

31 May 2024

Thong Guan Industries

Improved Margins for Stretch Film

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TGUAN guided for improved margins for its stretch film, which is marketed in the export market as a premium packaging solution. We are mildly positive on its new RM200m commercial development project in Sungai Petani, Kedah, given the incremental profits, albeit small. 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 long-term prospects. The key takeaways are as follows:

1. Its stretch film division, which accounted for half of its turnover in FY23, is enjoying better margins. It is able to sell its products at higher prices by offering improved packaging solutions, meeting diverse industry needs for enhanced protection and efficiency. It is growing its client base and market shares in Europe, the US and Asia for its stretch film, especially nano stretch film.
2. TGUAN recently set up a new company in Spain to step up direct collaboration with local brand owners. While it has been relying on a Spanish distributor for years, certain major local MNCs prefer to engage directly with their plastic packaging suppliers. This is in-line with its strategy to go direct to end-users which will also improve its supply-chain management in Europe. In FY23, Europe made up 14% of its total sales.
3. With regards to its JV with land owner Perbandaran Kemajuan Negeri Kedah (PKNK) to develop a 20-acre land in Sungai Petani, the plan is to build a mini administrative and commercial hub with shop lots, offices, a shopping complex, a multi-storey car park and a hotel. Recall, the RM200m project is located in the northern part of the town, near Sungai Petani Utara Toll Plaza and within minutes from key amenities, including government offices, hospitals and shopping malls, with surrounding neighbourhoods such as Bukit Banyan and SP Saujana. We are mildly positive on the project that should get off the ground in 2HCY24 as it should bring in incremental profits to TGUAN, albeit small.

Forecasts. Maintained as we have already factored in higher margins for its stretch film.

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).

Investment case. We continue to 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). 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.

OUTPERFORM ↔

Price: **RM2.09**
Target Price: **RM2.86** ↔

Share Price Performance



KLCI 1,604.26
YTD KLCI chg 10.3%
YTD stock price chg 11.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK EQUITY
Market Cap (RM m)	837.3
Shares Outstanding	400.6
52-week range (H)	2.25
52-week range (L)	1.78
3-mth avg. daily vol.	691,836
Free Float	48%
Beta	0.7

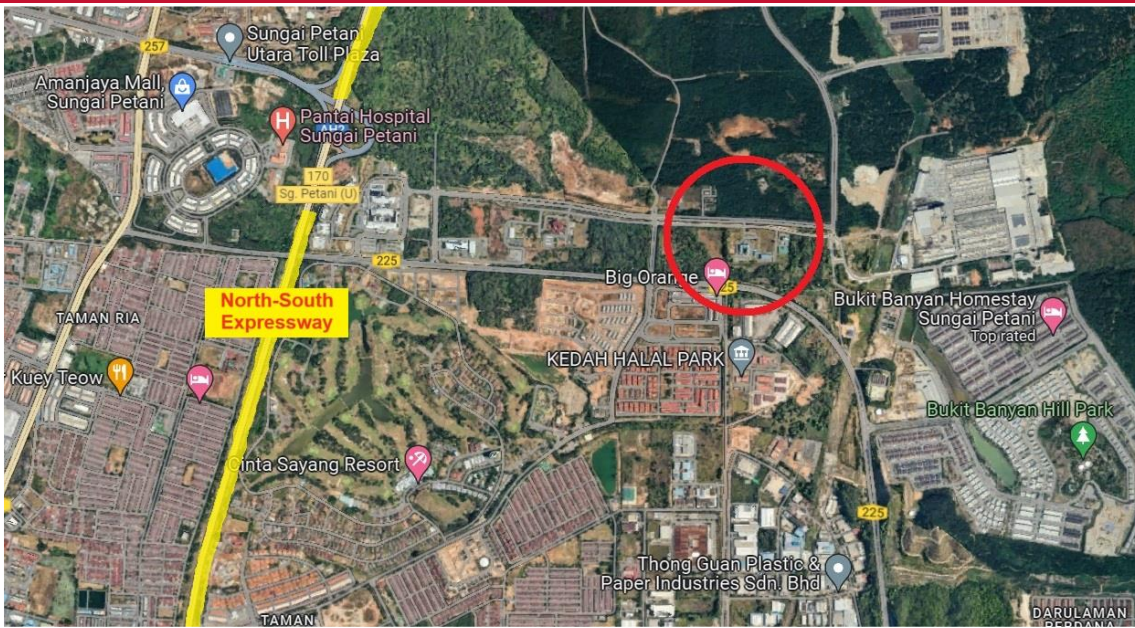
Major Shareholders

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

Summary Earnings Table

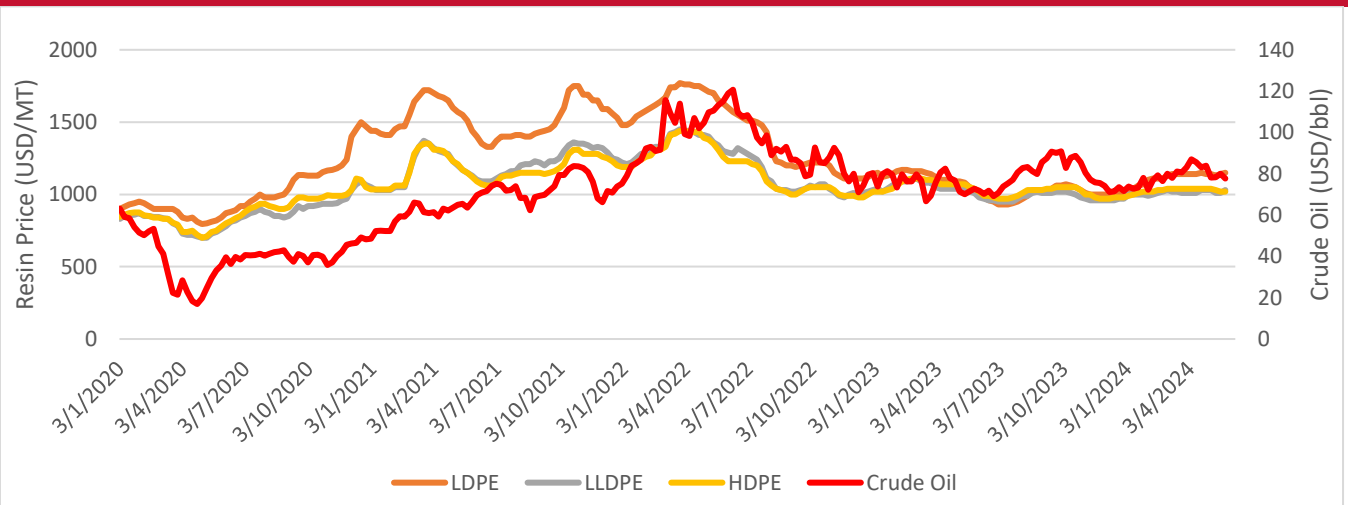
FYEDec (RMm)	2023A	2024F	2025F
Turnover	1240.6	1386.9	1570.3
EBIT	98.0	138.1	153.5
PBT	91.7	133.4	150.3
Net Profit	71.3	102.2	119.2
Core Net Profit	83.7	102.2	119.2
Consensus (NP)	-	94.0	105.5
Earnings Revision	-	-	-
Core EPS (sen)	21.3	25.5	29.7
EPS Growth (%)	-26.0	19.8	16.6
NDPS (sen)	4.3	5.5	6.0
Core PER (x)	9.8	8.2	7.0
BVPS (RM)	2.4	2.6	2.8
PBV (x)	0.9	0.8	0.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.0	2.6	2.9

Location of Sungai Petani Project



Source: Company, Kenanga Research

Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

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Income Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	1214.9	1386.5	1240.6	1386.9	1570.3
EBITDA	154.4	159.5	134.0	172.8	194.0
Depreciation	-31.0	-32.2	-36.0	-34.7	-40.5
EBIT	123.4	127.3	98.0	138.1	153.5
Int Exp/(Income)	1.3	-3.7	-6.7	-4.6	-3.2
Associates P/L	0.5	0.8	0.3	0.0	0.0
PBT	125.2	124.4	91.7	133.4	150.3
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	99.9	71.3	102.2	119.2
Core Net Profit	94.4	111.3	83.7	102.2	119.2

Balance Sheet

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	328.6	400.2	462.9	547.7	638.2
Intangibles	3.0	4.0	5.0	6.0	6.0
Other FA	71.5	50.8	71.3	63.0	63.0
Inventories	257.5	284.8	319.9	308.4	357.9
Receivables	262.7	290.6	251.0	290.4	325.2
Other CA	4.5	4.0	3.5	3.5	3.5
Cash	292.9	274.0	291.3	281.7	210.6
Total Assets	1220.8	1308.4	1404.9	1500.6	1604.3
Payables	229.0	183.2	197.6	219.2	234.7
ST Borrowings	121.0	164.8	140.9	130.9	120.9
Other ST liability	6.4	7.0	7.8	8.6	9.5
LT Borrowings	65.3	58.7	57.2	59.3	61.5
Other LT liability	34.4	40.5	42.6	42.6	42.6
Net Assets	733.8	821.1	924.0	1007.3	1104.3
Share Capital	246.5	255.5	262.8	262.8	262.8
Reserves	487.3	565.5	661.1	744.5	841.4
S. Equity	733.8	821.1	924.0	1007.3	1104.3

Cashflow Statement

FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	51.1	38.2	154.0	73.0	12.9
Investing CF	-76.6	-73.9	-90.5	-50.0	-50.0
Financing CF	22.6	10.5	-53.9	-32.0	-34.0

Financial Data & Ratios

FY Dec	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	26.5	14.1	-10.5	11.8	13.2
EBITDA	22.6	3.3	-16.0	28.9	12.3
EBIT	26.9	3.2	-23.0	40.9	11.2
PBT	25.3	-0.6	-26.3	45.5	12.6
Net Profit	23.3	7.6	-28.6	43.4	16.6
Core Net Profit	23.7	17.8	-24.8	22.2	16.6
Profitability (%)					
EBITDA Margin	12.7	11.5	10.8	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	21.2	21.0	19.5
ROE	12.9	13.6	9.1	10.1	10.8
ROA	7.7	8.5	6.0	6.8	7.4
DuPont Analysis					
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	10.1	10.8
Leverage					
Debt/Asset (x)	0.15	0.17	0.14	0.13	0.11
Debt/Equity (x)	0.25	0.27	0.21	0.19	0.17
N.Debt/(Cash)	-104.1	-47.4	-91.0	-89.3	-26.0
N.Debt/Equity (x)	-0.15	-0.06	-0.10	-0.09	-0.03
Valuations					
Core EPS (sen)	24.8	28.8	21.3	25.5	29.7
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)	8.4	7.3	9.8	8.2	7.0
Net Div. Yield	2.7	2.9	2.0	2.6	2.9
PBV (x)	1.0	0.9	0.9	0.8	0.7

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.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.04	1.50	44.2%	995.9	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	1.36	1.15	-15.4%	701.8	Y	03/2025	6.7	7.2	2.7%	7.0%	20.3	19.0	2.6	13.3%	1.8	1.3%
BP PLASTICS HOLDINGS BHD	MP	1.36	1.42	4.4%	382.8	Y	12/2024	12.1	14.1	1.5%	16.8%	11.3	9.6	1.4	12.5%	6.5	4.8%
HPP HOLDINGS BHD	MP	0.350	0.320	-8.6%	136.0	Y	05/2024	0.7	2.2	-69.9%	203.6%	48.6	16.0	1.1	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	UP	4.31	3.85	-10.7%	6,686.0	Y	07/2024	35.3	36.5	32.1%	3.5%	12.2	11.8	1.7	14.5%	11.0	2.6%
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	0.430	0.500	16.3%	235.1	Y	06/2024	3.7	4.3	112.8%	14.0%	11.5	10.1	1.2	10.9%	1.3	2.9%
THONG GUAN INDUSTRIES BHD	OP	2.09	2.86	36.8%	837.3	Y	12/2024	25.5	29.8	22.1%	16.6%	8.2	7.0	0.8	10.3%	5.5	2.6%
Sector Aggregate					10,708.2							12.4	11.2	1.4	11.2%		2.8%

Source: Kenanga Research

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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	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★	★	☆	
	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.**

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