

Scientex Berhad

Expanding Market Reach Via DAIBOCI

By Marie Vaz | msvaz@kenanga.com.my

SCIENTX is proposing to acquire 42.4% of DAIBOCI for RM222.5m by issuance of new ordinary shares. We are long-term positive as it offers synergies and complementary product portfolios, as well as economies of scale. All in, we increase FY20E CNP by 5%, but EPS is unchanged post 5% dilution. Upgrade to MP (from UP) and increase SoP TP to RM8.50 post rolling forward to FY20E (from RM7.80).

Acquiring 42.4% of DAIBOCI. SCIENTX has proposed to enter into a Heads of Agreement (HOA) with DAIBOCI for the proposed acquisition of 139m ordinary shares in DAIBOCI. This represents 42.41% of DAIBOCI for a purchase consideration of RM222.5m (RM1.60 per share vs. DAIBOCI's current share price of RM1.99), satisfied by issuance of new ordinary shares by SCIENTX (*refer overleaf*).

Long-term positive on synergies. We were surprised but fairly positive as a take-over of DAIBOCI would be synergistic in the longer run as both companies operate in different ends of the manufacturing spectrum (*refer overleaf*).

Acquisition pricing on the higher end, but all in, neutral to SCIENTX earnings. The implied acquisition PER is not overly attractive at 20.0x (based on DAIBOCI's audited FY17A), and is on the higher end vs. acquisitions of Klang Hock Plastic (14.1x PER), GW Plastics (18.0x PER) but closer to Mondi Ipoh (20.4x PER); however, we note that DAIBOCI has strong MNC customers, which could explain the steeper pricing. Assuming all CPs are met, we reckon the acquisition will be completed by July 2019 and full impact will be felt in FY20 for SCIENTX. We believe the acquisition is neutral to SCIENTX's FY20 EPS as the impact to CNP is +5% to RM348.8m (based on 42.4% stake of DAIBOCI, and Bloomberg consensus estimates for FY19-20 NP, implies RM17m to SCIENTX FY20). This translates to a similar dilution of 5% to SCIENTX's share base from current levels (*refer to table in overleaf*).

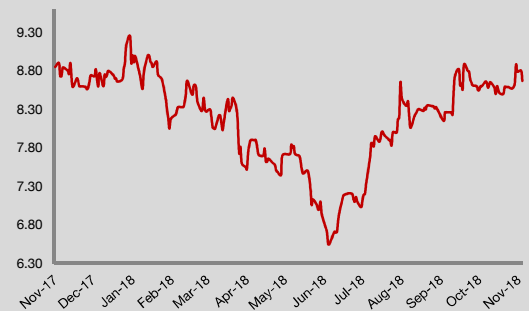
We make no changes to FY19E CNP but increase FY20E CNP by 5% to RM349m upon it acquiring 42.4% of DAIBOCI. However, impact to FY20E EPS is neutral, unchanged at 65.2 sen, due to dilution from potential issuance of 25.3m new shares. We do not expect any significant changes to SCIENTX earnings profile, which is mostly driven by the property segment (c. 65% of EBIT) on the segment's strong EBIT margins of 33% vs. the plastic manufacturing segment that only makes up c.35% of EBIT due to lower EBIT margins of 7%. For comparison purposes, DAIBOCI's manufacturing EBIT margins of c.7-8% are decent, but at a 42.4% stake, 9M18 annualized EBIT only makes up 3% of SCIENTX FY20E EBIT, which is not overly significant. FY19-20E net gearing is also unchanged at 0.27-0.11x.

Upgrade to MARKET PERFORM (from UP) and increase TP to RM8.50 (from RM7.80) upon rolling forward our valuations to FY20 (from FY19) to better encapsulate the full-year impact to increased earnings, as well as dilution from this acquisition. Our TP is based on our Sum-of-Parts (SoP) FY20E valuations with; (i) unchanged PER of 10.0x for the Property segment, (15% discount to small-mid-cap and Johor exposed developers), and (ii) a higher PER for the manufacturing segment to 15.5x (from 14.0x) accounting for DAIBOCI's higher PER (5-year average of 22x) likely due to its strong MNC clientele. We are comfortable with our MARKET PERFORM call post accounting for foreseeable upsides, although we may review our valuation basis again pending further confirmation of the longer-term synergies and potential mandatory take-over if the deal goes through.

MARKET PERFORM ↑

Price : **RM8.67**
Target Price : **RM8.50** ↑

Share Price Performance



KLCI	1,688.41
YTD KLCI chg	-6.0%
YTD stock price chg	0.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,239.0
Shares Outstanding	488.9
52-week range (H)	9.30
52-week range (L)	6.51
3-mth avg daily vol:	286,987
Free Float	61%
Beta	0.9

Major Shareholders

Scientex Holdings Sdn Bhd	21.5%
Scientex Leasing Sdn Bhd	9.7%
Scientex Infinity Sdn Bhd	8.4%

Summary Earnings Table

FYE Jul (RM m)	2018A	2019E	2020E
Turnover	2626.8	3216.1	3353.7
EBIT	364.4	398.1	429.4
PBT	361.7	394.4	442.9
Net Profit (NP)	289.8	308.8	348.8
Core NP*	291.7	308.8	348.8
Consensus (NP)	n.a.	338.8	378.0
Earnings Revision	n.a.	0%	+5%
Core EPS (sen)	57.2	60.6	65.2
Core EPS growth (%)	14.3	5.9	7.6
NDPS (sen)	19.1	24.2	26.1
BVPS (RM)	3.46	4.51	5.43
Core PER	15.2	14.3	13.3
PBV (x)	2.5	1.9	1.6
Net Gearing (x)	0.43	0.27	0.11
Net Div. Yield (%)	2.2	2.8	3.0

OTHER POINTS

Acquiring 42.4% of DAIBOCI. The HoA will be satisfied via share exchange of 1 new share for every 5.5 DAIBOCI shares held by the Vendors. Fractional shares arising from the Share Exchange for the Proposed Acquisition with the Vendors will be disregarded. Upon the Conditional Share Sale agreement (CSSA) becoming unconditional, SCIENTX is obliged to extend a mandatory take-over offer to acquire the remaining shares and warrants in DAIBOCI not already held by SCIENTX. An announcement regarding the details on the Proposed Acquisition and the Proposed Take-Over Offer will be made upon the execution of the CSSA.

The HoA is effective for two months. If the CSSA is not executed during this period, the HOA shall automatically terminate with immediate effect.

The CSSA contains the following terms;

- a) the approval of the shareholders of Scientex for the Proposed Acquisition; the Proposed Take-Over Offer; and issuance of new ordinary shares in Scientex
- b) Bursa Approval for listing of new shares
- c) Approval of third parties (ex: MITI or MIDA)
- d) completion of a due diligence on DAIBOCI and its subsidiaries to the satisfaction of SCIENTX

Long term positive on synergies. This acquisition would strengthen SCIENTX's position in the global flexible plastic packaging market and to expand its clientele reach as SCIENTX is focussed more on upstream manufacturing while DAIBOCI targets downstream flexible packaging for consumer MNC clients.

SCIENTX mostly operates in the upstream plastic packaging space from stretch film, polypropolyn, polyethelyn and middle packaging applications (i.e. woven and bulk bags), while DAIBOCHI is focused on downstream end-to-end flexible packaging for consumer MNC clients such as Nestle, Mondelez International, PepsiCo, etc.

Both companies can gain from complementary product portfolios with increased product differentiation to better serve customers whilst benefiting from the economies of scale. All in, it would allow SCIENTX to expand its market reach in plastic manufacturing operations both locally and internationally, whilst benefiting from DAIBOCHI's wealth of technical expertise in the flexible packaging space and vice versa.

Outlook. SCIENTX is focused on ramping up utilisation, targeting 70% rate over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. We do not expect additional capacity in FY19-20 for now but growth is premised on gradual improvements in: (i) utilisation rates for the manufacturing segment, (ii) full-year contributions from KHPI in FY19, and (iii) impact of the DAIBOCHI acquisition mostly accreting in FY20. We have yet to factor in the remaining acquisition of 57.6% of DAIBOCI as acquisition details for the financing of the remainder portion are still scarce. However, as pricing for the 42.4% stake was at a steep discount (-19.6%) to the current price, we believe minorities of SCIENTX is unlikely to take the offer.

Risks to our call include: (i) lower-than-expected resin cost, (ii) stronger product demand from overseas, (iii) stronger-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

* Note that our FY19 share base is 510m which includes 19m shares from the Share Grant Plan and 6m from the DRP, while FY20 share base of 535m shares includes 25.3m new shares from the proposed acquisition for 42.4% stake of DAIBOCI

SCIENTX acquisition of 42.4% of DAIBOCI	
Proposed consideration (RM'm)	222.5
Number of shares acquired (m)	139.1
Acquisition price per share (RM)	1.60
DAIBOCI current share price (RM)	1.99
Acquisition discount to current share price	-19.6%
Acquisition Implied PBV (based on latest 2017 auditted)	2.62
Acquisition Implied PER (based on latest 2017 auditted)	20.0
Proposed issuance of new shares by SCIENTX	
SCIENTX Current Share price (RM)	8.67
Potential number of shares to be issued (m)	25.3
% dilution of SCIENTX existing share base of 488.9m	5%

Source: Bloomberg, Kenanga Research

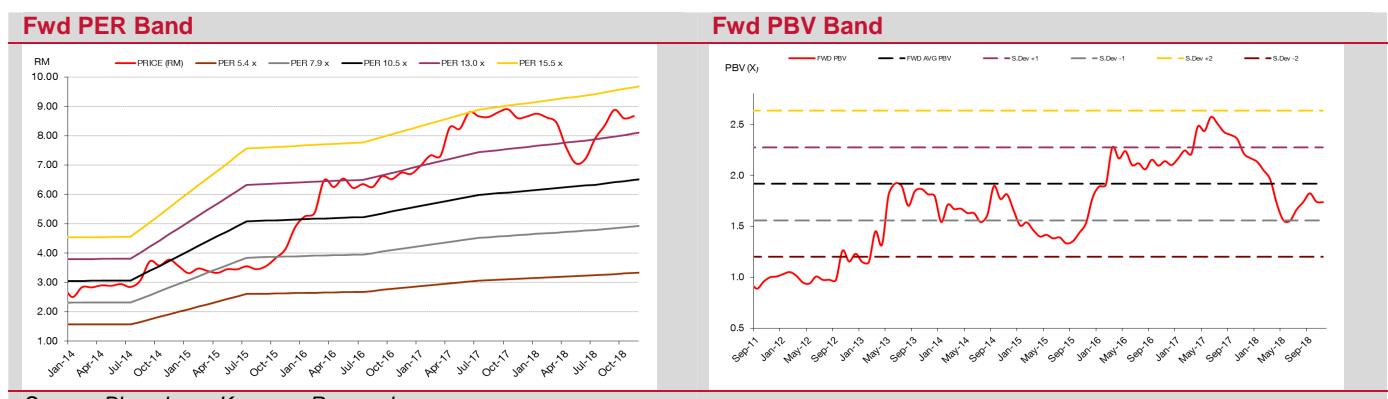
Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E	FY Jul	2016A	2017A	2018A	2019E	2020E
Revenue	2201.0	2403.2	2626.8	3216.1	3353.7	Growth (%)					
EBITDA	367.1	388.3	436.1	567.2	631.3	Turnover	22.2	9.2	9.3	22.4	4.3
Depreciation	-54.5	-63.2	-71.7	-169.1	-202.0	EBITDA	36.6	5.8	12.3	30.1	11.3
Operating Profit	312.6	325.1	364.4	398.1	429.4	Operating	38.9	4.0	12.1	9.3	7.9
Interest Exp	-13.7	-14.0	-10.8	-15.4	-15.2	PBT	38.6	3.8	13.7	9.1	12.3
Associate	7.4	6.9	8.0	11.7	28.7	Net Profit	52.3	6.2	13.2	6.5	13.0
Exceptionals	-7.1	0.7	0.0	0.0	0.0	Core Net	66.2	2.9	14.3	5.9	13.0
PBT	306.3	318.0	361.7	394.4	442.9						
Taxation	-59.8	-58.0	-67.6	-78.8	-87.1	Profitability					
Minority Interest	-5.7	-4.1	-4.2	-6.8	-6.9	EBITDA	16.7	16.2	16.6	17.6	18.8
Net Profit	240.9	255.9	289.8	308.8	348.8	Operating	14.2	13.5	13.9	12.4	12.8
Core Net Profit	248.0	255.2	291.7	308.8	348.8	PBT Margin	13.9	13.2	13.8	12.3	13.2
						Net Margin	10.9	10.6	11.0	9.6	10.4
						Core Net	11.3	10.6	11.1	9.6	10.4
						Eff. Tax Rate	19.5	18.2	18.7	20.0	19.7
						ROA	10.5	10.2	8.2	8.8	8.5
						ROE	22.8	18.9	17.6	15.2	13.4
						DuPont					
						Net Margin	11.3	10.6	11.1	9.6	10.4
						Assets T/O	1.0	0.8	0.8	0.8	0.8
						Leverage Fac	2.1	1.9	2.0	1.9	1.7
						ROE (%)	23.4	18.9	17.6	15.2	13.4
						Leverage					
						Debt/Asset (x)	0.2	0.2	0.3	0.2	0.1
						Debt/Equity	0.4	0.4	0.5	0.4	0.2
						N.Debt/(Cash	371.0	275.8	762.0	619.0	313.4
						Net Debt/Eq	0.32	0.16	0.43	0.27	0.11
						Valuations					
						EPS (sen)	48.6	50.0	57.2	60.6	65.2
						NDPS (sen)	16.0	15.2	19.1	24.2	26.1
						BV (RM)	2.55	3.01	3.46	4.51	5.43
						PER	17.8	17.3	15.2	14.3	13.3
						Net Div.Yield	1.8	1.8	2.2	2.8	3.0
						PBV	3.4	2.9	2.5	1.9	1.6
						EV/EBITDA	13.8	10.3	11.1	8.9	7.8

Balance Sheet					
FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E
Fixed Assets	952.5	1012.6	1150.6	1534.7	1801.7
Prepaid lease pmts	0.0	0.0	0.0	0.0	0.0
Other investments	25.0	25.6	24.5	24.1	24.1
Other Fixed Assets	512.3	586.6	993.5	1034.2	1034.2
Inventories	137.0	168.8	263.6	268.5	276.0
Receivables	350.7	385.1	482.7	617.4	643.8
Ot. Current Asset	174.7	207.3	276.9	243.7	316.0
Cash	100.6	191.9	172.3	200.9	226.5
Total Assets	2252.8	2577.8	3364.1	3923.5	4322.3
Payables	458.8	419.4	490.7	572.3	636.0
ST Borrowings	232.7	301.2	610.4	460.0	380.0
Other ST Liability	20.0	23.0	23.8	38.6	40.3
LT Borrowings	238.9	166.5	323.9	360.0	160.0
Other LT Liability	60.7	63.7	81.8	79.4	82.3
Minority Interest	66.5	68.4	69.9	112.1	116.9
Net Assets	1175.2	1535.5	1763.6	2301.1	2906.8
Share Capital	115.0	425.3	453.9	496.9	715.3
Reserves	1060.2	1110.1	1309.7	1804.3	2191.5
Shareholder Eq.	1175.2	1535.5	1763.6	2301.1	2906.8

Cashflow Statement					
FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E
Operating CF	380.4	322.8	392.4	861.8	748.9
Investing CF	-560.7	-253.4	-702.8	-248.2	-469.0
Financing CF	190.2	21.8	290.8	178.4	-434.7

Source: Kenanga Research

*Note that our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.3m from the proposed acquisition for 42.2% stake of DAIBOCI



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
SCGM BHD	1.27	244.8	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	17.6	48.8	31.8	1.6	1.1	2.6%	1.0%	1.15	UP
SCIENTEX BHD	8.67	4,239.0	Y	07/2019	22.4%	4.3%	5.9%	13.0%	15.2	14.3	13.3	2.5	1.9	15.2%	2.8%	8.50	MP
SLP RESOURCES BHD	1.10	348.7	Y	12/2018	7.0%	9.8%	36.6%	-4.9%	19.0	13.9	14.7	2.1	1.9	14.2%	2.9%	1.35	OP
THONG GUAN INDUSTRIES BHD	2.18	297.0	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	8.4	10.5	10.2	0.8	0.9	8.7%	3.3%	1.95	UP
TOMYPAK HOLDINGS	0.675	282.9	N	12/2018	-9.2%	25.1%	-79.9%	21.4%	32.5	161.7	133.2	1.9	1.5	1.1%	0.4%	0.495	UP
Simple Average					6.0%	11.2%	-24.5%	17.4%	18.5	49.8	40.6	1.8	1.5	8.4%	2.1%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
 Head of Research