17.5	14%	56.9	43.6	31%
Core EPS (sen)	5.2	4.9	6%	4.6	14%	14.9	11.4	31%
NDPS (sen)	1.0	2.0	-50%	0.0	N/A	5.0	0.0	N/A
NTA/share (RM)	1.65	1.62	2%	1.45	14%	1.65	1.45	14%
Operating margin	11.0%	11.0%		9.0%		10.3%	7.7%	
Pretax margin	11.2%	11.4%		9.0%		10.6%	7.7%	
Core net profit margin	8.1%	8.2%		6.8%		7.9%	6.2%	
Effective tax rate	20.6%	18.2%		18.0%		18.4%	16.6%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	3Q20	2Q20	QoQ Change	3Q19	YoY- Change	9M20	9M19	YoY-Ytd Change
Turnover								
Plastic products	224.6	207.7	8%	241.7	-7%	658.9	657.6	0%
F&B, other consumable products	21.2	20.3	4%	14.9	42%	59.0	45.9	29%
Group Turnover	245.8	228.0	8%	256.5	-4%	717.8	703.4	2%
Segment Results								
Plastic products	26.4	24.1	10%	22.2	19%	72.5	51.8	40%
F&B, other consumable products	1.0	1.8	-45%	0.9	7%	3.4	2.4	43%
Group PBT	27.4	25.9	6%	23.2	18%	75.9	54.2	40%
PBT Margin								
Plastic products	11.8%	11.6%		9.2%		11.0%	7.9%	
F&B, other consumable products	4.8%	9.0%		6.3%		5.8%	5.2%	
Group PBT Margin	11.2%	11.4%		9.0%		10.6%	7.7%	

Source: Company, Kenanga Research

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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	2.81	538.2	Y	04/2021	16.0%	13.3%	101.7%	21.2%	31.0	15.3	12.7	3.2	2.8	19.5%	2.5%	3.85	OP
SCIENTEX BHD	11.88	6,140.4	Y	07/2021	14.9%	0.8%	11.6%	5.1%	19.2	14.0	13.3	2.6	2.2	17.3%	2.1%	10.00	MP
SLP RESOURCES BHD	0.930	294.8	Y	12/2020	-12.9%	25.1%	-18.9%	22.7%	11.6	15.5	11.6	1.5	1.4	8.5%	5.9%	0.950	MP
THONG GUAN INDUSTRIES BHD	3.26	1,233.8	Y	12/2020	3.9%	6.9%	23.7%	11.1%	20.1	16.3	14.7	2.1	1.9	12.6%	1.5%	3.25	MP
TOMYPAK HOLDINGS BHD	0.810	348.6	Y	12/2020	3.9%	6.7%	-84.8%	65.0%	N.A.	202.5	135.0	2.3	2.3	1.0%	0.0%	0.415	UP
Simple Average					5.2%	10.6%	6.7%	25.0%	17.9	51.2	36.1	2.4	2.2	11.8%	2.4%		

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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