Daibochi boost for Scientex

Scientex shares rally after it announces plan to buy 42% stake in rival

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OVER the two days since Scientex Bhd announced plans to acquire 42% of its smaller rival Daibochi Bhd, the group's share price has soared.

The day after the deal was announced, the share price rose to hit a 10-month high, and on Friday, it climbed a further 13 sen, or 1.47%, to close at RM8.97.

The enthusiasm surrounding the deal is understandable.

For one, the takeover target is known for its strong MNC clientele, which Scientex will be able to tap into following the acquisition.

Among Daibochi's clients are big names such as PepsiCo, Nestle and Mondelez International.

Daibochi is also looking to record a new high in revenue for the financial year ending December 31, 2018 on the back of larger flexible packaging deliveries. This follows a 7% jump in the group's revenue growth to a record high of RM109.2mil during the recent quarter, supported by higher sales in the food and beverage (F&B) and fast moving consumer goods (FMCG) sectors.

A report by UOB KayHian Research notes huge potential for the enlarged entity, saying Daibochi's manufacturing facilities in Malacca and Yangon in Myanmar will enjoy synergies from operational efficiency and product innovations.

The companies are also operating in the booming flexible plastic packaging (FPP) industry, which is projected to grow from US$151.1bil in 2014 to US$192.2bil by 2019 with a CAGR of 4.9%.

The industry's major customers are the F&B and pharmaceutical sectors.

FPP, as an advanced plastic packaging technique, reportedly increases the shelf life of products while also reducing storage and transportation costs.

The material is also easier to recycle compared to its rigid plastic packaging counterpart, making it more environmentally-friendly, and more appealing to its customers.

At a time when e-commerce is flourishing, with more and more people are opting to buy things online, the demand for protective packaging is also growing rapidly, which means prospects are bright in this area as well.

It is also notable that there has been a growing appetite for consolidation in the global packaging industry, which Scientex also cites in the announcement of the deal.

Scientex announced on Wednesday that it plans to acquire the 42.41% controlling stake in Daibochi through a conditional share sale agreement with several individuals who hold controlling blocks of shares in Daibochi.

Daibochi later stated that the deal involved 14 shareholders including family members of the founder. Scientex said the parties had agreed to enter into a conditional share sale agreement within the next two months, involving the sale of 139.1 million Daibochi shares for RM222.5mil, equivalent to RM1.60 per share.

The deal will be completed via a share exchange, whereby one Scientex share would be issued for every 5.5 Daibochi shares held. This will then trigger a mandatory takeover offer by Scientex.

In announcing the deal, Scientex said the merger will create "a formidable regional giant from Malaysia with extensive resources to compete globally", which will be able to offer an integrated range of flexible packaging solutions to a wider client base.

It added that the move will enable Scientex to penetrate the global markets by offering high quality packaging at competitive prices. Another point to note, with regards to optimism surrounding the deal, is Scientex's successful track record of its previous acquisitions.

Among its previous acquisitions were that of Great Wall Plastic Industries Bhd and GW Packaging Sdn Bhd in 2013, which set the path for Scientex's entry into the consumer packaging space.

It also bought Seacera Polyfilms Sdn Bhd during the same year, to move into the biaxially-oriented polypropylene (BOPP) segment.

Later in 2015, its acquisition of Scientex Great Wall Ipoh Sdn Bhd (SGWI), formerly known as Mondi Ipoh Sdn Bhd, and regional player Klang Hock Plastics Industries (KHPI) earlier this year, significantly widened Scientex's customer base.

"Over time, Scientex also rapidly expanded its acquirees' manufacturing capacities," notes UOB Kay Hian Research in its report.

Scientex, as a whole, has two core businesses - manufacturing and property.

The packaging material business contributed about 72% to group sales in FY18, with the rest coming from its property division. Back to the deal at hand, while investors reacted positively towards Scientex's announcement of the exercise, Daibochi's share price did not see the same enthusiam. In fact, its share price shed about 14% over the past three days, closing at RM1.71 likely reflecting concerns about the purchase price of the shares.

Analysts note that the deal values Daibochi shares at RM1.60 per unit and at a historical price-to-earnings ratio (PER) of 20 times and price-to-book value (PBV) of 2.62 times - both are higher than Daibochi's 10 year average PER at 17.1x and PBV at 2.3x. On the other hand, the offer price represents a 18.8% discount to the group's five-day weighted average share price of RM1.97.

CGS-CIMB Research, however, notes that Daibochi's takeover price of RM1.60 is almost spot-on with its target price for the counter and believes the takeover offer "is long-term positive for the stock." Moving forward, the decision will be in the hands of Daibochi's investors to choose whether or not to accept the offer when it is presented to them.

Expansion: In announcing the deal, Scientex says the merger with Daibochi will create 'a formidable regional giant from Malaysia with extensive resources to compete globally.'