

Savwee Investor Diary #1: NTPM



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NTPM holdings has been in **paper manufacturing industry since 1975**.

The Group is *principally* involved in the *manufacture and distribution of Tissue Paper (72%)* and Personal Care **(28%)** products under several key brand names, among others, Premier, Cutie, Royal Gold, Budget, Intimate, and Diapex.

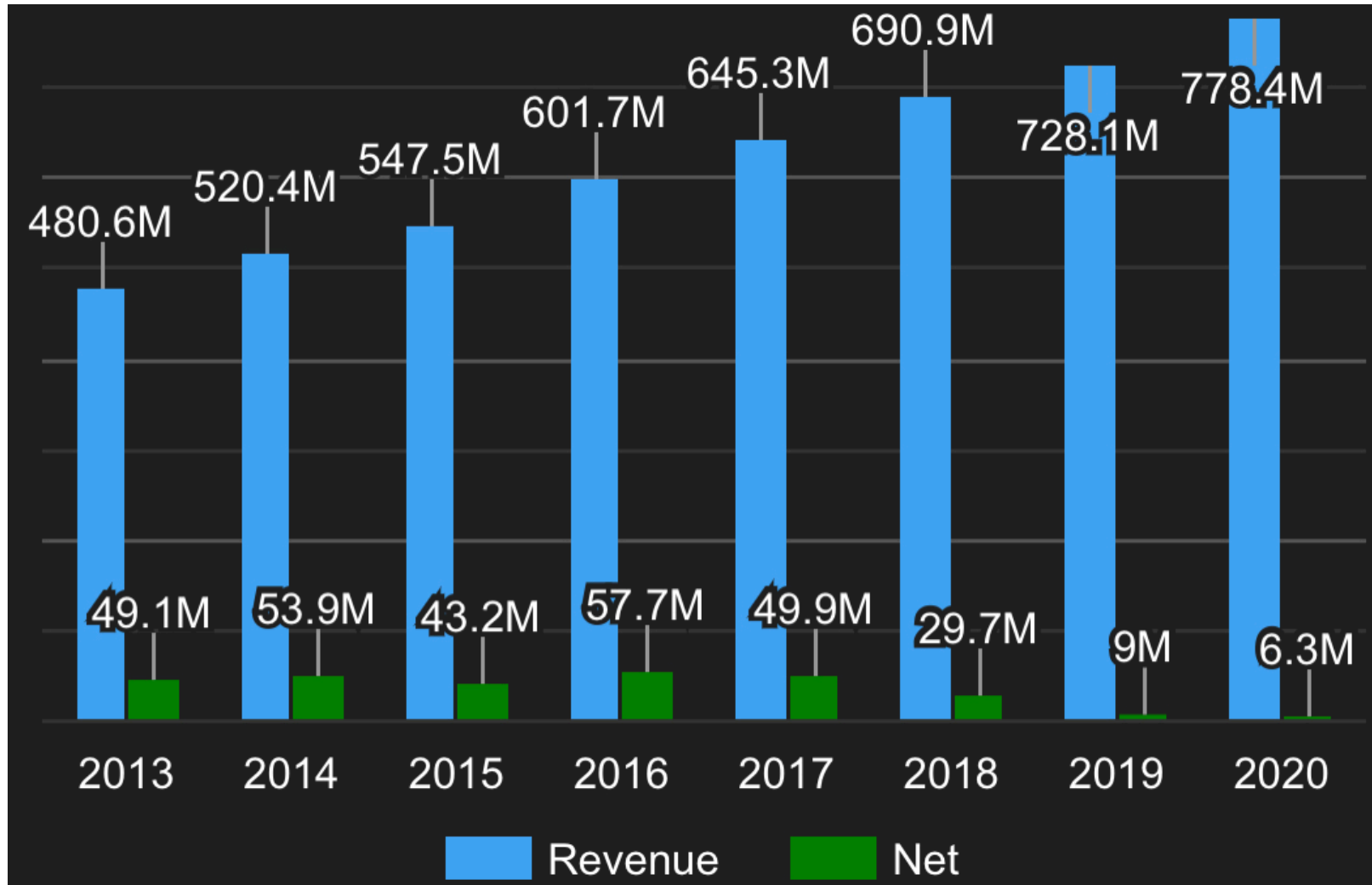
These are the biggest factors affecting their profitability: pulp cost, wages and utilities in Malaysia and forex (50% of the raw material is imported).

Malaysia market contributes 70% of the sales, Singapore 9%, Vietnam 6%, Thailand 4% and Others 9%.
95% of the personal care sales comes from Malaysia.

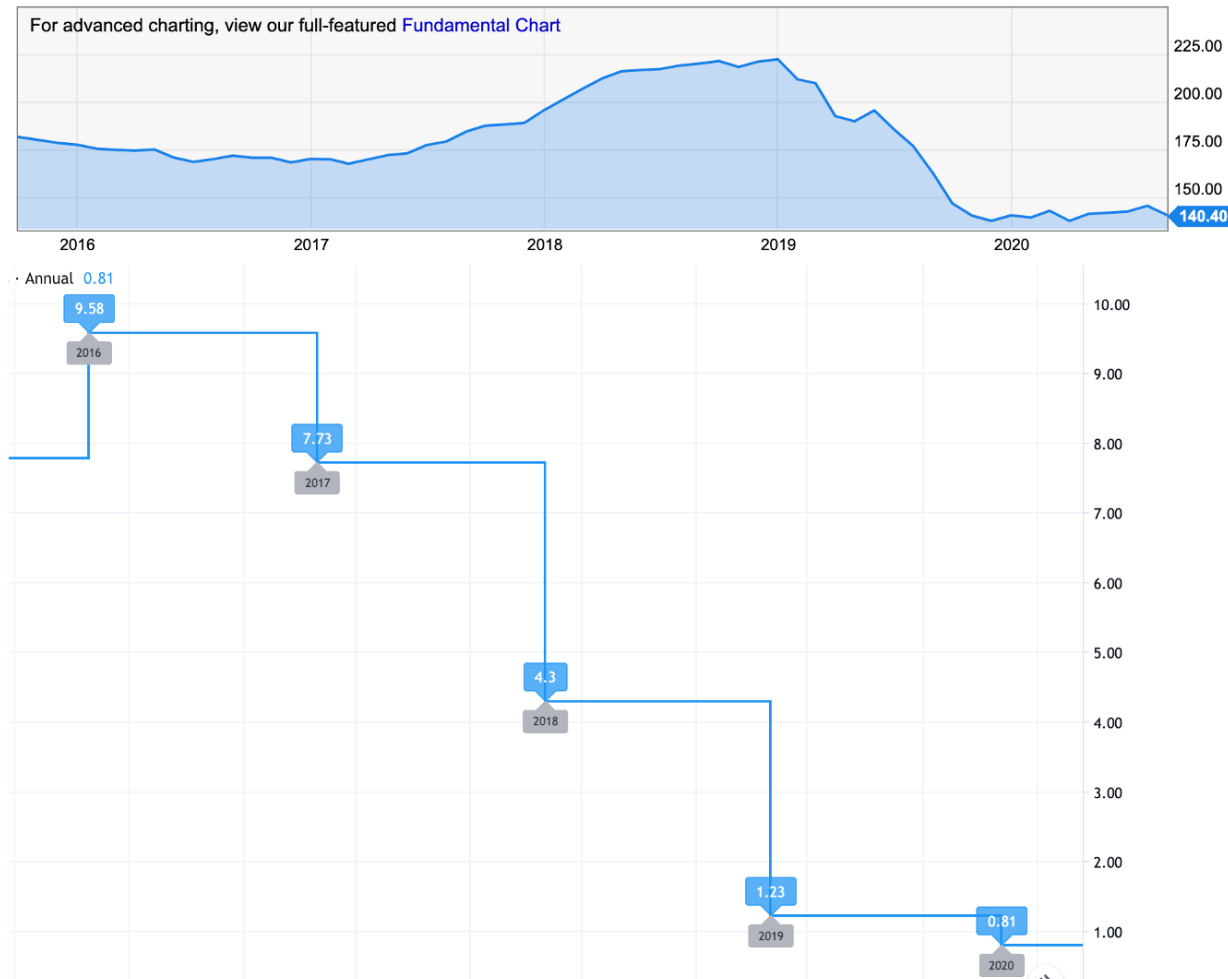
Key managements : Lee See Jin (Founder), 40 years of experienced.
Lee Chong Choon(Son), Lee Chong Chat(Son), and Lee Chong Choo(Son).
Lee Family owned 40.88% of the company.

Financially (simplified),
Debt/Equity= 82% , Cash= 48m, Debt = 370m

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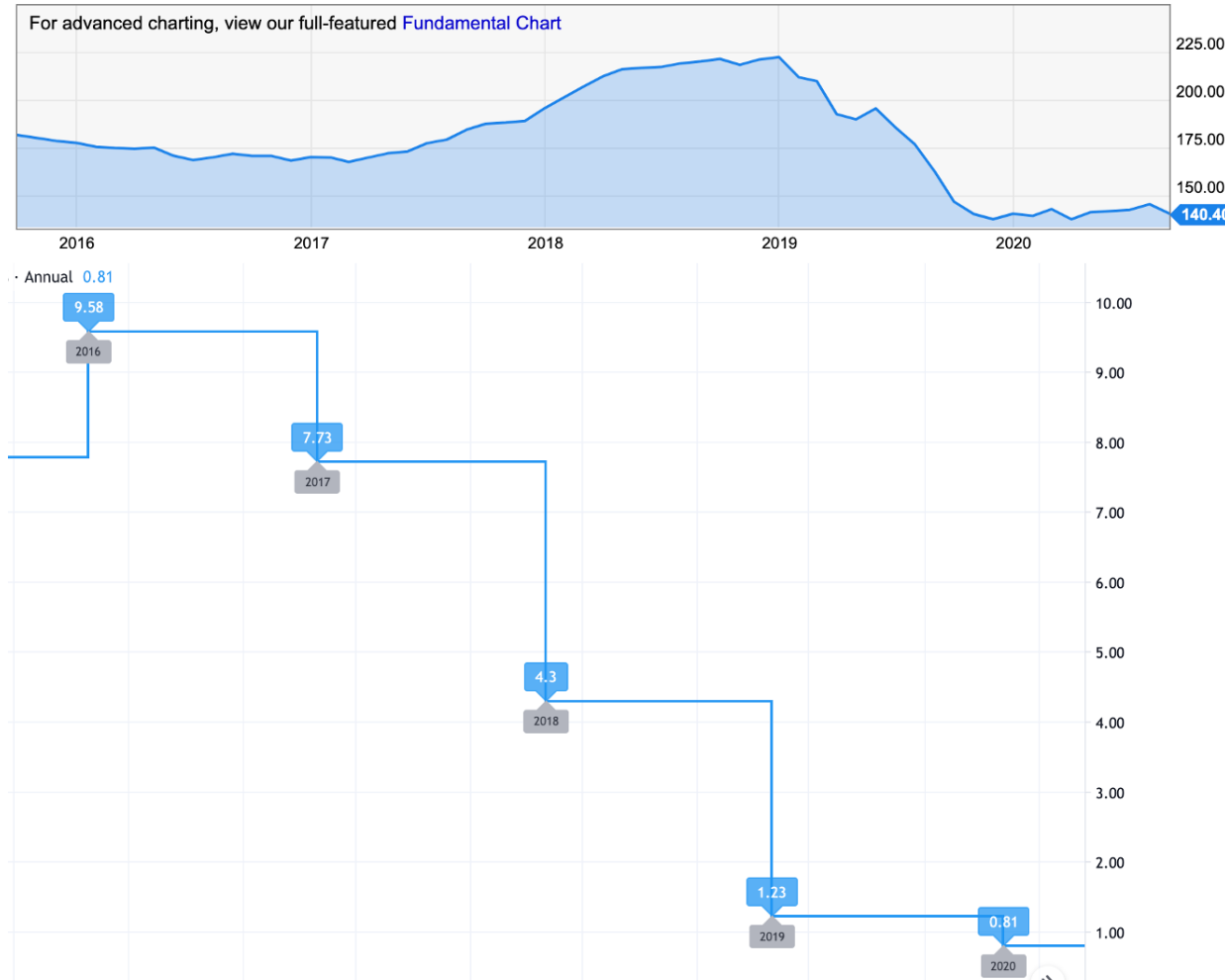


The chart above shows the pulp price movement and price chart below shows the Net profit margin of NTPM. (Yearly)

As you can see the higher the pulp price and lower the margin.

The raw material make up of 30-40% of cost of good sold.

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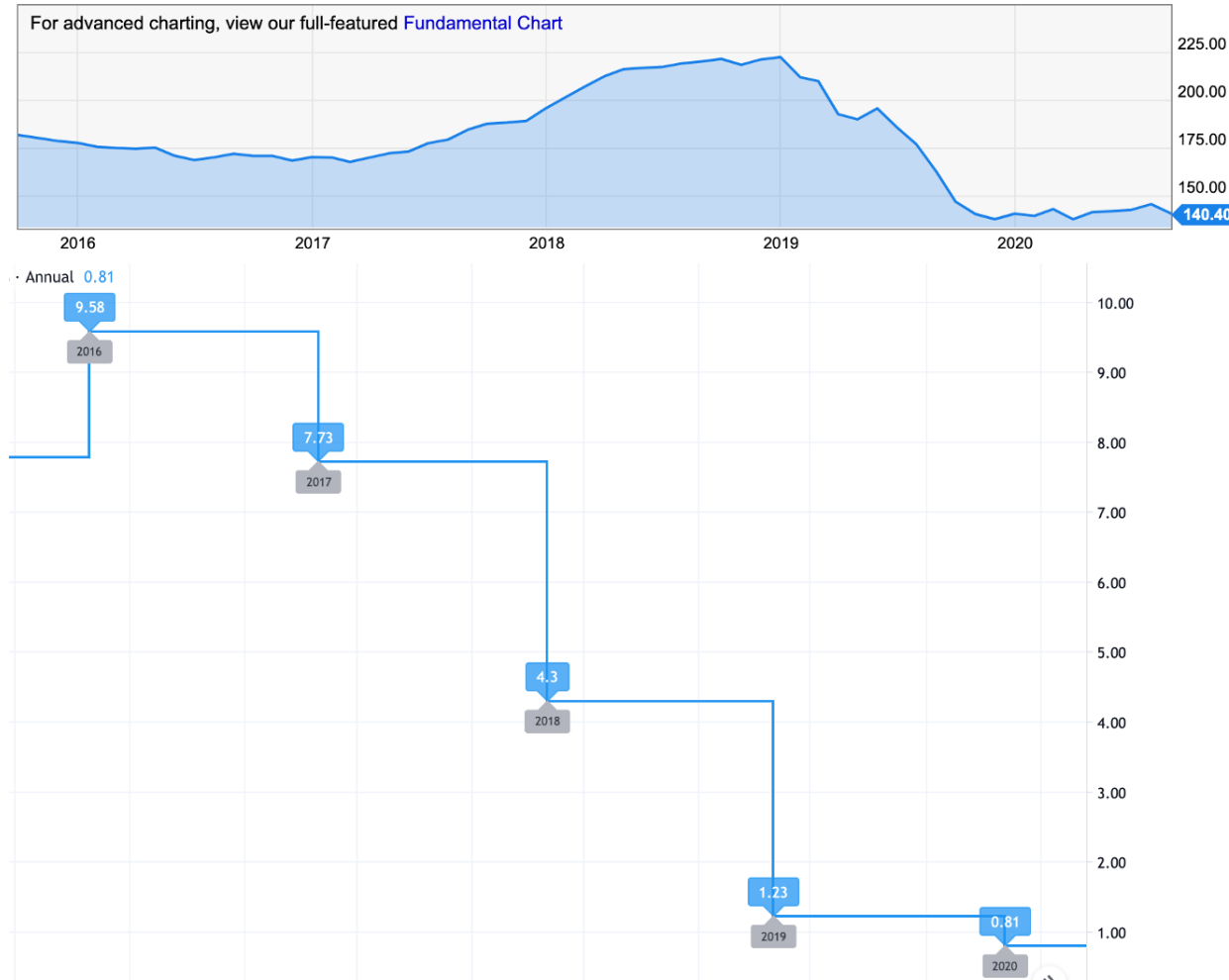


In early 2017,

1. China implemented a gradual ban on recycled paper.
2. Packaging manufacturer switch from box carton (pulp material) to plastic and recycled paper.

This cause everyone to import pulp and high demand for pulp, causing price to go up.

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But China manufacturers found alternative or workaround and reduced reliant on pulp, hence, the pressure to buy pulp urgently has been subsided now.

As the demand of pulp price start to decrease in early 2019, NTPM managed to purchase at the lower price. This material is highly likely to materialize in FY2021.

From 1Q19 to 4Q19, the company has used up all their old raw material(Higher cost).

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You can see that starting in 2Q19, the net margin has been improving drastically.

Therefore, this proves, the old material has been used up.

Update : We attended the AGM on the 25th . They mention their average price of their raw material in the inventory is at the 'lowest' price currently.

After we attended the AGM,

Baby diapers business in Vietnam, projected this FY will make about 1-3 mil revenue targeted by 30 April 2021.

This sales is further targeted to double in FY2022. The gross margin is targeted to be 30%.

Production is made in Malaysia to be exported to Vietnam. They commissioned 3 new paper making machines, when fully utilised, targeted to bring 300 million in revenue.

2 out of 3 new paper making machines, are in Vietnam, these will be mainly producing products with virgin pulp.

The last one is in Penang.

Vietnam plant operating at 40% now and may scale to 90% in 2 years (by April 2022)

Vietnam plant lost 30 mil last year, target to breakeven this year.

Management saw opportunity in recycled tissue segment. Vietnam will be their priority now, mainly using virgin pulp as raw material. For Malaysia, because they are more experienced, they will be using it to do more difficult stuffs like paper packaging & recycled tissue papers.

78% Catalyst, 22% Value Play

No more heavy capex in the coming years, now focus on selling and increase sales to fully utilise new capacities.

Pulp prices came down a lot and have reached "rock bottom", Q3 & Q4 finished using old inventory, new inventory are low cost.

Hence, Q1 is expected to be very good.

Expected low material cost trend to continue, due to lower newspaper usage & stationery usage. The company made ~50mil in net profit in 2016 when the pulp price was as low as now, back then, the revenue was only 600 mil.

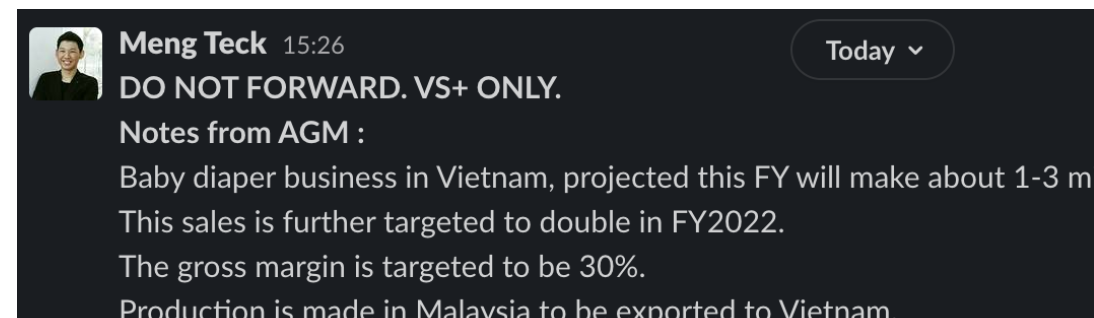
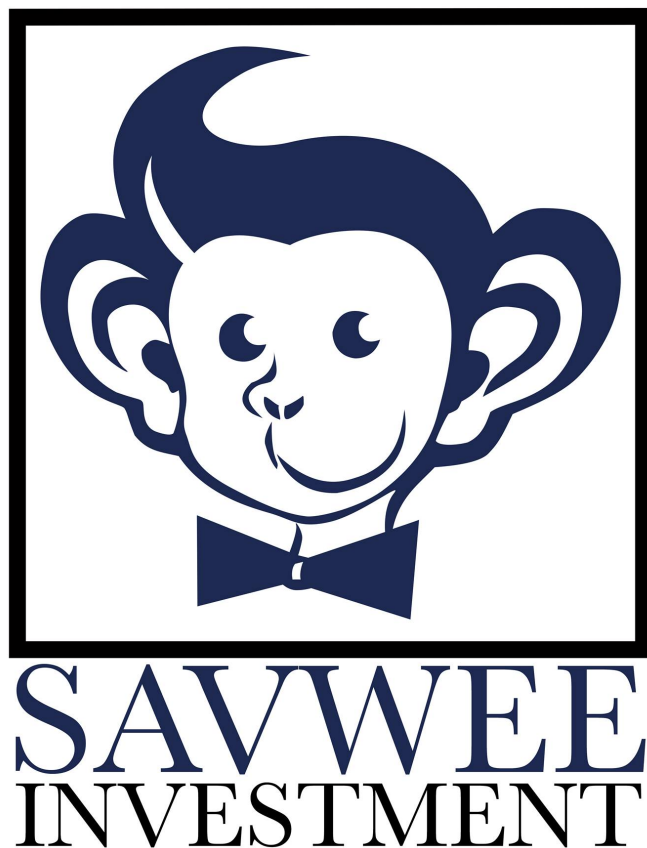
Currently, the revenue grew by 20+%, if the company can make similar net profit margin, that would mean a profit of 60 million. Currently the PE ratio of the company based on 60 mil net profit is only ~11. The average PE of this company is 15. This means the stock could go up to 0.90 in a bull case if the profit can return to that of the past.

If they can indeed fully utilise new capacity and generate another RM300 mil in revenue, that would bring the revenue up from 700 mil to 1B. Management is targeting this by end of FY22 which is April 2022. (Not a guarantee, many things can happen)

If profit margin go back to 2016 margin, will the share price go back to 2016 price of RM1?



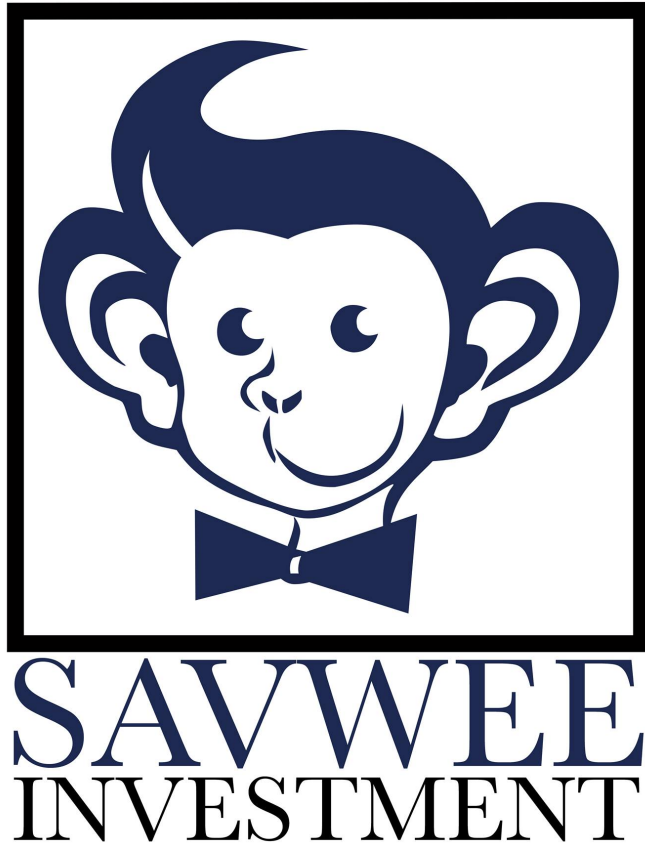
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