

23 May 2023

Thong Guan Industries

A Soft Patch, Growth Ambition Intact

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TGUAN's 1QFY23 results disappointed due to a soft top line and higher operating cost. It is navigating the current downtrend in global demand for plastic packaging by expanding its capacity at a measured pace and growing its client base. We cut our FY23F and FY24F earnings by 14% and 18%, respectively, trim our TP by 2% to RM3.22 (from RM3.28) but maintain our OUTPERFORM call.

Below expectations. 1QFY23 core net profit came in at only 18% of both our full-year forecast and the full-year consensus estimate. The key variances against our forecast came from a soft top line but higher operating cost, particularly, staff and utility costs.

Results' highlights. YoY, 1QFY23 revenue dropped by 6% due to lower ASPs across the board in tandem with the decline in raw material prices amid a slowdown in the global economy for its plastic packaging segment (-8%), partially cushioned by its sales to the food and beverages segment (+20%). Net profit declined by a larger 15%, weighed down by higher labour and utility costs.

QoQ, 1QFY23 revenue held up as demand and ASP stabilised sequentially. However, net profit declined by 25% as a better product mix that skewed toward higher margin products was unable to cushion higher overheads as mentioned.

Outlook. The demand outlook for the plastic packaging sector in 2023 appears favourable, especially for 1HCY23, dampened by slower global economic growth. As such, we believe TGUAN will expand its capacity at a measured pace and grow its client base to enable it to gain market share from overseas competitors. We understand that it made a rather impressive debut in the recent "Interpack" plastic and packaging trade fair in Düsseldorf, Germany.

TGUAN will continue to expand its capacity by installing more machines (stretch and blown film machines) in its 16-acre plant to secure more orders, and actively seek potential customers. TGUAN revealed that its current utilization rate is at 65%-70% (optimal 75%-80%).

Forecasts. We cut our FY23F and FY24F earnings by 14% and 18%, respectively, to reflect a softer top line but higher operating cost.

We trim our TP by only 2% to RM3.22 (from RM3.28) as we roll forward our valuation base year to FY24F with an unchanged ascribed PER of 11x, at a discount to the sector's average historical forward PER of 13x to reflect TGUAN's low share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

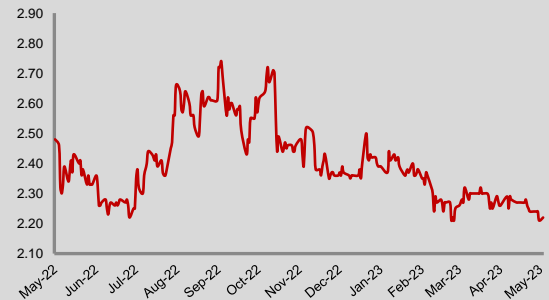
We like TGUAN for: (i) the growth potential of the local plastic packaging sector as Malaysian players like TGUAN are gaining market shares from overseas producers that are losing their competitiveness due to the rising production cost, (ii) TGUAN's earnings stability underpinned by a more diversified product portfolio, and (iii) its expansion plans for premium products (nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags). Maintain **OUTPERFORM**.

Risks to our call include: (i) sustained higher resin cost, (ii) the demand for packaging materials hurt by a global recession, and (iii) prolonged labour shortages.

OUTPERFORM ↔

Price: **RM2.22**
Target Price: **RM3.22** ↓

Share Price Performance



KLCI	1,419.00
YTD KLCI chg	-5.1%
YTD stock price chg	-5.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	869.3
Shares Outstanding	391.6
52-week range (H)	2.76
52-week range (L)	2.19
3-mth avg daily vol:	183,771
Free Float	50%
Beta	0.7

Major Shareholders

Foremost Equals SdnBhd	38.0%
EastspringInvBhd	5.0%
Kenanga Funds Bhd	2.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1386.5	1400.7	1538.0
EBIT	127.3	137.3	152.3
PBT	124.5	136.1	152.7
Net Profit (NP)	100.0	102.2	114.6
Core NP*	111.3	102.2	114.6
Consensus (NP)	-	117.5	133.0
Earnings Revision	-	-14%	-18%
Core EPS (sen)	28.4	26.1	29.3
EPS growth (%)	17.8	-8.2	12.2
NDPS (sen)	6.0	5.5	5.5
Core PER (x)	7.8	8.5	7.6
BVPS (RM)	2.2	2.4	2.6
PBV (x)	1.0	0.9	0.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.7	2.5	2.5

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Results Highlights

FYE Dec (RM m)	1QFY23	4QFY22	QoQ Chg	1QFY22	YoY Chg
Revenue	313.6	317.5	-1%	333.0	-6%
EBIT	26.2	23.8	10%	31.3	-16%
PBT	24.6	22.6	9%	31.3	-22%
Taxation	-4.4	-2.6	0.7	-6.4	-0.3
PATAMI	19.6	19.3	1%	24.6	-21%
Core PATAMI (CNP)	21.3	28.5	-25%	24.9	-15%
Core EPS (sen)	5.4	7.3	-25%	6.4	-15%
NDPS (sen)	1.25	2.25	-44%	1.25	0%
Effective tax rate (%)	18.1	11.5		20.4	
Operating margin (%)	8.4	7.5		9.4	
PBT Margin (%)	7.8	7.1		9.4	
Core Net Profit Margin (%)	6.8	9.0		7.5	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1QFY23	4QFY22	QoQ Chg	1QFY22	YoY Chg
Turnover					
Plastic products	283.7	286.9	-1%	308.1	-8%
F&B, other consumable products	29.9	30.6	-2%	24.9	20%
Group Turnover	313.6	317.5	-1%	333.0	-6%
Segment Results					
Plastic products	22.4	20.4	10%	29.9	-25%
F&B, other consumable products	2.2	2.2	0%	1.4	62%
Group PBT	24.6	22.6	9%	31.3	-22%
PBT Margin					
Plastic products	7.9%	7.1%		9.7%	
F&B, other consumable products	7.4%	7.2%		5.5%	
Group PBT Margin	7.8%	7.1%		9.4%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																		
ANCOM NYLEX BHD	OP	1.01	1.80	78.22%	944.1	Y	05/2023	8.0	12.0	38.5%	50.1%	12.6	8.4	1.9	15.8%	0.0	0.0%	
BOILERMECH HOLDINGS BHD	UP	0.685	0.700	2.19%	353.5	Y	03/2023	2.3	4.3	-31.2%	89.7%	30.2	15.9	1.4	4.6%	1.8	2.6%	
BP PLASTICS HOLDINGS BHD	OP	1.24	1.63	31.45%	349.0	Y	12/2023	13.6	15.1	23.9%	10.7%	9.1	8.2	1.4	15.8%	5.5	4.4%	
HIL INDUSTRIES BHD	UP	1.01	0.810	-19.80%	335.3	Y	12/2023	10.2	11.5	46.1%	12.7%	9.9	8.8	0.8	7.8%	2.0	2.0%	
HPP HOLDINGS Bhd	OP	0.290	0.440	51.72%	112.6	Y	05/2023	2.3	3.5	8.3%	47.3%	12.4	8.4	0.9	7.4%	2.0	6.9%	
KUMPULAN PERANGSANG SELANGOR BHD	MP	0.795	0.700	-11.95%	427.2	Y	12/2023	6.2	7.0	19.1%	13.0%	12.9	11.4	0.4	3.1%	2.5	3.1%	
SCIENTEX BHD	UP	3.35	2.99	-10.75%	5,196.1	Y	07/2023	30.6	35.5	15.0%	16.0%	10.9	9.4	1.6	15.5%	7.4	2.2%	
SLP RESOURCES BHD	MP	0.895	1.09	21.79%	283.7	Y	12/2023	5.8	7.0	13.6%	20.7%	15.4	12.8	1.5	9.8%	5.5	6.1%	
TECHBOND GROUP BHD	OP	0.380	0.450	18.42%	201.2	Y	06/2023	1.9	3.8	-9.8%	98.0%	19.9	10.1	1.2	6.2%	1.0	2.6%	
THONG GUAN INDUSTRIES BHD	OP	2.22	3.22	45.05%	869.3	Y	12/2023	26.1	29.3	-8.2%	12.2%	8.5	7.6	1.0	12.6%	5.5	2.5%	
Simple Average					9,072.0					22.2%	20.7%	11.3	9.3	1.3	11.3%		3.3%	

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	★	★
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
	SPECIFIC	Migrant Worker Welfare	★	★	★
Waste Disposal/Pollution Control		★	★	★	☆
Work Site Safety		★	★	★	
Usage of Biodegradable Materials		★	★	★	☆
Supply Chain Auditing		★	★	★	
Energy Efficiency		★	★	★	★
OVERALL			★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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