

Thong Guan Industries Bhd

High Resin Costs But Margins Stable

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FY20 CNP of RM79m (+35%) exceeded our expectation at 106% of forecast. 4QFY20 DPS of 1.5 sen brings FY20 DPS to 4.0 sen, below our 4.7 sen estimate. In a quarter of soaring resin prices, its CNP margin (8%) was stable, as their higher margin products helped to cushion the rise. We raise FY21E CNP by 3% to RM87m and lower FY21E DPS to 4.6 sen. Introduce FY22E CNP of RM95m (+8%) and DPS of 5.0 sen. Maintain OP on lower TP of RM3.00 (from RM3.25) on 13x PER, down from 14x due to uncertain resin prices.

Better than expected. FY20 CNP of RM79m (+35%) exceeded our expectation at 106%. Top-line came within and margins across the board met expectations, but a lower-than-expected minority interest lifted CNP above our estimate. 4QFY20 DPS of 1.5 sen brought FY20 DPS to 4.0 sen (FY19: 4.3 sen) below our expectation of 4.7 sen, due to lower-than-expected payout ratio of 20% vs. our estimated 24%.

YoY, revenue rose 3% to RM961m (from RM935m) on the back of increase in sales volume of stretch film, courier bags, premium packaging films and F&B products. CNP rose 35% due to an increase in revenue and an increase in margins across the board (FY20 vs. FY19: GP margins: 17% vs 14%; EBIT margins: 10% vs. 8%; CNP margins: 8% vs. 6%). We believe that the rise in margins is not only due to higher-margin products such as premium stretch films and courier bags, but also due to favourable resin costs during the period, as 2QCY20 saw multi-year low resin prices.

QoQ, revenue fell 1% to RM243m (from RM246m) mainly due to delays in shipment and deferment of taking delivery by certain customers due to unprecedented high ocean freight costs. GP/PAT fell 13%/12%, while GP margin fell to 16% from 18% and PBT margin fell to 10% from 11%. Management attributes the decrease in profitability to stronger MYR/USD and higher shipping costs. After accounting for one-offs, CNP only fell 1%, while CNP margin held steady at 8.1%.

Stable margins. We believe the Group can continue to weather the storm of high resin prices, as shown in their flattish CNP margin during a period of soaring resin prices. Moving forward, we are cautiously optimistic over the Group's growing courier bag and premium-stretch film segments. While we believe that resin prices will remain high until 2HFY21 (average FY21 assumption: USD1,100/MT), we believe the Group stands to benefit once resin prices start to fall, boosted by their high-margin products.

Post results, we tweak FY21E CNP by +3% to RM87m, lower FY21E DPS to 4.6 sen on a lower payout ratio of 20% (from 24%). We introduce FY22E CNP of RM95m (+8%) and FY22E DPS of 5.0 sen (20% payout ratio).

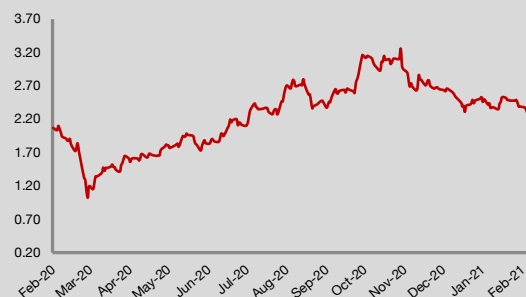
Maintain OUTPERFORM but with lower TP of RM3.00 (from RM3.25), which is derived using FY21E EPS of 23.0 sen and our ascribed PER of 13x, which is +1SD above its 5-year mean of 9.5x. We lowered valuation from +1.5SD to +1SD mainly due to the uncertain sentiment around resin prices, while imputing a slight premium to mean due to its growing premium products segments. Should resin prices turn favourable for TGUAN, we may ascribe a higher multiple.

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

OUTPERFORM ↔

Price: RM2.27
Target Price: RM3.00 ↓

Share Price Performance



KLCI 1,581.54
YTD KLCI chg -2.8%
YTD stock price chg -10.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	862.8
Shares Outstanding	380.1
52-week range (H)	3.35
52-week range (L)	0.98
3-mth avg daily vol:	1,058,092
Free Float	52%
Beta	1.2

Major Shareholders

Foremost Equals Sdn Bhd	39.1%
Employees Provident Fund Board	2.1%
Neoh Choo Ee & Company Sdn Bhd	1.9%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	960.6	1,084.0	1,177.4
EBIT	97.5	108.4	117.7
PBT	100.2	108.8	118.0
Net Profit (NP)	75.5	87.4	94.8
Core NP*	79.1	87.4	94.8
Consensus (NP)	-	-	-
Earnings Revision	-	+3%	-
Core EPS (sen)	0.21	0.23	0.25
EPS growth (%)	35%	10%	8%
NDPS (sen)	4.0	4.6	5.0
Core PER (x)	10.9	9.9	9.1
BVPS (RM)	1.7	1.9	2.1
PBV (x)	1.3	1.2	1.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	1.8	2.0	2.2



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Results Highlights

FYE Dec (RM m)	4Q20	3Q20	QoQ Change	4Q19	YoY Change	FY20	FY19	YoY Change
Turnover	242.7	245.8	-1%	231.6	5%	960.6	935.1	3%
EBIT	23.4	26.9	-13%	21.4	9%	97.5	75.7	29%
PBT	24.2	27.4	-12%	21.7	11%	100.2	75.9	32%
Taxation	(5.6)	(5.6)	0%	(3.1)	84%	(19.6)	(12.0)	63%
PATAMI	17.3	19.6	-12%	17.9	-3%	75.5	61.9	22%
Core PATAMI (CNP)	19.7	19.9	-1%	17.9	10%	79.1	58.7	35%
Core EPS (sen)	0.0	5.2	-100%	4.7	-100%	0.0	15.3	-100%
NDPS (sen)	1.5	1.0	-100%	4.3	-100%	4.0	4.3	-100%
Operating margin	9.6%	11.0%		9.2%		10.2%	8.1%	
Pretax margin	10.0%	11.2%		9.4%		10.4%	8.1%	
Core net profit margin	8.1%	8.1%		7.7%		8.2%	6.3%	
Effective tax rate	23.3%	20.6%		14.1%		19.6%	15.9%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	3Q20	2Q20	QoQ Change	3Q19	YoY Change	9M20	9M19	YoY 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)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.87	358.1	Y	04/2021	16.0%	13.3%	101.7%	21.2%	20.8	10.4	8.5	2.1	1.9	19.5%	3.7%	3.85	OP
SCIENTEX BHD	4.12	6,388.4	Y	07/2021	14.9%	0.8%	11.6%	5.1%	15.7	14.1	13.4	2.7	2.2	17.3%	2.1%	3.78	MP
SLP RESOURCES BHD	0.890	282.1	Y	12/2021	22.3%	11.7%	21.6%	9.6%	17.1	14.4	13.1	1.4	1.3	9.7%	6.2%	0.950	MP
THONG GUAN INDUSTRIES BHD	2.27	862.8	Y	12/2021	12.8%	8.6%	10.5%	8.5%	10.9	9.9	9.1	1.4	1.2	13.0%	2.0%	3.00	OP
TOMYPAK HOLDINGS BHD	0.710	305.7	Y	12/2021	12.8%	3.8%	2200.0%	87.0%	N/A	142.0	71.0	1.7	1.6	1.1%	0.0%	0.415	UP
Simple Average					15.8%	7.7%	469.1%	26.3%	16.1	38.1	23.0	1.8	1.7	12.1%	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%

*****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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