# **Thong Guan Industries**

# Forges Ahead with Growth Plans

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TGUAN guided for better margins ahead as it has cleared its high-cost inventory. The order backlog of its stretch film has recovered to c.80% of the peak in FY22, indicating that the demand decline may have bottomed out. In Europe where it has made significant inroads with secured orders, it believed it has made further progress after participating in an international trade fair there. We maintain our forecasts, TP of RM3.22 and OUTPERFORM call.

We came away from an engagement with TGUAN yesterday feeling encouraged despite a challenging operating condition. The key takeaways are as follows:

- TGUAN guided for better margins ahead as it has cleared its highcost inventory and that the weak 1QFY23 performance was largely due to high raw material cost.
- 2. The order backlog of its stretch film has recovered to c.80% of the peak in FY22, after a 50% drop in 4QFY22, indicating that the demand decline may have bottomed out.
- 3. TGUAN has also made significant inroads in overseas markets, especially in Europe where it has secured orders from brand owners that will translate to better ASP and hence margins. It impressed potential MNC customers with its mobile testing truck and nano stretch film in a recent international trade fair in Europe.
- 4. TGUAN is adding a new leased warehouse in the US (in addition to the existing two it already operates) to effect just-in-time delivery services. It is targeting a new customer in the beverages sector with this new capacity.
- 5. The commissioning of its 10<sup>th</sup>nano stretch film line has been pushed back to 2HFY23 (from 2QCY23) while its 9<sup>th</sup>nano stretch film line is the midst of installation. Meanwhile, its two new blown film lines (4<sup>th</sup> and 5<sup>th</sup>) are on track to be operational by end-FY23.

#### Forecasts. Maintained.

We also maintain our TP of RM3.22 based on 11x FY24F PER, 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 continue to 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 building up solid clientele base, 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: RM2.19
Target Price: RM3.22 ↔

### **Share Price Performance**



KLUI	1,411.54
YTD KLCI chg	-5.6%
YTD stock price chg	-7.2%

#### **Stock Information**

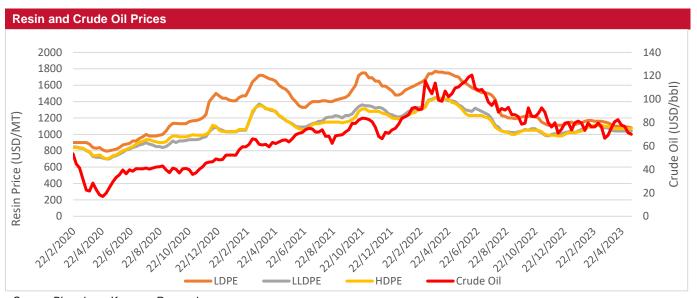
Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	857.6
Shares Outstanding	391.6
52-week range (H)	2.76
52-week range (L)	2.19
3-mth avg daily vol:	170,050
Free Float	50%
Beta	0.7

#### **Major Shareholders**

Foremost Equals SdnBhd	38.0%
EastspringInvBhd	5.0%
Eastspring Invest Sm	2.8%

#### **Summary Earnings Table**

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FY Dec (RMm)	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	100.0	102.2	114.6
Core PATAMI	111.3	102.2	114.6
Consensus (NP)	-	110.0	122.5
Earnings Revision	-	-	-
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



Source: Bloomberg, Kenanga Research

In some Ctatement						Financial Data & Ra					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue						Growth (%)	2020A	202 IA	ZUZZA	2023F	20246
EBITDA	960.6	1214.9	1386.5	1400.7	1538.0	Revenue					
Depreciation	124.7	153.6	159.1	174.1	197.1	EBITDA	2.3	26.5	14.1	1.0	9.8
EBIT	-27.5	-30.2	-31.7	-36.8	-44.8	EBIT	25.2	23.2	3.6	9.4	13.2
IntExp/(Income)	97.2	123.4	127.3	137.3	152.3	Pre-tax Income	29.2	26.9	3.2	7.8	10.9
Associates P/L	1.6	1.3	-3.7	-1.1	0.4	Net Income	32.4	25.3	-0.6	9.4	12.2
PBT	1.1	0.5	8.0	0.0	0.0	Core Net Income	21.8	23.3	7.6	2.2	12.2
Taxation	99.9	125.2	124.5	136.1	152.7	Core Net Income	17.2	23.7	17.8	-8.2	12.2
	-19.7	-27.2	-22.8	-28.6	-32.1	Drofitability (9/)					
Minority Interest	5.0	5.1	1.7	5.4	6.0	Profitability (%)					
PATAMI	75.3	92.9	100.0	102.2	114.6	EBITDA Margin	13.0	12.6	11.5	12.4	12.8
Core PATAMI	76.3	94.4	111.3	102.2	114.6	EBIT Margin	10.1	10.2	9.2	9.8	9.9
<b>-</b>						PBT Margin	10.4	10.3	9.0	9.7	9.9
Balance Sheet						Net Margin	7.9	7.8	8.0	7.3	7.5
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	Effective Tax Rate	19.7	21.7	18.3	21.0	21.0
Fixed Assets	294.8	328.6	400.2	487.0	581.8	ROE	11.8	12.9	13.6	11.3	11.4
Intangibles	2.0	3.0	4.0	5.0	6.0	ROA	7.5	7.7	8.5	7.2	7.4
Other FA	29.0	71.5	50.8	5.0	5.0						
Inventories	210.2	257.5	284.8	299.1	325.6						
Receivables	180.1	262.7	290.6	281.2	315.5	DuPont Analysis					
Other CA	2.8	4.5	4.0	0.0	0.0	Net margin (%)	7.9	7.8	8.0	7.3	7.5
Cash	293.7	292.9	274.0	342.1	308.2	Assets Turnover (x)	0.9	1.0	1.1	1.0	1.0
Total Assets	1012.6	1220.8	1308.4	1419.4	1542.1	Leverage Factor (x)	1.6	1.7	1.6	1.6	1.5
						ROE (%)	11.8	12.9	13.6	11.3	11.4
Payables	169.1	229.0	183.2	246.8	270.9						
ST Borrowings	89.8	121.0	164.8	169.8	164.8	Leverage					
Other ST liability	7.6	6.4	7.0	0.0	0.0	Debt/Asset (x)	0.14	0.15	0.17	0.16	0.15
LT Borrowings	56.7	65.3	58.7	58.3	59.3	Debt/Equity (x)	0.23	0.25	0.27	0.25	0.22
Other LT liability	19.1	34.4	40.5	8.6	20.5	N.Debt/(Cash)	-147.2	-106.6	-50.5	-114.1	-84.2
Net Assets	645.3	733.8	821.1	907.1	1002.7	N.Debt/Equity (x)	-0.23	-0.15	-0.06	-0.13	-0.08
						Valuations					
Share Capital	237.1	246.5	255.5	255.5	255.5	Core EPS (sen)	19.5	24.1	28.4	26.1	29.3
Reserves	408.3	487.3	565.5	651.5	750.6	NDPS (sen)	2.40	5.39	5.99	5.50	5.50
S. Equity	645.3	733.8	821.1	907.1	1002.7	BV/share (RM)	1.7	1.9	2.2	2.4	2.6
						Core PER (x)	11.4	9.2	7.8	8.5	7.6
Cashflow Statement						Net Div. Yield	1.5	1.0	2.3	1.1	2.4
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	PBV (x)	1.3	1.1	1.0	0.9	0.8
Operating CF	125.8	51.1	64.9	135.3	42.6						
Investing CF	-51.5	-76.6	-100.5	-50.0	-50.0						
Financing CF	-9.5	22.6	10.5	-16.5	-26.5						
Source: Kenanga Re	search										



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Name	Rating	Last Price	Target Price	Upside	Market Cap (RM'm)	Shariah Compliant	Current	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
	J	(RM)	(RM)	(%)			FYE	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.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.01	1.80	78.22%	944.4	Υ	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	0.690	0.700	1.45%	356.0	Υ	03/2023	2.3	4.3	-31.2%	89.7%	30.4	16.0	1.4	4.6%	1.8	2.6%
BP PLASTICS HOLDINGS BHD	OP	1.20	1.63	35.83%	337.8	Υ	12/2023	13.6	15.1	23.9%	10.7%	8.8	7.9	1.3	15.8%	5.5	4.6%
HIL INDUSTRIES BHD	UP	1.01	0.810	-19.80%	335.3	Υ	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	0.285	0.440	54.39%	110.7	Υ	05/2023	2.3	3.5	8.3%	47.3%	12.2	8.3	0.9	7.4%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR BHD	MP	0.780	0.700	-10.26%	419.2	Υ	12/2023	6.2	7.0	19.1%	13.0%	12.7	11.2	0.4	3.1%	2.5	3.2%
SCIENTEX BHD	UP	3.35	2.99	-10.75%	5,196.1	Υ	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	Υ	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	0.385	0.450	16.88%	203.8	Υ	06/2023	1.9	3.8	-9.8%	98.0%	20.2	10.2	1.2	6.2%	1.0	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.19	3.22	47.03%	857.6	Υ	12/2023	26.1	29.3	-8.2%	12.2%	8.4	7.5	1.0	12.6%	5.5	2.5%
Simple Average					9,044.4					22.2%	20.7%	11.2	9.3	1.3	11.3%		3.3%

Source: Kenanga Research

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#### **Stock ESG Ratings:**

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

denotes half-star

+ -10% 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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