

24 May 2024

# Thong Guan Industries

## Improved Sales Across the Board

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TGUAN's 1QFY24 results met expectations. Its 1QFY24 core net profit rose 10% YoY on improved sales from both its plastic packaging and F&B divisions. The outlook for its plastic packaging business is positive underpinned by innovative products such as nano stretch film and its growing presence in the European and US markets. We maintain our forecasts, TP of RM2.86 and OUTPERFORM call.

Its 1QFY24 core net profit of RM23.4m met expectations at 23% and 25% of our full-year forecast and the full-year consensus estimate, respectively. No dividend was declared for the first quarter.

**YoY**, its 1QFY24 revenue improved 10% mainly driven by the plastic packaging division (+8%) and F&B unit (+25%) – which offers tea, coffee, and noodle products. The growth in the plastic packaging division was attributed to an increased sales volume of stretch films, industrial bags and garbage bags. Meanwhile, its F&B revenue surged due to: (i) a shift in consumer preference towards local products, and (ii) hikes in selling price of its tea and coffee products. Correspondingly, its core net profit rose by 10%.

**QoQ**, its 1QFY24 top line expanded by 8% thanks to improved orders for its core products, namely stretch films, industrial bags and garbage bags (in FY23, these products accounted for 51%, 17% and 12% of TGUAN's total revenue). Its core net profit grew by a slightly higher 12% due to gain on operating scale.

**Outlook.** TGUAN will continue to focus on the European and US markets for its premium stretch film and blown film products, which fetch better margins. These regions are key global markets for plastic products, which currently remains largely untapped by Malaysian players. We believe TGUAN is well-positioned to capture market share through its innovative nano stretch film and proactive initiatives including: (i) active participation in trade fairs, (ii) the expansion of its Newton R&D centre, and (iii) the introduction of mobile test trucks with advanced load stability testing capability.

Also, TGUAN recently entered into a JV with Perbandaran Kemajuan Negeri Kedah (PKNK) to jointly develop 221 units of shop and office lots on a 20-acre land in Sungai Petani (Kedah). With an estimated GDV of RM200m, this venture marks its first major foray into property development. Based on our preliminary estimates, the project could potentially add 4 sen to our TP for TGUAN based on potential RNAV.

**Forecasts.** Maintained.

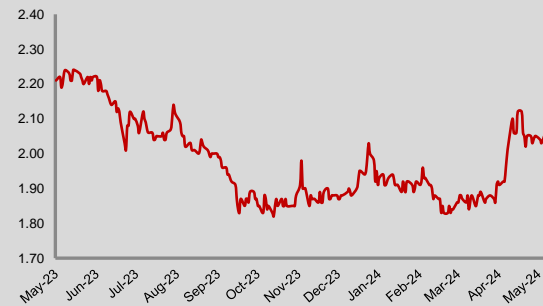
**Valuations.** We also keep our TP of RM2.86 based on 11x FY24F PER, at a discount to the sector's average historical forward PER of 13x to reflect TGUAN's low share liquidity. Its strong net cash position stands at RM117m (vs RM91m as at 31 Dec 2023). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Investment case.** We like TGUAN due to: (i) the growth potential from exports as more competitive local 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, food wraps and some industrial bags (wicketed bags, oil/flour/sugar bags). Maintain **OUTPERFORM**.

# OUTPERFORM ↔

Price: **RM2.05**  
Target Price: **RM2.86** ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,629.18 |
| YTD KLCI chg        | 12.0%    |
| YTD stock price chg | 9.0%     |

### Stock Information

|                       |               |
|-----------------------|---------------|
| Shariah Compliant     | Yes           |
| Bloomberg Ticker      | TGI MK EQUITY |
| Market Cap (RM m)     | 821.3         |
| Shares Outstanding    | 400.6         |
| 52-week range (H)     | 2.25          |
| 52-week range (L)     | 1.78          |
| 3-mth avg. daily vol. | 579,849       |
| Free Float            | 48%           |
| Beta                  | 0.7           |

### Major Shareholders

|                                |       |
|--------------------------------|-------|
| Foremost Equals Sdn Bhd        | 37.1% |
| Eastspring Inv Bhd             | 5.3%  |
| Employees Provident Fund Board | 2.7%  |

### Summary Earnings Table

| FY Dec (RMm)           | 2023A       | 2024F        | 2025F        |
|------------------------|-------------|--------------|--------------|
| Turnover               | 1240.6      | 1386.9       | 1570.3       |
| EBIT                   | 98.0        | 138.1        | 153.5        |
| PBT                    | 91.7        | 133.4        | 150.3        |
| <b>Net Profit (NP)</b> | <b>71.3</b> | <b>102.2</b> | <b>119.2</b> |
| <b>Core NP</b>         | <b>83.7</b> | <b>102.2</b> | <b>119.2</b> |
| Consensus (NP)         | -           | 93.0         | 105.5        |
| Earnings Revision      | -           | -            | -            |
| Core EPS (sen)         | 21.3        | 25.5         | 29.7         |
| EPS Growth (%)         | -26.0       | 19.8         | 16.6         |
| NDPS (sen)             | 4.3         | 5.5          | 6.0          |
| Core PER (x)           | 9.6         | 8.0          | 6.9          |
| BVPS (RM)              | 2.4         | 2.6          | 2.8          |
| PBV (x)                | 0.8         | 0.8          | 0.7          |
| Net Gearing (x)        | N.Cash      | N.Cash       | N.Cash       |
| Net Div. Yield (%)     | 2.1         | 2.7          | 2.9          |

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

### Results Highlights

| FYE Dec (RM m)         | 1QFY24      | 4QFY23      | QoQ Chg     | 1QFY23      | YoY Chg    |
|------------------------|-------------|-------------|-------------|-------------|------------|
| Revenue                | 344.7       | 318.4       | 8%          | 313.6       | 10%        |
| GP                     | 54.1        | 53.0        | 2%          | 45.7        | 18%        |
| <b>EBIT</b>            | <b>32.5</b> | <b>28.2</b> | <b>15%</b>  | <b>27.9</b> | <b>16%</b> |
| Interest Income        | 1.2         | 1.1         | 9%          | 0.5         | 141%       |
| Finance Costs          | -3.0        | -2.6        | 12%         | -2.2        | 35%        |
| Exceptional Items      | 0.5         | -13.0       | -104%       | -1.7        | -128%      |
| <b>PBT</b>             | <b>31.2</b> | <b>13.8</b> | <b>127%</b> | <b>24.6</b> | <b>27%</b> |
| Taxation               | -6.6        | -4.8        | 38%         | -4.4        | 49%        |
| Minority Interest      | 0.7         | 1.0         | -32%        | 0.6         | 22%        |
| <b>Net Profit</b>      | <b>23.9</b> | <b>8.0</b>  | <b>200%</b> | <b>19.6</b> | <b>22%</b> |
| <b>Core Net Profit</b> | <b>23.4</b> | <b>21.0</b> | <b>12%</b>  | <b>21.3</b> | <b>10%</b> |
| Core EPS (sen)         | 5.8         | 5.2         | 12%         | 5.3         | 10%        |
| NDPS (sen)             | 0.00        | 3.00        | -100%       | 1.25        | -100%      |
| Effective Tax Rate (%) | 21.2        | 34.8        |             | 18.1        |            |
| EBIT Margin (%)        | 9.4         | 8.8         |             | 8.9         |            |
| PBT Margin (%)         | 9.1         | 4.3         |             | 7.8         |            |
| CNP Margin (%)         | 6.8         | 6.6         |             | 6.8         |            |

Source: Company, Kenanga Research

### Segmental Breakdown

| FYE Dec (RM m)                 | 1QFY24       | 4QFY23       | QoQ Chg    | 1QFY23       | YoY Chg    |
|--------------------------------|--------------|--------------|------------|--------------|------------|
| <b>Turnover</b>                |              |              |            |              |            |
| Plastic packaging products     | 307.4        | 286.4        | 7%         | 283.7        | 8%         |
| F&B, other consumable products | 37.2         | 32.1         | 16%        | 29.9         | 25%        |
| <b>Group Turnover</b>          | <b>344.7</b> | <b>318.4</b> | <b>8%</b>  | <b>313.6</b> | <b>10%</b> |
| <b>Segment Results</b>         |              |              |            |              |            |
| Plastic packaging products     | 27.5         | *21.6        | 27%        | 22.4         | 23%        |
| F&B, other consumable products | 3.7          | 2.2          | 70%        | 2.2          | 67%        |
| <b>Group PBT</b>               | <b>31.2</b>  | <b>23.8</b>  | <b>31%</b> | <b>24.6</b>  | <b>27%</b> |
| <b>PBT Margin</b>              |              |              |            |              |            |
| Plastic packaging products     | 9.0%         | *7.5%        |            | 7.9%         |            |
| F&B, other consumable products | 9.9%         | 6.8%         |            | 7.4%         |            |
| <b>Group PBT Margin</b>        | <b>9.1%</b>  | <b>7.5%</b>  |            | <b>7.8%</b>  |            |

\*exclude RM10m impairment loss on receivables

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. (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     | 1.04            | 1.50              | 44.2%  | 995.7             | Y                 | 05/2024     | 8.5            | 11.2       | 20.5%           | 36.7%        | 12.2                    | 9.3         | 1.7        | 14.9%        | 1.0            | 1.0%          |
| BM GREENTECH BHD             | UP     | 1.30            | 0.810             | -37.7% | 670.8             | Y                 | 03/2024     | 5.2            | 5.1        | 91.5%           | -2.8%        | 24.8                    | 25.6        | 2.5        | 10.4%        | 1.8            | 1.4%          |
| BP PLASTICS HOLDINGS BHD     | OP     | 1.53            | 1.42              | -7.2%  | 430.7             | Y                 | 12/2024     | 14.2           | 16.4       | 19.7%           | 15.5%        | 10.7                    | 9.3         | 1.5        | 14.6%        | 6.5            | 4.2%          |
| HPP HOLDINGS BHD             | MP     | 0.370           | 0.320             | -13.5% | 143.7             | Y                 | 05/2024     | 0.7            | 2.2        | -69.9%          | 203.6%       | 51.3                    | 16.9        | 1.2        | 2.3%         | 0.5            | 1.4%          |
| KUMPULAN PERANGSANG SELANGOR | UP     | 0.775           | 0.450             | -41.9% | 416.5             | Y                 | 12/2024     | 4.0            | 4.7        | 422.0%          | 18.7%        | 19.5                    | 16.4        | 0.4        | 2.0%         | 2.0            | 2.6%          |
| SCIENTEX BHD                 | MP     | 4.41            | 3.68              | -16.6% | 6,841.1           | Y                 | 07/2024     | 35.3           | 36.5       | 32.1%           | 3.5%         | 12.5                    | 12.1        | 1.7        | 14.5%        | 11.0           | 2.5%          |
| SLP RESOURCES BHD            | OP     | 1.02            | 1.16              | 13.7%  | 323.3             | Y                 | 12/2024     | 5.8            | 7.0        | 68.8%           | 20.7%        | 17.6                    | 14.6        | 1.7        | 9.6%         | 6.0            | 5.9%          |
| TECHBOND GROUP BHD           | OP     | 0.450           | 0.500             | 11.1%  | 243.8             | Y                 | 06/2024     | 3.7            | 4.3        | 112.8%          | 14.0%        | 12.0                    | 10.5        | 1.2        | 10.9%        | 0.8            | 1.7%          |
| THONG GUAN INDUSTRIES BHD    | OP     | 2.05            | 2.86              | 39.5%  | 821.3             | Y                 | 12/2024     | 25.8           | 30.0       | 22.2%           | 16.6%        | 8.0                     | 6.8         | 0.8        | 10.3%        | 5.5            | 2.7%          |
| <b>Sector Aggregate</b>      |        |                 |                   |        | <b>10,886.9</b>   |                   |             |                |            | <b>49.1%</b>    | <b>10.3%</b> | <b>12.6</b>             | <b>11.4</b> | <b>1.4</b> | <b>11.2%</b> |                | <b>2.6%</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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