

31 May 2017

Thong Guan Industries Bhd

1Q17 Well Within Expectations

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1Q17 core earnings of RM14.8m came in well within our (25%) and consensus (23%) expectations. No dividends, as expected. Maintain FY17-18E earnings of RM60.0-68.2m. Upgrade to **OUTPERFORM** (from MP) and TP to RM5.40 (from RM4.76) post rolling forward to FY18E FD EPS of 37.1 sen with an unchanged Target PER of 14.6x.

1Q17 core net profit (CNP*) of RM14.8m came in within our and consensus expectations at 25% and 23%, respectively. No dividends, as expected.

Results Highlights. YoY-Ytd, TGUAN's top-line grew by 11% on the back of solid sales volume growth mostly from: (i) plastic segment from sales of stretch film, garbage bags and PVC food wrap products, and higher selling prices in tandem with higher material cost, and (ii) F&B segment from sales of coffee and curry powder products. PBT margins declined marginally (-0.3ppt) due to the F&B segment recording lower tea sales, which generally have better margins. All in, bottom-line declined by 10% due to higher effective tax rates of 19.6% (vs. 12.7% in 1Q16). QoQ, top-line increased by 2%, on better sales from both segments. However, CNP increased by 21% despite slightly weaker EBIT and PBT margins post accounting for unrealised forex loss of RM1.8m.

Outlook. We expect top and bottom line growths to be driven by higher margin products with the commissioning of second 33-layer nanotechnology stretch film line, the 8th PVC food wrap line in 2H17, and plans for a 5 layer blown film line which we expect to accrete mostly in FY18. TGUAN is consistently investing in R&D to improve sales and margins on existing products (i.e. stretch film) and continues to revamp its customer base to target more MNCs. We are positive on TGUAN's prospects and expect continued expansion into high-margin production lines to sustain the Plastic segment's margins going forward. **Note that we make no changes to FY17-18E earnings of RM60.0-68.2m.**

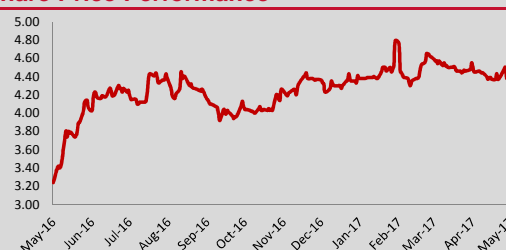
Upgrade to OUTPERFORM (from MP) and increase TP to RM5.40 (from RM4.76). We upgrade our call to OUTPERFORM (from MP) as fundamentals are intact while upsides are attractive at the current level as share price has corrected by 8% since our last report (dated 28th Feb-17), likely on weaker market sentiment. Additionally, we roll forward our valuations to FY18E FD EPS of 37.1 sen (from 32.6 sen in FY17E) on an unchanged Target PER of 14.6x, upgrading our TP to RM5.40 (from RM4.76). All in, TGUAN is providing attractive total returns of 26% at current levels.

Risks to our call include; (i) volatile plastic resin prices, (ii) foreign currencies risk, (iii) lower-than-expected contribution from its China-based subsidiaries, and (iv) lower-than-expected margin.

OUTPERFORM ↑

Price: **RM4.38**
Target Price: **RM5.40** ↑

Share Price Performance



KLCI	1,765.34
YTD KLCI chg	7.5%
YTD stock price chg	3.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	552.3
Issued shares	126.1
52-week range (H)	4.87
52-week range (L)	3.36
3-mth avg daily vol:	322,595
Free Float	61%
Beta	0.6

Major Shareholders

FOREMOST EQUALS SDN BHD	35.0%
AMINVESTMENT BANK	2.3%
KOON YEW YIN	1.7%

Summary Earnings Table

FYE Dec (RM m)	2016A	2017E	2018E
Turnover	746.9	840.1	887.1
EBIT	69.4	69.0	81.2
Pretax profit	69.7	68.7	81.0
Net Profit	58.1	60.0	68.2
Core Net Profit	53.6	60.0	68.2
Consensus (NP)	n.a.	64.1	72.5
Earning Revision	n.a.	n.a.	n.a.
Basic EPS (sen)	50.9	50.4	57.3
FD EPS (sen)	29.1	32.6	37.1
EPS growth (%)	55%	11.9	13.7
Net DPS (sen)	12.0	14.0	15.9
FD BV (RM)	2.3	2.3	2.5
FD PER (x)	15.0	13.4	11.8
FD PBV (x)	1.9	1.9	1.7
Net Gearing (%)	-0.22	-0.18	-0.23
Div. Yield (%)	2.2	3.2	3.6



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OTHER POINTS

Result Highlights					
Y/E : Dec (RM mn)	1Q FY17	4Q FY16	Q-o-Q Chg	1Q FY16	Y-o-Y Chg
Turnover	199.2	195.7	2%	179.7	11%
EBIT	16.5	18.6	-11%	15.6	6%
Interest income	0.5	0.4	37%	0.4	37%
Finance costs	(0.3)	(0.6)	-45%	(0.2)	34%
Associates	0.0	0.0	n.a.	0.0	N.M.
Pretax profit	16.7	18.4	-9%	15.7	6%
Taxation	(3.3)	(2.9)	13%	(2.0)	64%
Profit after tax	13.4	15.5	-13%	13.7	-2%
Minority interest	(0.3)	(0.6)	-39%	(0.7)	-48%
Net profit	13.1	14.9	-12%	13.1	0%
Core net profit	14.8	12.3	21%	16.4	-10%
Core EPS (sen)	13.8	11.4	21%	15.6	-11%
NDPS (sen)	0.0	6.0	n.m.	0.0	n.m.
NTA/share (RM)	4.13	4.03	2%	3.75	10%
EBIT margin	8.3%	9.5%		8.7%	
Pretax margin	8.4%	9.4%		8.7%	
Core net profit margin	7.4%	6.3%		9.1%	
Effective tax rate	19.6%	15.8%		12.7%	

Source: Company, Kenanga Research

Segmental Breakdown/Trends

Y/E : Dec (RM mn)	1Q FY17	4Q FY16	Chg 0.00	1Q FY16	Y-o-Y Chg
Turnover					
Plastic products	186.1	183.9	1%	167.0	11%
F&B, other consumable products	13.1	11.9	10%	12.7	3%
Group Turnover	199.2	195.7	2%	179.7	11%
Segment Results					
Plastic products	15.8	18.5	-14%	14.4	10%
F&B, other consumable products	0.9	(0.1)	-1379%	1.4	-37%
Group PBT	16.7	18.4	-9%	15.7	6%
PBT Margin					
Plastic products	8.5%	10.0%		8.6%	
F&B, other consumable products	6.6%	-0.6%		10.7%	
Group PBT Margin	8.4%	9.4%		8.7%	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (30/5/17)	Mkt Cap	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
	(RM)		(RMm)	FY16/17	FY17/18				FY18/19	FY15/16	FY16/17				
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.31	3,852.2	17.1	14.5	12.2	2.1%	20.4	2.4	248.0	292.3	347.3	17.8%	18.8%	8.50	MARKET PERFORM
SLP RESOURCES BHD	2.35	581.2	21.2	17.0	13.6	2.4%	19.4	3.9	29.3	36.6	45.7	25.0%	24.9%	3.72	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.44	549.4	15.2	13.6	12.0	3.1%	12.4	1.9	53.6	60.0	68.2	11.9%	13.7%	5.40	OUTPERFORM
SCGM BHD	4.25	610.0	27.8	24.3	18.9	2.1%	18.2	3.6	20.2	25.4	32.7	25.9%	28.7%	4.48	MARKET PERFORM
Simple Average			20.3	17.3	14.2										
Weighted Average			20.8	17.7	14.6										

Source: Bloomberg, Kenanga Research

*Note that SCGM Ex-All TP is RM3.05 (post dilution Bonus Issue and Full Dilution from Warrants), TEAP is RM3.19

*Note that SLP Ex-All TP is RM3.10 (post dilution from Placement and Bonus Issue), TEAP is RM1.96

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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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