

30 June 2020

SCGM Berhad

FY20 Above Expectations

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FY20 came above our expectation at 124% on better than expected CNP margin of 8.3% (vs. our estimate of 6.5%) on a tax income (vs. tax expense) and better-than-expected product mix. Increase FY21E CNP by 9% to RM21.1m on better margins and introduce FY22E CNP of RM23.6m. Maintain MARKET PERFORM and increase TP to RM1.90 (from RM1.40).

FY20 above on better than expected margins. FY20 CNP of RM17.5m is above our expectation at 124% of our RM13.8m estimate mainly due to higher-than-expected CNP margin of 8.3% vs. ours of 6.5% on: (i) a lower-than-expected effective tax with a tax income of RM1.4m (vs. our expectations of effective tax rate of 10%), and (ii) a stronger-than-expected EBIT margin of 9.9% (vs. ours of 9.7%) likely due to a favorable product mix in line with the group's strategy to focus on higher margin products. FY20 dividend of 3.25 sen is also above (113%) our FY20 estimate of 2.9 sen, on higher than expected earnings.

Results' highlight. YoY-Ytd, top-line was down by 4% on lower sales of F&B packaging products and electronic products. However, EBIT increased by 432% on optimal sales mix as well as lower resin cost. CNP was up to RM17.5m (vs. CNL of RM4.4m) on the back of lower financing cost (-13%) and a tax income of RM1.4m (vs. a tax expense of RM3.4m in FY19). **QoQ** top-line was down by 4% on lower sales from local and export markets, but operating profit was up by 43% on lower resin cost and higher margin products which includes the contribution from the new PPE product line (i.e. face shield) since Feb 2020. All in, CNP was up by 110% to RM7.9m, benefitting from a tax income of RM1m.

Outlook. SCGM will focus on increasing sales of F&B packaging which is its primary target and it has introduced a face shield mask for medical personnel since Feb 2020. Additionally, the group will be working on improving operational efficiency through increased automation to achieve better economies of scale from its new factory, and improve product margins via more customisable as well as higher margin products going forward. SCGM has returned to operating at 100% manpower during the Conditional MCO in end-April 2020.

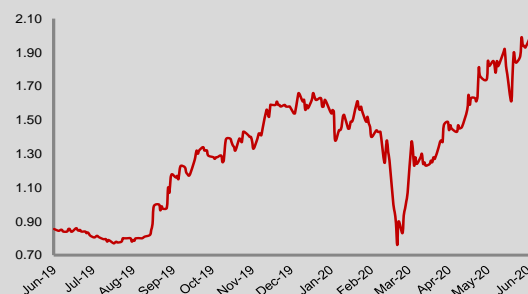
Increase FY21E CNP by 9% to RM21.1m on better product margins and introduce FY22E CNP of RM23.6m. We increase FY21E EBIT margin to 13.9% (from 10.0%) as we expect stronger margin in FY21, and 14% EBIT margin in FY22 given better product mix in recent quarters, but lower our top-line estimates in light of weakness in sales as our top-line assumptions may have been too bullish. FY21-22E dividends are based on a 40% payout ratio of 4.4-4.9 sen, implying 2.2-2.5% yields.

Maintain MARKET PERFORM but increase TP to RM1.90 (from RM1.40) upon increasing our PBV multiple to 2.0x (-0.5SD) on positive results (from 1.47x @-1SD) post updating valuations to its 5-year historical average on FY21E BVPS of RM0.95. Despite results coming above expectation, we opt to remain cautious in light of fluid sales trends and competitive markets amidst the Covid-19 pandemic which may threaten margins. For now, SCGM's stable margins will be paramount and the group has to continuously increase sales of its higher margin products whilst riding on low resin price to avoid receding into the red again. We are comfortable with our call given strong share price momentum of (+45%) since our last report in end March.

MARKET PERFORM ↔

Price : RM1.98
Target Price : RM1.90 ↑

Share Price Performance



KLCI 1,494.43
YTD KLCI chg -5.9%
YTD stock price chg 28.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGM MK EQUITY
Market Cap (RM m)	379.2
Shares outstanding	191.5
52-week range (H)	2.04
52-week range (L)	0.76
3-mth avg daily vol:	2,947,305
Free Float	38%
Beta	1.2

Major Shareholders

SCGM Lee Sdn Bhd	16.0%
Lee Hock Seng	9.3%
Kumpulan Wang Persaraan Diperbadankan	7.6%

Summary Earnings Table

FY Apr (RM m)	2020A	2021E	2022E
Turnover	210.5	227.2	246.3
EBIT	20.7	31.5	34.5
PBT	15.9	25.1	28.1
Net Profit (NP)	17.3	21.1	23.6
Core NP	17.5	21.1	23.6
Consensus (NP)	n.a.	14.7	19.4
Earnings Revision	n.a.	+9%	n.a.
Core EPS (sen)	9.1	10.9	12.2
Core EPS growth (%)	-498.8	20.2	11.9
NDPS (sen)	3.3	4.4	4.9
BV/Share (RM)	0.88	0.95	1.02
Core PER (x)	21.8	18.1	16.2
Price/BV (x)	2.2	2.0	1.9
Net Gearing (x)	0.5	0.4	0.3
Net Dvd Yield (%)	1.6	2.2	2.5



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OTHER POINTS

Risks to our call include; (i) lower or higher-than-expected resin cost, (ii) higher product demand from overseas market, and (iii) stronger or weaker foreign currency rates.

Results Highlights								
FY Apr (RM m)	4Q20	3Q20	QoQ %	4Q19	YoY%	FY20	FY19	YoY%
Revenue	49.7	51.6	-4%	50.7	-2%	210.5	219.6	-4%
Other Income	0.4	0.6	-34%	0.2	86%	1.9	0.8	143%
Op Profit	6.9	4.8	43%	(3.3)	n.m.	20.7	3.9	432%
Finance Cost	-1.1	-1.2	-13%	-1.6	-33%	-4.9	-5.6	-13%
Pretax Profit	5.9	3.6	61%	-4.8	n.m.	15.9	-1.7	n.m.
Tax	1.0	0.5	83%	-2.3	n.m.	1.4	-3.4	-141%
MI	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Profit	6.9	4.2	64%	(7.1)	n.m.	17.3	(5.1)	n.m.
Core Net Profit	7.9	3.7	110%	(6.3)	n.m.	17.5	(4.4)	n.m.
EPS (sen)	3.56	2.17	64%	-3.70	n.m.	8.97	-2.66	n.m.
Core EPS (sen)	4.08	1.94	110%	-3.25	n.m.	9.10	-2.27	n.m.
Net DPS (sen)	1.50	0.50		0.25		3.25	1.50	
EBIT Margins %	13.9%	9.4%		-6.4%		9.9%	1.8%	
Core Net Profit Margins %	15.8%	7.3%		-12.3%		8.3%	-2.0%	
Effective Tax Rate %	16.9%	14.9%		47.8%		8.8%	203.6%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.98	379.2	Y	04/2020	7.9%	8.4%	20.2%	11.9%	21.8	18.1	16.2	2.2	2.1	8.3%	2.2%	1.90	MP
SCIENTEX BHD	8.81	4,544.9	Y	07/2020	38.1%	13.0%	20.2%	26.3%	14.2	13.4	10.6	2.7	2.1	17.3%	2.2%	9.70	OP
SLP RESOURCES BHD	0.830	263.1	Y	12/2020	11.0%	22.3%	-25.5%	57.0%	11.1	16.6	10.6	1.3	1.3	7.8%	3.0%	0.625	UP
THONG GUAN INDUSTRIES BHD	3.72	692.4	Y	12/2020	3.9%	6.9%	12.4%	12.3%	11.1	9.9	8.8	1.3	1.2	12.4%	2.4%	4.00	OP
TOMYPAK HOLDINGS	0.450	188.2	Y	12/2020	-13.3%	16.8%	-4660.0%	-144.3%	N.A.	N.A.	N.A.	1.3	1.5	-12.7%	0.0%	0.245	UP
Simple Average					9.5%	13.5%	-926.5%	-7.4%	14.5	14.5	11.6	1.8	1.6	6.6%	2.0%		

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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