

15 March 2024

# Thong Guan Industries

## Green Shoots of Recovery

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TGUAN guided for improved demand as its customers restock ahead of price hikes amidst the rising cost of input resin. It has since 4QFY23 seen improved sales in Europe, and is stepping up its marketing efforts in the US. We maintain our forecasts, TP of RM2.86 and OUTPERFORM call.

We came away from a post-results engagement with TGUAN feeling reassured of its prospects. The key takeaways are as follows:

- TGUAN guided for improved demand for its plastic packaging products as its customers see the urgency to restock ahead of price hikes amidst rising cost of input resin. Stretch films and industrial bags, which made up about 50% and 17% of its FY23 total revenue, respectively, will remain the main drivers. There is strong demand for nano stretch film in overseas markets such as the US, South Africa and South Korea, while the sales of industrial bag will be boosted by new product offering from its new premium blown film lines, as well as shrink film and stretch hood.
- TGUAN has since 4QFY23 seen improved sales in the UK, Germany and the Scandinavian region which typically offer better margins. Meanwhile, in the US market, TGUAN is stepping up its efforts to secure new customers for its premium products (such as nano stretch film), including the hiring of local sales personnel in 4QFY23.
- Amidst an improved demand outlook, TGUAN is hopeful that its plant utilisation will hit 80% by the end of the year, from 60%-70% currently. With substantial unused capacity at present, TGUAN has no major capex plan in FY24 except for: (i) an additional stretch hood line to cater to both domestic and European markets, (ii) an additional shrink film line dedicated to mineral water packaging, and (iii) a tenth nano stretch film line (which is already under installation at present).
- TGUAN also shared with us granularity in the recently announced FY23 results:
  - It recorded positive volume growth in stretch film (+6%) and industrial bags (+4%) while contraction in garbage bags (-14%), PVC food wraps (-18%) and courier bags (-15%). The numbers suggest resilience in the shipping and logistics sector (stretch film) and the consumer sector (industrial bags which include oil bags, flour bags and sugar bags) but weakness in the e-commerce sector (courier bags).
  - Its staple food division (coffee, tea, noodles, etc.) grew 8% in volume driven by growing sales both locally and in Thailand.
  - It clarified the RM10m impairment on trade receivables in 4QFY23 came from the sales of resin to a local customer. While TGUAN had collected part of the amount, the payment for the balance would not be immediate and as such its auditors believed it would only be prudent to make an impairment on the entire outstanding amount.

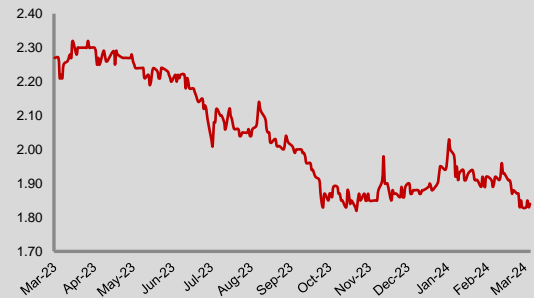
**Forecasts.** Maintained.

**Valuations.** We also keep our TP of RM2.86 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 5).

**OUTPERFORM** ↔

**Price:** RM1.84  
**Target Price:** RM2.86 ↔

### Share Price Performance



KLCI 1,543.75  
YTD KLCI chg 6.1%  
YTD stock price chg -2.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK EQUITY
Market Cap (RM m)	731.1
Shares Outstanding	397.3
52-week range (H)	2.32
52-week range (L)	1.78
3-mth avg. daily vol.	302,600
Free Float	51%
Beta	0.6

### Major Shareholders

Foremost Equals Sdn Bhd	37.4%
Eastspring Inv Bhd	5.2%
Citigroup Inc	2.3%

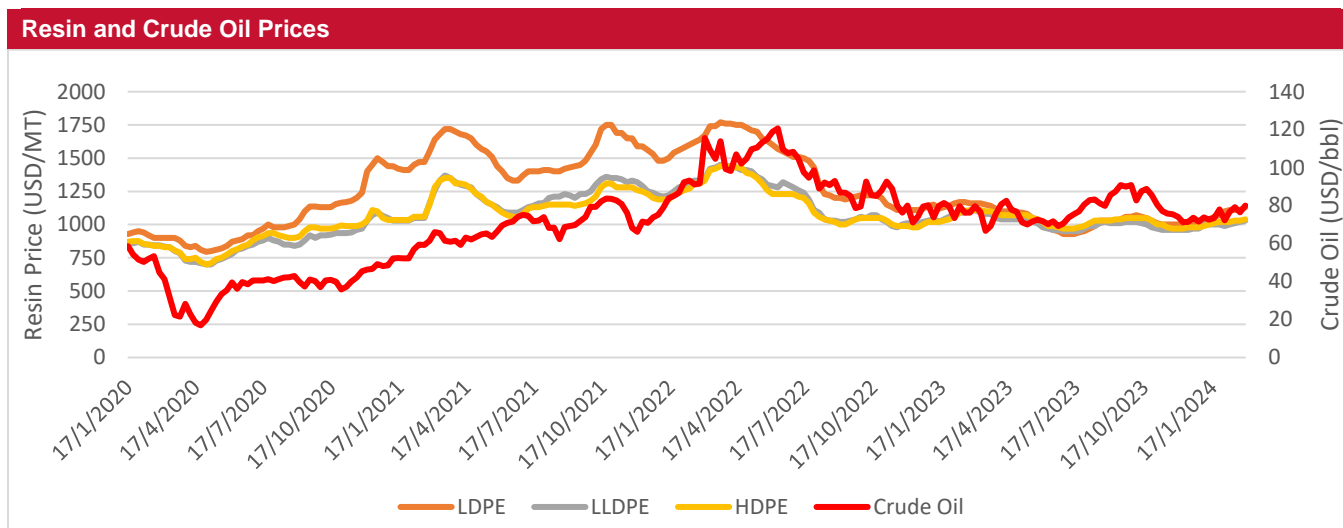
### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1240.1	1386.6	1570.2
EBIT	97.7	138.0	153.5
PBT	91.4	133.5	150.5
<b>Net Profit</b>	<b>71.0</b>	<b>102.3</b>	<b>119.3</b>
<b>Core Net Profit</b>	<b>83.7</b>	<b>102.3</b>	<b>119.3</b>
Consensus (NP)	-	97.7	112.7
Earnings Revision	-	-	-
Core EPS (sen)	21.2	25.8	30.0
EPS Growth (%)	-26.5	21.8	16.6
NDPS (sen)	4.3	5.5	6.0
Core PER (x)	8.7	7.1	6.1
BVPS (RM)	2.4	2.6	2.8
PBV (x)	0.8	0.7	0.6
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.3	3.0	3.3

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**Investment case.** We continue to like TGUAN due to: (i) the growth potential from exports as more competitive players, such as TGUAN, gain market shares from overseas producers, (ii) its aggressive push into Europe and US markets with environmentally-friendly, high-performing products, and (iii) its expansion plans for premium products, such as nano stretch films, courier bags, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags). Reiterate **OUTPERFORM**.

**Risks to our call include:** (i) a sudden surge in resin costs, (ii) weak demand for packaging materials due to prolonged global recession, and (iii) supply chain disruptions.



Source: Bloomberg, Kenanga Research

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### Income Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	1214.9	1386.5	1240.1	1386.6	1570.2
EBITDA	153.6	159.1	132.8	172.8	194.0
Depreciation	-30.2	-31.7	-35.1	-34.7	-40.5
EBIT	123.4	127.3	97.7	138.0	153.5
Int Exp/(Income)	1.3	-3.7	-6.7	-4.5	-3.0
Associates P/L	0.5	0.8	0.3	0.0	0.0
PBT	125.2	124.5	91.4	133.5	150.5
Taxation	-27.2	-22.8	-19.5	-28.0	-29.3
Minority Interest	5.1	1.7	0.9	3.2	1.8
Net Profit	92.9	100.0	71.0	102.3	119.3
Core Net Profit	94.4	111.3	83.7	102.3	119.3

### Balance Sheet

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	328.6	400.2	463.2	547.9	638.4
Intangibles	3.0	4.0	5.0	6.0	6.0
Other FA	71.5	50.8	63.0	63.0	63.0
Inventories	257.5	284.8	322.6	309.4	359.5
Receivables	262.7	290.6	248.1	289.3	323.6
Other CA	4.5	4.0	3.7	3.7	3.7
Cash	292.9	274.0	298.1	287.5	217.0
<b>Total Assets</b>	<b>1220.8</b>	<b>1308.4</b>	<b>1403.5</b>	<b>1506.6</b>	<b>1611.1</b>
Payables	229.0	183.2	199.5	219.9	235.8
ST Borrowings	121.0	164.8	139.4	129.4	119.4
Other ST liability	6.4	7.0	4.5	17.9	19.6
LT Borrowings	65.3	58.7	58.7	59.3	62.5
Other LT liability	34.4	40.5	42.6	39.8	38.0
<b>Net Assets</b>	<b>733.8</b>	<b>821.1</b>	<b>924.0</b>	<b>1007.6</b>	<b>1104.9</b>
Share Capital	246.5	255.5	262.8	262.8	262.8
Reserves	487.3	565.5	661.1	744.8	842.0
<b>S. Equity</b>	<b>733.8</b>	<b>821.1</b>	<b>924.0</b>	<b>1007.6</b>	<b>1104.9</b>

### Cashflow Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	51.1	64.9	172.3	71.7	13.3
Investing CF	-76.6	-100.5	-104.7	-50.0	-50.0
Financing CF	22.6	10.5	-44.9	-31.8	-33.8

### Financial Data & Ratios

FY Dec	2020A	2021A	2022A	2023F	2024F
<b>Growth (%)</b>					
Revenue	26.5	14.1	-10.6	11.8	13.2
EBITDA	23.2	3.6	-16.5	30.1	12.3
EBIT	26.9	3.2	-23.2	41.2	11.2
PBT	25.3	-0.6	-26.6	46.1	12.7
Net Profit	23.3	7.6	-29.0	44.1	16.6
Core Net Profit	23.7	17.8	-24.8	22.3	16.6
<b>Profitability (%)</b>					
EBITDA Margin	12.6	11.5	10.7	12.5	12.4
EBIT Margin	10.2	9.2	7.9	10.0	9.8
PBT Margin	10.3	9.0	7.4	9.6	9.6
Net Margin	7.8	8.0	6.7	7.4	7.6
Effective Tax Rate	21.7	18.3	21.3	21.0	19.5
ROE	12.9	13.6	9.1	10.2	10.8
ROA	7.7	8.5	6.0	6.8	7.4
<b>DuPont Analysis</b>					
Net Margin (%)	7.8	8.0	6.7	7.4	7.6
Assets Turnover (x)	1.0	1.1	0.9	0.9	1.0
Leverage Factor (x)	1.7	1.6	1.5	1.5	1.5
ROE (%)	12.9	13.6	9.1	10.2	10.8
<b>Leverage</b>					
Debt/Asset (x)	0.15	0.17	0.14	0.13	0.11
Debt/Equity (x)	0.25	0.27	0.21	0.19	0.16
N.Debt/(Cash)	-104.1	-47.4	-97.8	-96.6	-32.9
N.Debt/Equity (x)	-0.15	-0.06	-0.11	-0.10	-0.03
<b>Valuations</b>					
Core EPS (sen)	24.8	28.8	21.2	25.8	30.0
NDPS (sen)	5.54	6.07	4.25	5.50	6.00
BV/share (RM)	2.0	2.2	2.4	2.6	2.8
Core PER (x)	7.4	6.4	8.7	7.1	6.1
Net Div. Yield	3.0	3.3	2.3	3.0	3.3
PBV (x)	0.9	0.8	0.8	0.7	0.6

Source: 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
ANCOM NYLEX BHD	OP	1.03	1.50	45.6%	993.5	Y	05/2024	9.4	11.2	35.7%	21.3%	10.9	9.2	1.7	16.6%	1.0	1.0%
BM GREENTECH BHD	UP	0.940	0.810	-13.8%	485.0	Y	03/2024	5.2	5.1	91.5%	-2.8%	18.0	18.5	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	OP	1.32	1.42	7.6%	371.6	Y	12/2024	14.2	16.4	19.7%	15.5%	9.3	8.0	1.3	14.6%	6.5	4.9%
HPP HOLDINGS BHD	OP	0.320	0.640	100.0%	124.3	Y	05/2024	2.7	4.9	14.0%	81.1%	11.7	6.5	1.0	8.4%	1.5	4.7%
KUMPULAN PERANGSANG SELANGOR	UP	0.760	0.450	-40.8%	408.4	Y	12/2024	4.0	4.7	422.0%	18.7%	19.1	16.1	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	MP	3.86	3.75	-2.8%	5,987.9	Y	07/2024	35.2	36.5	31.7%	3.6%	11.0	10.6	1.5	14.4%	11.0	2.8%
SLP RESOURCES BHD	OP	0.955	1.06	11.0%	302.7	Y	12/2024	5.2	6.3	50.5%	21.3%	18.5	15.2	1.6	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.405	0.450	11.1%	216.8	Y	06/2024	3.8	4.1	112.8%	9.5%	10.7	9.8	1.2	11.5%	1.5	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.84	2.86	55.4%	731.1	Y	12/2024	25.8	30.0	22.2%	16.6%	7.1	6.1	0.7	10.3%	5.5	3.0%
<b>Sector Aggregate</b>					<b>9,621.4</b>					<b>51.6%</b>	<b>9.1%</b>	<b>10.9</b>	<b>10.0</b>	<b>1.2</b>	<b>11.4%</b>		<b>3.4%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	☆	
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★	★	☆	
	Resource Management	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★	★	
<b>OVERALL</b>		★	★	★	☆	

☆ 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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Published by:

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