

## Company Note

### Malaysia

#### ADD (no change)

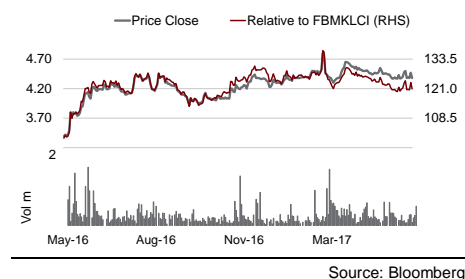
Consensus ratings\*: Buy 1 Hold 1 Sell 0

Current price:	RM4.38
Target price:	RM5.72
Previous target:	RM5.72
Up/downside:	30.6%
CIMB / Consensus:	20.2%
Reuters:	TGIB.KL
Bloomberg:	TGI MK
Market cap:	US\$129.0m
	RM552.3m
Average daily turnover:	US\$0.31m
	RM1.37m
Current shares o/s:	105.2m
Free float:	50.1%

\*Source: Bloomberg

#### Key changes in this note

➤ No change.



Price performance	1M	3M	12M
Absolute (%)	-1.6	-1.8	29.2
Relative (%)	-1.4	-6	20.9

Major shareholders	% held
Ang family	45.5
AmInvestment Bank	2.6
Prime Finc	1.8

#### Analyst(s)



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## Thong Guan Industries

### 1Q17: Hit by higher raw material prices

- Thong Guan's 1Q17 net profit was in line, at 23% of our and consensus full-year forecasts. We expect new stretch film and PVC food wrap capacity in 2H.
- 1Q17 revenue rose 10.9% yoy due to higher selling prices and strong US\$ vs. RM.
- We expect the second nano-layered stretch film line to be commissioned by Sep.
- It had RM95.8m net cash or 79sen net cash per share as at end-Mar 2017.
- Remains an Add, and our top pick in the packaging sector.

#### Flat 1Q17 net profit growth

1Q17 revenue rose 10.9% yoy to RM199.2m due to higher selling prices and strong US\$ vs. RM. However, 1Q17 net profit was flat at RM13.1m as the average raw material price increased by 120% yoy in 1Q17. The company did not declare an interim DPS, which was in line with our expectations.

#### Strong US\$ in 1Q

More than 90% of Thong Guan's sales are in US\$ and the company benefits from a strong US\$. In 1Q17, the average RM/US\$ rate was RM4.45/US\$1 compared to RM4.20/US\$1 in 1Q16. Ringgit is currently at RM4.28/US\$1 and we are projecting average RM4.65/US\$ in our earnings forecast for FY17.

#### Healthy balance sheet

The company's balance sheet is healthy with RM95.8m net cash or 79 sen net cash per share as at end-Mar 2017. Most of the RM100m proposed capex was invested during 2014-2016. In 2017, we are projecting another RM30m capex, of which RM20m will be to add another nano-layered stretch film layer line, ready by Sep-2017, and RM5m for an additional PVC food wrap line.

#### Another nano-layered line

The first nano-layer stretch film line is working at full capacity, with orders booked 2-3 months ahead. As such, the company is adding a second nano-layer stretch film line, which will be ready for commissioning in Sep 17. One nano-layer stretch film line can generate around RM150m revenue annually and the PBT margins are higher than the traditional stretch film lines.

#### Another PVC food wrap line

Another RM5m would be spent for an additional PVC food wrap line, making it the company's 8th PVC food wrap line, raising production to 11,000 tonnes annually. Thong Guan is one of the largest PVC food wrap producers in the region and the demand has been strong. We expect the company to add its 9th PVC food wrap line in 2018.

#### Organic noodle division up and running

We expect its organic noodle division to record revenues of c.RM20m in FY17F. All the necessary approvals for this business have been received and the company is looking to market its noodles in China, where the demand is high for this type of noodles. We estimate the company's current capacity can generate sales of RM60m annually, and it can potentially ramp up production to reach RM150m annual sales by adding more lines.

#### Still an Add

We maintain our EPS forecasts and our target price, based on an unchanged 13x FY18F P/E, in line with that of the domestic packaging sector. The stock remains an Add. Potential re-rating catalysts include continued strong US\$ and yen vs. RM. A key risk is further appreciation of the Ringgit against the US\$.

#### Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	712.0	746.9	784.2	823.5	871.0
Operating EBITDA (RMm)	62.7	85.8	98.7	106.0	112.2
Net Profit (RMm)	38.40	58.10	67.42	72.55	77.59
Core EPS (RM)	0.37	0.55	0.64	0.69	0.74
Core EPS Growth	119%	51%	16%	8%	7%
FD Core P/E (x)	21.00	13.88	11.96	11.11	10.39
DPS (RM)	0.10	0.12	0.12	0.12	0.13
Dividend Yield	2.28%	2.63%	2.63%	2.63%	2.97%
EV/EBITDA (x)	8.23	5.28	4.78	3.87	3.16
P/FCFE (x)	NA	9.9	391.2	9.6	10.2
Net Gearing	14.9%	(4.5%)	0.1%	(13.2%)	(22.6%)
P/BV (x)	1.43	1.27	1.12	1.00	0.89
ROE	11.6%	17.0%	17.4%	16.7%	15.9%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.21	1.30	1.00

SOURCE: COMPANY DATA, CIMB FORECASTS

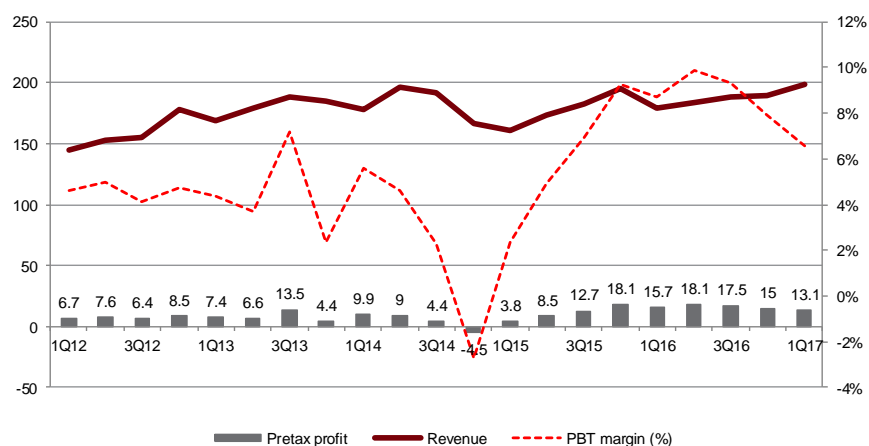
# 1Q17: Hit by higher raw material prices

**Figure 1: Results Comparison**

FYE Dec (RM m)	1QFY17	1QFY16	yoy % chg	4QFY16	qoq % chg	Prev. FY16F	Comments
<b>Revenue</b>	<b>199.2</b>	<b>179.7</b>	<b>10.9</b>	<b>195.7</b>	<b>1.8</b>	<b>784.2</b>	<b>In line, strong export sales and weak RM</b>
Operating costs	(180.4)	(161.4)	11.7	(177.2)	1.8	(698.4)	
EBITDA	18.8	18.3	3.1	18.5	2.0	85.8	
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>10.2</i>	<i>(7.0)</i>	<i>9.4</i>	<i>0.2</i>	<i>10.9</i>	Below, raw material price up 10% yoy in 1Q17
Deprn & amort.	(3.8)	(3.8)	(0.4)	(4.1)	(8.3)	(16.4)	
EBIT	15.0	14.4	4.1	14.3	5.0	69.4	
Interest expense	(0.3)	(0.2)	33.6	(0.6)	(44.9)	-	
Interest & invt inc	2.0	1.5	31.4	4.6	(57.3)	0.3	In line, RM96m net cash
<b>Pretax profit</b>	<b>16.7</b>	<b>15.7</b>	<b>6.3</b>	<b>18.4</b>	<b>(9.2)</b>	<b>69.7</b>	<b>In line, expect stronger quarters</b>
Tax	(3.3)	(2.0)	64.5	(2.9)	12.5	(9.5)	
Tax rate (%)	19.6	12.7	54.8	15.8	24.0	13.6	
Minority interests	(0.3)	(0.7)	(47.9)	(0.6)	(39.4)	(2.1)	
<b>Net profit</b>	<b>13.1</b>	<b>13.1</b>	<b>0.1</b>	<b>14.9</b>	<b>(12.3)</b>	<b>58.1</b>	<b>In line, new capacity for stretch films &amp; PVC food wrap in 2H17</b>
EPS (sen)	10.9	10.9	0.1	12.4	(12.3)	48.4	

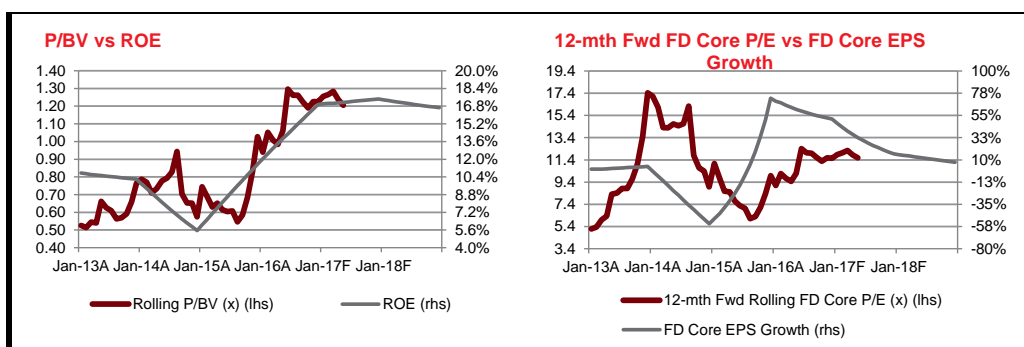
SOURCES: CIMB, COMPANY REPORTS

**Figure 2: Thong Guan quarterly revenue and net profit (RMm)**



SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Total Net Revenues</b>	<b>712.0</b>	<b>746.9</b>	<b>784.2</b>	<b>823.5</b>	<b>871.0</b>
<b>Gross Profit</b>	<b>192.6</b>	<b>218.0</b>	<b>235.8</b>	<b>249.5</b>	<b>264.0</b>
<b>Operating EBITDA</b>	<b>62.7</b>	<b>85.8</b>	<b>98.7</b>	<b>106.0</b>	<b>112.2</b>
Depreciation And Amortisation	(20.4)	(16.4)	(22.9)	(24.5)	(25.1)
<b>Operating EBIT</b>	<b>42.3</b>	<b>69.4</b>	<b>75.8</b>	<b>81.5</b>	<b>87.1</b>
Financial Income/(Expense)	0.8	0.3	1.0	1.0	1.0
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>43.1</b>	<b>69.7</b>	<b>76.8</b>	<b>82.5</b>	<b>88.1</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>43.1</b>	<b>69.7</b>	<b>76.8</b>	<b>82.5</b>	<b>88.1</b>
Taxation	(3.5)	(9.5)	(7.7)	(8.3)	(8.8)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax</b>	<b>39.6</b>	<b>60.2</b>	<b>69.1</b>	<b>74.3</b>	<b>79.3</b>
Minority Interests	(1.2)	(2.1)	(1.7)	(1.7)	(1.7)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>38.4</b>	<b>58.1</b>	<b>67.4</b>	<b>72.6</b>	<b>77.6</b>
Recurring Net Profit	38.4	58.1	67.4	72.6	77.6
<b>Fully Diluted Recurring Net Profit</b>	<b>38.4</b>	<b>58.1</b>	<b>67.4</b>	<b>72.6</b>	<b>77.6</b>

### Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	62.70	85.80	98.70	106.00	112.20
Cash Flow from Inv. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(11.12)	36.56	(58.96)	(3.92)	(14.26)
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	0.00	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	(1.40)	0.00	0.00	0.00
Tax Paid	(3.50)	(9.50)	(7.68)	(8.25)	(8.81)
<b>Cashflow From Operations</b>	<b>48.08</b>	<b>111.46</b>	<b>32.06</b>	<b>93.83</b>	<b>89.13</b>
Capex	(40.00)	(30.00)	(30.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(40.00)</b>	<b>(30.00)</b>	<b>(30.00)</b>	<b>(10.00)</b>	<b>(10.00)</b>
Debt Raised/(repaid)	(35.70)	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(11.55)	(17.43)	(20.23)	(21.77)	(23.28)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>(47.25)</b>	<b>(17.43)</b>	<b>(20.23)</b>	<b>(21.77)</b>	<b>(23.28)</b>
Total Cash Generated	(39.17)	64.03	(18.16)	62.06	55.85
<b>Free Cashflow To Equity</b>	<b>(27.62)</b>	<b>81.46</b>	<b>2.06</b>	<b>83.83</b>	<b>79.13</b>
<b>Free Cashflow To Firm</b>	<b>8.08</b>	<b>82.86</b>	<b>2.06</b>	<b>83.83</b>	<b>79.13</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	53.3	119.0	101.8	164.8	221.7
Total Debtors	121.0	127.0	133.3	140.0	148.1
Inventories	192.2	159.0	211.7	214.1	226.5
Total Other Current Assets	6.4	6.4	6.4	6.4	6.4
<b>Total Current Assets</b>	<b>373.0</b>	<b>411.4</b>	<b>453.3</b>	<b>525.3</b>	<b>602.6</b>
Fixed Assets	143.2	156.8	163.9	152.4	134.3
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	12.4	12.4	12.4	12.4	12.4
<b>Total Non-current Assets</b>	<b>155.6</b>	<b>169.2</b>	<b>176.3</b>	<b>164.8</b>	<b>146.7</b>
Short-term Debt	42.2	42.2	42.2	42.2	42.2
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	92.6	101.8	102.0	107.0	113.2
Other Current Liabilities	0.5	0.5	0.5	0.5	0.5
<b>Total Current Liabilities</b>	<b>135.3</b>	<b>144.5</b>	<b>144.7</b>	<b>149.7</b>	<b>155.9</b>
Total Long-term Debt	7.4	7.4	7.4	7.4	7.4
Hybrid Debt - Debt Component	52.6	52.6	52.6	52.6	52.6
Total Other Non-Current Liabilities	4.0	4.2	5.0	8.0	4.0
<b>Total Non-current Liabilities</b>	<b>64.0</b>	<b>64.2</b>	<b>65.0</b>	<b>68.0</b>	<b>64.0</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>199.3</b>	<b>208.7</b>	<b>209.7</b>	<b>217.7</b>	<b>219.9</b>
Shareholders' Equity	322.4	363.0	410.2	461.0	515.3
Minority Interests	6.6	8.7	10.4	12.1	13.8
<b>Total Equity</b>	<b>329.0</b>	<b>371.7</b>	<b>420.6</b>	<b>473.1</b>	<b>529.1</b>

### Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	(2.81%)	4.90%	5.00%	5.00%	5.77%
Operating EBITDA Growth	69.9%	36.8%	15.0%	7.4%	5.8%
Operating EBITDA Margin	8.8%	11.5%	12.6%	12.9%	12.9%
Net Cash Per Share (RM)	(0.46)	0.16	(0.00)	0.60	1.14
BVPS (RM)	3.06	3.45	3.90	4.38	4.90
Gross Interest Cover	N/A	49.57	N/A	N/A	N/A
Effective Tax Rate	8.1%	13.6%	10.0%	10.0%	10.0%
Net Dividend Payout Ratio	27.6%	25.8%	26.9%	26.9%	26.9%
Accounts Receivables Days	60.09	60.77	60.57	60.57	60.36
Inventory Days	135.1	121.5	123.4	135.4	132.4
Accounts Payables Days	66.32	67.26	67.81	66.45	66.22
ROIC (%)	12.4%	18.2%	21.1%	19.2%	20.9%
ROCE (%)	10.0%	15.7%	15.4%	15.0%	14.6%
Return On Average Assets	7.9%	12.5%	12.5%	12.4%	12.1%

### Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	3.0%	3.0%	3.0%	3.0%	3.0%
Unit sales grth (% , main prod./serv.)	5.0%	7.0%	7.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	4.0%	4.0%	4.0%	4.0%	4.0%
Unit sales grth (% , 2ndary prod./serv.)	10.0%	10.0%	10.0%	10.0%	10.0%
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit Raw Material ASP (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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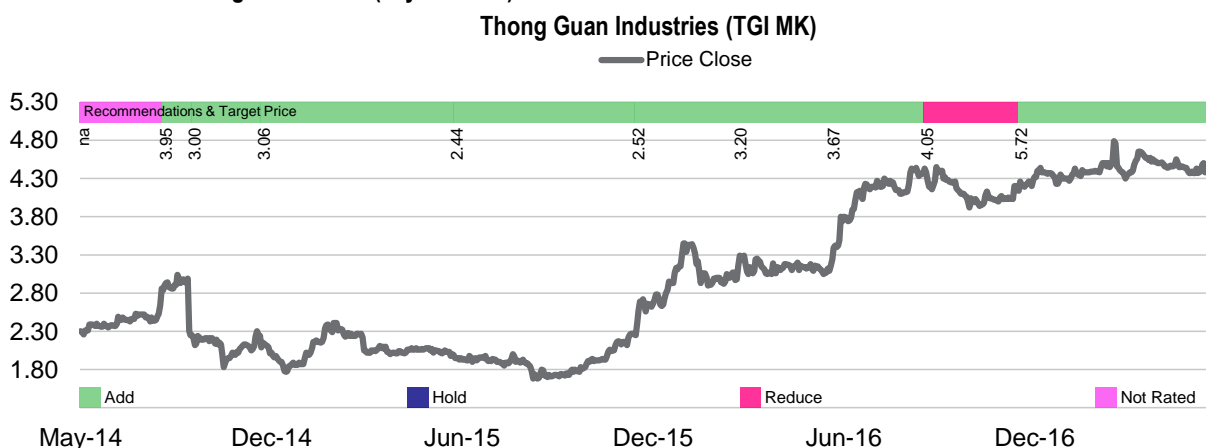
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2017

1244 companies under coverage for quarter ended on 31 March 2017

	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### **Country Ratings**

Definition:

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