Techbond Group

Cost Synergy Misses, Prospects Intact

OUTPERFORM ↔

Price : **RM0.44**

Target Price : **RM0.50 ↔**

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TECHBND's 9MFY24 results disappointed as cost synergy from integration with Malaysian Adhesives and Chemicals (MAC) fell short. Nonetheless, its 9MFY24 core net profit more than tripled YoY driven by strong demand for its adhesive products and maiden contribution from MAC. We maintain our forecasts, TP of RM0.50 and OUTPERFORM call.

TECHBND's 9MFY24 core net profit of RM12.6m disappointed, coming in at only 63% of our full-year forecast. The variance came largely from lower-than-expect cost synergy from integration with MAC. Consensus estimate is unavailable.

YoY, its 9MFY24 revenue jumped 50% driven largely by: (i) higher sales volumes for its adhesive and sealant products, we believe, due to a pick-up in orders from the furniture industry, and (ii) maiden contribution from newly acquired MAC. However, its core net profit more than tripled on a lower input cost and an improved product mix.

QoQ, its 3QFY24 core net profit dropped 26% on a 10% contraction in top line mainly due to lower productivity during the quarter on long festive holidays, coupled with higher input cost.

Outlook. TECHBND's FY24 earnings growth will be driven by: (i) the first full-year contribution from MAC, and (ii) the synergy from MAC's integration into its existing operations, both in terms of cost as well as the cross-selling of MAC's products to its wider client network.

To recap, TECHBND's existing products mainly cater to the timber panel, wooden furniture as well as fast-moving consumer goods (FMCG) sectors such as water-resistant sticky labels for beverage bottles and adhesives for carton packaging replacing plastic straps or cling film. On the other hand, MAC's adhesive products are used further upstream, catering to the production of chipboard, particle board, and paper carton packaging. MAC is also the sole global producer of microspheres which are tiny and hollow spheres used in the aerospace industry.

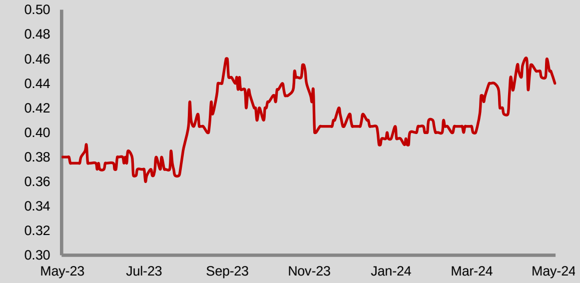
Forecasts. We cut our FY24F earnings forecast by 15% to reflect lower cost synergy from the integration with MAC, while maintaining our FY25F numbers.

Valuations. However, we maintain our TP of RM0.50 based on 13.5x fully-diluted CY25F EPS of 3.7 sen, in-line with the forward PER of its international peers such as H.B. Fuller Co, Henkel AG & Co and 3M Co. While the group is much smaller than benchmarked peers, we believe the PER valuation is justified given the specialised nature of its business and exposure to niche markets that have less competition. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We continue to like TECHBOND for: (i) customer-centric, solution-provider and manufacturer model, (ii) strong customer base across both consumer and woodworking sectors, and (iii) its growing presence in upstream and midstream operations through MAC. Maintain **OUTPERFORM**.

Key risks to our call include: (i) an extended downturn in the furniture sector, (ii) unfavourable foreign exchange movements, and (iii) lower-than-expected production levels from both the core group and MAC.

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	8.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TECHBND MK Equity
Market Cap (RM m)	240.2
Shares Outstanding	546.0
52-week range (H)	0.47
52-week range (L)	0.36
3-mthavg daily vol	846,958
Free Float	22%
Beta	1.1

Major Shareholders

Sonicbond Sdn Bhd	69.8%
Ching Hean Chong	1.9%
Ong Keng Seng	0.8%

Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	108.9	114.2	123.3
EBIT	12.1	21.8	30.7
PBT	12.8	22.4	28.8
Net Profit	**11.0**	**17.0**	**21.9**
Core Net Profit	**9.6**	**17.0**	**21.9**
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	1.5	3.2	4.3
Core EPS Growth (%)	12.6	113.9	34.1
NDPS (sen)	0.8	1.3	1.3
BVPS (RM)	0.3	0.4	0.4
PER (x)	29.3	13.8	10.3
PBV (x)	1.4	1.2	1.1
Net Gearing (x)	(0.0)	(0.1)	(0.2)
Net Div. Yield (%)	1.7	2.8	2.8

Results Highlights

FYE Jun (RM m)	3Q FY24	2Q FY24	QoQ Chg	3Q FY23	YoY Chg	9M FY24	9M FY23	YoY Chg
Revenue	36.1	40.2	-10%	26.6	36%	112.6	74.8	50%
Cost of sales	-26.6	-29.1	-9%	-20.5	29%	-83.1	-58.8	41%
Gross Profit	**9.5**	**11.0**	**-14%**	**6.1**	**56%**	**29.5**	**16.0**	**85%**
Other income	0.5	0.4	7%	0.6	-24%	1.2	3.9	-69%
Administration expenses	-3.7	-3.7	-1%	-4.2	-12%	-10.8	-9.3	15%
Distribution expenses	-1.4	-1.6	-13%	-1.0	36%	-4.5	-2.8	59%
Other expenses	-0.1	-0.7	-83%	0.0	12200%	-1.5	-3.1	-51%
Operating Profit	**4.8**	**5.4**	**-12%**	**3.1**	**53%**	**14.0**	**6.3**	**121%**
Finance income	0.2	0.3	-38%	0.3	-35%	0.9	0.8	20%
Finance cost	-0.1	-0.2	-44%	-0.1	-9%	-0.6	-0.1	365%
Profit before tax	**4.9**	**5.6**	**-13%**	**3.3**	**47%**	**14.4**	**7.0**	**106%**
Tax expense	-0.8	-1.2	-32%	-0.4	114%	-2.9	-1.2	134%
Net Profit	**4.0**	**4.3**	**-7%**	**2.9**	**38%**	**11.5**	**5.7**	**100%**
Core Net Profit	**3.8**	**5.1**	**-26%**	**1.1**	**253%**	**12.6**	**3.9**	**221%**
GP margin	26%	28%		23%		26%	21%	
EBIT margin	13%	14%		12%		12%	8%	
PBT margin	14%	14%		12%		13%	9%	
Net profit margin	11%	11%		11%		10%	8%	
Core net profit margin	11%	13%		4%		11%	5%	
Effective tax rate	17%	22%		12%		20%	18%	

Source: Bursa, Company, Kenanga Research

Segmental Breakdown

FYE Jun (RM m)	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Revenue	**FY24**	**FY24**	**Chg**	**FY23**	**Chg**	**FY24**	**FY23**	**Chg**
Adhesives and sealants	33.6	37.7	-11%	25.3	33%	106.2	71.3	49%
Supporting products & services	2.3	2.3	-3%	1.3	75%	5.9	3.5	67%
Others	0.2	0.2	1%	5.0	-97%	0.5	0.0	N.A.
Total	**36.1**	**40.2**	**-10%**	**26.6**	**36%**	**112.6**	**74.8**	**50%**
Profit Before Tax								
Adhesives and sealants	4.7	5.4	-13%	3.2	47%	13.8	6.7	107%
Supporting products & services	0.2	0.2	0%	0.1	14%	0.5	0.3	52%
Others	0.0	0.0	0%	0.0	N.A.	0.1	0.0	N.A.
Total	**4.9**	**5.6**	**-13%**	**3.3**	**47%**	**14.4**	**7.0**	**106%**

Source: Bursa, Company, Kenanga Research

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.
Stocks Under Coverage																	
ANCOMNYLEX BHD	OP	1.06	1.50	41.5%	1,014.9	Y	05/2024	8.5	11.2	20.5%	36.7%	12.5	9.5	1.7	14.9%	1.0	0.9%
BM GREENTECH BHD	UP	1.31	0.810	-38.2%	676.0	Y	03/2024	5.2	5.1	91.5%	-2.8%	25.0	25.8	2.5	10.4%	1.8	1.4%
BP PLASTICS HOLDINGS BHD	MP	1.39	1.42	2.2%	391.3	Y	12/2024	12.1	14.1	1.5%	16.8%	11.5	9.9	1.4	12.5%	6.5	4.7%
HPP HOLDINGS BHD	MP	0.365	0.320	-12.3%	141.8	Y	05/2024	0.7	2.2	-69.9%	203.6%	50.6	16.7	1.2	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.780	0.450	-42.3%	419.2	Y	12/2024	4.0	4.7	422.0%	18.7%	19.6	16.5	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	UP	4.38	3.85	-12.1%	6,794.6	Y	07/2024	35.3	36.5	32.1%	3.5%	12.4	12.0	1.7	14.5%	11.0	2.5%
SLP RESOURCES BHD	OP	1.00	1.16	16.0%	317.0	Y	12/2024	5.8	7.0	68.8%	20.7%	17.2	14.3	1.7	9.6%	6.0	6.0%
TECHBOND GROUP BHD	OP	0.440	0.500	13.6%	240.2	Y	06/2024	3.7	4.3	112.8%	14.0%	11.7	10.3	1.2	10.9%	1.3	2.8%
THONG GUAN INDUSTRIES BHD	OP	2.13	2.86	34.3%	853.3	Y	12/2024	25.8	30.0	22.2%	16.6%	8.3	7.1	0.8	10.3%	5.5	2.6%
Sector Aggregate					**10,848.1**					**48.0%**	**10.3%**	**12.6**	**11.5**	**1.4**	**11.1%**		**2.8%**

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★	☆	
	Effluent/Waste Management	★	★	★		
	Digitalisation & Innovation	★	★	☆		
	Material/Resource Management	★	★	★	☆	
	Supply Chain Management	★	★	★		
	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.***

Published by:

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