

24 May 2023

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:

1. TGUAN guided for better margins ahead as it has cleared its high-cost 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 10th nano stretch film line has been pushed back to 2HFY23 (from 2QCY23) while its 9th nano stretch film line is the midst of installation. Meanwhile, its two new blown film lines (4th and 5th) 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).

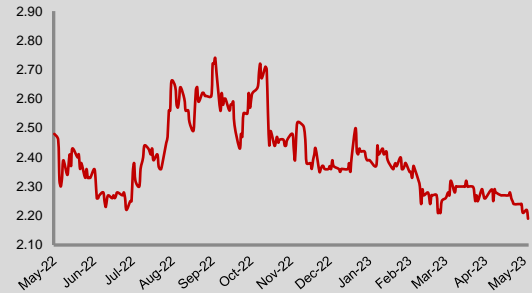
We continue to like TGUAN for: (i) the growth potential of the local plastic packaging sector as Malaysian players like TGUAN are gaining market shares from overseas producers that are losing their competitiveness due to the rising production cost, (ii) TGUAN's earnings stability underpinned by a more 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



KLCI 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

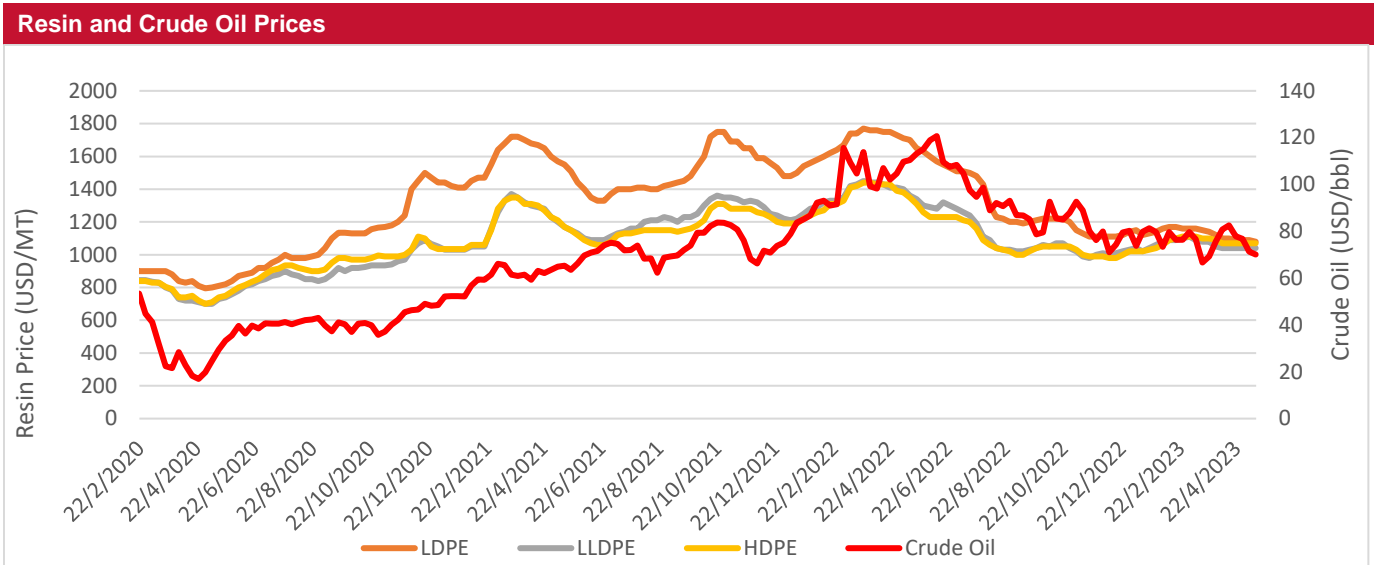
Major Shareholders

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

Summary Earnings Table

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

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Source: Bloomberg, 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. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.01	1.80	78.22%	944.4	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	0.690	0.700	1.45%	356.0	Y	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	Y	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	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	0.285	0.440	54.39%	110.7	Y	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	Y	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	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	0.385	0.450	16.88%	203.8	Y	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	Y	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	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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