

26 February 2016

Thong Guan Industries Bhd

FY15 Beats Expectations

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- Period** ■ 4Q15/FY15
- Actual vs. Expectations** ■ Thong Guan Industries (TGUAN)'s FY15 core net profit (CNP*) of RM34.5m beat expectations, making up 120% of consensus (RM28.7m) and 133% of our forecast (RM25.9) on stronger-than-expected Plastic segment's margins (FY15A: 6.1% vs FY14A: 4.0%) due to a stronger USD.
- Dividends** ■ A final dividend of 9.0 sen was announced for cumulative FY15A DPS of 13.0 sen, well above our 7.4 sen forecast.
■ This implies a payout ratio of 40% for a solid dividend yield of 4.4%.
- Key Results Highlights** ■ **YoY**, FY15 CNP rose 58% as Plastic segment PBT jumped 91% to RM40.4m on stronger margins as discussed above. F&B segment's PBT also improved 24% to RM2.8m on strong contribution from tea and curry powder products.
■ **QoQ**, 3Q15 CNP increased 74% to RM14.9m as Plastic PBT rose 52% to RM18.4m on better margins (10% vs. 3Q15's 7.1%). However, F&B PBT slipped into losses (-RM0.3m) on seasonally lower demand.
- Outlook** ■ We expect continued top and bottomline growth driven by capacity expansion into higher margin products such as the 33-layer nanotechnology stretch flim line, commissioned in 1Q16, 5-layer blown film line, commissioning in 2Q16, and new Purewrap lines targeted in 2H16, with an estimated capacity of 1.4k MT per line annually.
- Change to Forecasts** ■ We raise our FY16E CNP by 12% to RM33.0m reflecting our stronger margin outlook, and introduce our FY17E CNP of RM36.7m (+11% YoY growth).
- Rating** **Upgrade to OUTPERFORM (from MARKET PERFORM)**
We are positive on TGUAN's prospects as a strong USD and continued capacity expansion into high-margin production lines should sustain the Plastic segment's margins going forward.
- Valuation** ■ Upgrade our TP to RM3.40 (previously RM3.07) on unchanged Target PER of 11.0x as we roll forward our valuation base year to FY17E (from FY16E) in line with the sector. Hence, Fwd. EPS is higher at 30.9 sen (from 27.8 sen). Our Target PER is based on a 30% discount to Consumer Packaging PER which incorporates TGUAN's lower net margins (4.6%) vs. Consumer Packager SLP's 15.3%.
- Risks to Our Call** ■ Volatile plastic resin prices.
■ Foreign currencies risk.
■ Lower-than-expected contribution from its China-based subsidiaries.

OUTPERFORM ↑

Price: RM2.98
Target Price: RM3.40 ↑

Share Price Performance



KLCI	1,658.16
YTD KLCI chg	-2.0%
YTD stock price chg	-5.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	313.7
Issued shares	105.3
52-week range (H)	3.53
52-week range (L)	1.65
3-mth avg daily vol:	515,875
Free Float	55%
Beta	0.9

Major Shareholders

Foremost Equals Sdn	39.8%
Aminvestment Bank Be	2.6%
Poon Chuan Ang	2.2%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	712.1	775.1	798.4
EBIT	42.3	38.8	42.7
Pretax profit	39.7	36.8	41.1
Net Profit	36.2	33.0	36.7
Core Net Profit	34.5	33.0	36.7
Consensus (NP)	28.7	34.2	40.6
Earning Revision	n.a.	12%	n.a.
FD EPS (sen)	29.0	27.7	30.9
EPS growth (%)	33.2	-4.6	11.5
Net DPS (sen)	8.3	8.3	9.3
BV (RM)	2.88	3.22	3.43
NTA/share (RM)	2.88	3.22	3.43
PER (x)	10.3	10.8	9.7
PBV (x)	1.0	0.9	0.9
P/NTA (x)	1.0	0.9	0.9
Net Gearing (%)	0.1	Cash	Cash
Div. Yield (%)	2.8	2.8	3.1

* Core net profit excludes unrealised forex gain (RM0.6m) and loss on PP&E disposal (<RM0.1m)

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Result Highlight

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	FY15	FY14	Y-o-Y
Y/E : Dec (RM mn)	FY15	FY15	Chg	FY14	Chg			Chg
Turnover	195.7	182.3	7%	167.0	17%	712.1	565.6	26%
EBIT	17.6	12.7	39%	(4.2)	N.M.	42.3	23.5	80%
Interest income	0.9	0.4	145%	0.2	384%	2.2	0.6	251%
Finance costs	(0.3)	(0.3)	25%	(0.5)	-32%	(1.3)	(0.8)	66%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	18.1	12.7	42%	(4.5)	N.M.	43.2	23.3	85%
Taxation	(1.9)	(1.1)	82%	0.3	N.M.	(3.5)	(0.7)	389%
Profit after tax	16.2	11.7	39%	(4.2)	N.M.	39.7	22.6	75%
Minority interest	(0.7)	(0.4)	60%	0.1	N.M.	(1.2)	(1.0)	21%
Net profit	15.5	11.3	38%	(4.2)	N.M.	38.5	21.7	78%
Core net profit	14.9	8.5	74%	4.1	267%	34.5	21.9	58%
Basic EPS (sen)	14.1	8.1	74%	3.9	267%	32.8	20.8	58%
NDPS (sen)	9.0	0.0	N.M.	4.0	N.M.	13.0	3.0	333%
NTA/share (RM)	3.59	3.59	0%	3.25	11%	3.59	3.25	11%
EBIT margin	9.0%	6.9%		-2.5%		5.9%	4.2%	
Pretax margin	9.3%	7.0%		-2.7%		6.1%	4.1%	
Core net profit margin	7.6%	4.7%		2.4%		4.8%	3.9%	
Effective tax rate	10.7%	8.3%		6.5%		8.1%	3.1%	

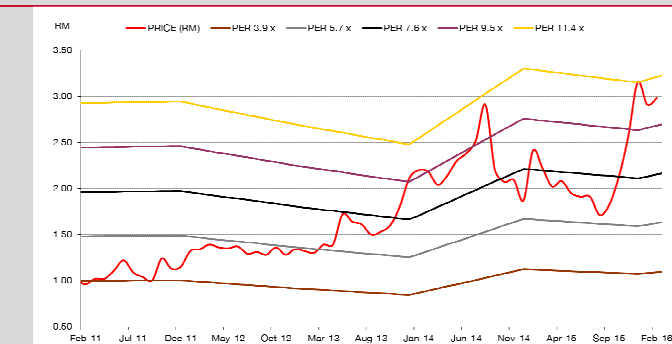
Source: Company, Kenanga Research

Segmental Breakdown

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	FY15	FY14	Y-o-Y
Y/E : Dec (RM mn)	FY15	FY15	Chg	FY14	Chg			Chg
Turnover								
Plastic products	183.3	171.1	7%	157.2	17%	666.1	533.0	25%
F&B, other consumables	12.4	11.2	11%	9.7	28%	45.9	32.6	41%
Group Turnover	195.7	182.3	7%	167.0	17%	712.1	565.6	26%
Segment Results								
Plastic products	18.4	12.1	52%	(4.2)	N.M.	40.4	21.1	91%
F&B, other consumables	(0.3)	0.7	N.M.	(0.3)	-16%	2.8	2.3	24%
Group PBT	18.1	12.7	42%	(4.5)	-502%	43.2	23.3	85%
PBT Margin								
Plastic products	10.0%	7.1%		-2.7%		6.1%	4.0%	
F&B, other consumables	-2.2%	5.9%		-3.4%		6.1%	6.9%	
Group PBT Margin	9.3%	7.0%		-2.7%		6.1%	4.1%	

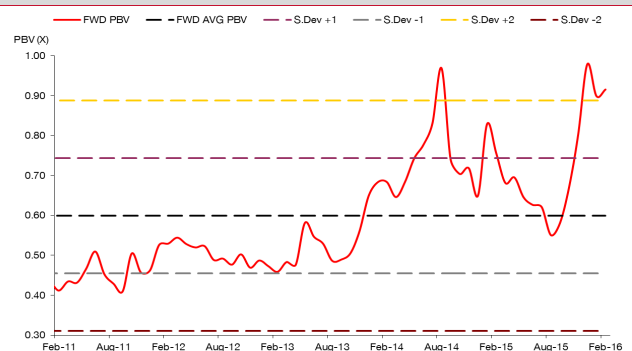
Source: Company, Kenanga Research

Fwd Core PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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Peer Comparison												
Company	Price (RM)	Mkt Cap (RM'm)	PER			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target	Rating
			FY14/15	FY15/16	FY16/17				FY15/16	FY16/17		
Core Coverage												
Scientex	11.00	2,494.8	16.8	13.8	10.7	2.7	18.4	3.1	21.5	28.8	9.49	MARKET PERFORM
SLP	2.16	534.2	20.6	18.0	14.8	2.2	22.8	4.7	14.5	21.5	2.26	MARKET PERFORM
Thong Guan	2.98	313.7	9.1	9.5	8.5	2.8	8.9	0.9	-4.6	11.5	3.40	OUTPERFORM
Simple Average			15.5	13.8	11.3	2.6						
Weighted Average			16.7	14.1	11.2							
Non-Core Coverage												
Daibochi	2.19	598.4	25.2	22.3	17.4	6.2	6.0	1.4	13.0	28.1	NOT RATED	NOT RATED
SCGM	3.06	403.9	35.2	30.0	27.4	3.3	47.0	16.5	17.0	9.5	NOT RATED	NOT RATED
Simple Average			30.2	26.2	22.4							
Weighted Average			29.2	25.4	21.5							

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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