Scientex Berhad

Proposed Privatization of Daibochi

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SCIENTX is proposing to acquire the remaining 38.1% of DAIBOCI shares and 95.8% of warrants for RM345.3m. We believe the offer price of RM2.70 is fair, as it is only 4% higher than our back-of-the-envelope DAIBOCI's fair value calculation of RM2.60. The privatization of DAIBOCI should provide SCIENTX with greater control to streamline its business operations. Accounting for the additional stake in DAIBOCI, we increase our FY22E CNP by 5%. We maintain our MARKET PERFORM call on SCIENTX with a higher SOP-TP of RM4.34 (from RM3.96) after the privatization on earnings accretion.

Proposed privatization. SCIENTX has proposed an unconditional voluntary takeover of its subsidiary, DAIBOCI for all the remaining shares and warrants. This offer is expected to be completed by 4QCY21 pending clearance from the SC. (refer overleaf for more)

Rationale of the privatization. We believe the purpose of SCIENTX's proposed privatization of DAIBOCI is to gain full control in order to streamline its production and supply chain. However, we believe that any additional synergies from this exercise will be limited, as any operational synergies between DAIBOCI and SCIENTX would have already been realized.

Fair offer price. Based on our back-of-the-envelope calculation, by ascribing as PER of 13x to Bloomberg's consensus FY22E CNP of RM65.7m, we believe DAIBOCI's fair value per share is RM2.60. Thus, in our view, the offer price of RM2.70 is fair, as the 4% premium is justifiable to gain full control of DAIBOCI. The 13x ascribed PER is lower than our peers' average of 15.5x mainly due to its lack of pricing power.

Likely half cash, half borrowing. Based on the regulatory filings, we assume that SCIENTX will fund half the privatization with internal generated funds and another half with debt. With the additional bank borrowings of RM172.6m, we estimate it would lift SCIENTX's net gearing to 0.45x, (vs our net gearing FY21E-FY22E of 0.29-0.41x).

5% earnings accretion from privatization. After accounting for the post-tax additional interest expense (RM2.6m) for the privatization, SCIENTX's acquisition of the remainder of DAIBOCI shares should increase the former's FY22E CNP by 5% from RM456m to RM479m as we have included the full year estimate impact.

Maintain FY21 estimates, raise FY22 estimates. All in, we maintain our FY21 estimates. Accounting for SCIENTX's acquisition of the remaining 38.1% of DAIBOCI, we raised SCIENTX's FY22E revenue/CNP by 1%/5%. We maintain our FY21E DPS of 7.6 sen and increase FY22E DPS to 9.3 sen based on 30% payout ratio, yielding 1.7%/2.0%, respectively.

Maintain MARKET PERFORM with higher SoP-derived TP of RM4.34 (from RM3.96) as based on our FY22 estimates. We maintain our ascribed 12.5x PER for the property segment, but raised our ascribed plastics segment PER from 14.5x to 15.5x, marginally to be in line with the peers' average of 15.5x, given the potential full control of an entity in its supply chain.

MARKET PERFORM ↔

Price: RM4.57
Target Price: RM4.34



-3.5%
8.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	7,086.5
Shares Outstanding	1,550.7
52-week range (H)	4.87
52-week range (L)	3.00
3-mth avg daily vol:	601,780
Free Float	35%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn	21.0%
Scientex Infinity Sdn	9.2%
Scientex Leasing Sdn	9.1%

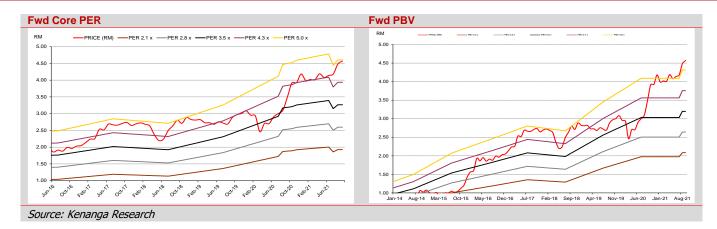
Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3518.6	3630.2	4126.4
EBIT	549.5	533.4	670.5
PBT	544.3	533.2	630.9
Net Profit (NP)	390.1	391.8	479.4
Core NP	407.5	391.8	479.4
Consensus (NP)	N/A	422.0	497.1
Earnings Revision	N/A	N/A	+5%
Core EPS (sen)	26.3	25.3	30.9
Core EPS growth (%)	23.7	-3.8	22.3
NDPS (sen)	7.7	7.6	9.3
BVPS (RM)	1.65	1.83	2.05
Core PER (x)	17.4	18.1	14.8
PBV (x)	2.8	2.5	2.2
Net Gearing (x)	0.25	0.29	0.41
Net Div. Yield (%)	1.7	1.7	2.0

Proposed privatization of DAIBOCI. SCIENTX has proposed an unconditional voluntary takeover of its subsidiary, DAIBOCI for all the remaining shares and warrants. SCIENTX will acquire 125m ordinary shares and 26m warrants, which represent 38.1% of the total issued shares of DAIBOCI excluding treasury shares and 95.8% of the outstanding DAIBOCI warrants. This amounts to a total value of RM345.3m, with an offer price of RM2.70 per share and RM0.32 per warrant (DAIBOCI's current share price is RM2.39 and current warrant's price is RM0.195). SCIENTX's management stated that this acquisition will improve its operational cost efficiencies to grow its flexible packaging segment and enhance DAIBOCI's competitive edge and reinforce the confidence among its multinational corporations (MNCs) and local leading clients. SCITENTX will be funding the offer through a combination of c.50% internally generated funds and c.50% bank borrowing. This offer is expected to be completed by 4QCY21 pending clearance from the SC.

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

FY Jul (RM m)	2018A	2019A	2020A	2021E	2022E	FY Jul	2018A	2019A	2020A	2021E	2022E
Revenue	2602.8	3247.4	3518.6	3630.2	4126.4	Growth (%)	2010/1	2010/1	2020/1	202.2	
EBITDA	429.1	554.1	656.9	640.6	781.1	Revenue	3.5	9.0	2.3	14.9	10.9
Depreciation	71.7	92.3	107.4	107.1	110.6	EBITDA	3.5 12.6	29.1	2.3 18.6	-2.5	21.9
EBIT	357.4	92.3 461.8	549.5	533.4	670.5	EBIT	12.0	29.1	19.0	-2.9	25.7
PBT	357.4	450.6	544.3	533.4	630.9	PBT	2.5	29.2	20.8	-2.9 -2.0	18.3
Taxation	-66.0	-104.7	-126.2	-111.9	-126.2	Net income	4.3	17.3	16.9	0.4	22.4
Minority Interest	4.2	12.2	27.9	29.5	25.2	Core Net Income	12.9	14.9	23.7	-3.9	22.4
PATAMI	284.5	333.7	390.1	391.8	479.4		12.5	14.5	25.7	-3.9	22.5
Core PATAMI	286.9	329.5	407.5	391.8	479.4	Profitability (%)					
	200.9	323.3	407.5	391.0	473.4	EBITDA Margin	8.4	10.6	13.0	13.3	13.0
Balance Sheet						EBIT Margin	6.1	8.0	10.1	10.8	10.6
FY Jul (RM m)	2018A	2019A	2020A	2021E	2022E	PBT Margin	6.0	8.0	10.1	10.9	10.7
Fixed Assets	1150.6	1247.8	1322.6	1365.5	1404.8	Net Margin	11.0	10.1	11.6	10.9	11.6
Other FA	1022.5	1161.3	1446.7	1737.6	2518.9	Effective Tax Rate	16.1	15.3	19.7	19.0	19.0
Inventories	263.6	321.2	354.0	360.8	402.7	ROE	10.1	14.8	15.9	13.8	15.
Receivables	541.7	730.8	714.9	592.5	592.5	ROA	6.7	8.0	8.9	8.1	7.9
Other CA	234.6	388.8	341.6	429.4	444.1		0.7	0.0	0.0	0.1	, .
Cash	172.3	257.6	413.2	363.7	698.7	DuPont Analysis					
Total Assets	3385.3	4107.5	4593.0	4849.5	6061.8	Net margin (%)	11.0	10.1	11.6	10.8	11.
	0000.0	4107.0	4000.0	4040.0	0001.0	Assets Turnover (x)	0.8	0.8	0.8	0.7	0.
Payables	525.9	129.0	169.1	157.1	185.1	Leverage Factor (x)	1.9	1.7	1.7	1.6	1.8
ST Borrowings	610.4	91.6	89.8	94.8	99.8	ROE (%)	10.0	14.8	15.9	13.8	15.
Other ST liability	23.8	6.1	7.6	0.0	0.0						
LT Borrowings	269.8	49.0	56.7	58.3	58.3	Leverage					
Other LT liability	81.8	10.9	19.1	7.0	12.3	Debt/Asset (x)	0.26	0.03	0.03	0.03	0.03
Net Assets	1749.6	2225.0	2561.4	2835.6	3171.3	Debt/Equity (x)	0.48	0.06	0.05	0.05	0.0
					• • • • • • • • • • • • • • • • • • • •	N.Debt/(Cash)	762.0	716.2	627.8	810.0	1286.
						N.Debt/Equity (x)	0.39	-0.05	-0.10	-0.07	-0.1
Share Capital	1749.6	2225.0	2561.4	2835.6	3171.3						
NCI	173.9	194.3	164.8	139.5	117.0	Valuations					
S. Equity	1819.6	2399.0	2755.7	3000.4	3310.8	Core EPS (sen)	18.5	21.2	26.3	25.3	30.
						NDPS (sen)	6.31	10.00	7.66	7.58	9.28
Cashflow Statement						BV/share (RM)	1.1	1.4	1.7	1.8	2.0
FY Jul (RM m)	2018A	2019A	2020A	2021E	2022E	Core PER (x)	24.7	21.5	17.4	18.1	14.8
Operating CF	392.4	557.0	715.3	682.9	841.2	Net Div. Yield	1.3	1.7	1.8	1.38	2.
Investing CF	-702.8	-298.6	-480.9	-850.0	-650.0	PBV (x)	4.1	3.2	2.8	2.5	2.2
Financing CF	290.8	-173.0	-78.9	117.5	143.8						



Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	2937	12.5	234.9
Manufacturing			
, and the second	3790	15.5	244.5
Sum-of-Parts (RM m)	6726.7		479.4
No. of Shares (m)	1550.6		
Target Price (RM)	4.34		

Scientex Berhad Results Note

14 September 2021

Name Pi	Last Price	Market	Shariah	Current		enue wth	Core Ea	_	PER (x)	- Core E	arnings	PB\	/ (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																	
BPP PLASTICS HOLDINGS BHD	2.68	502.9	Υ	12/2021	29.8%	9.0%	53.7%	10.6%	17.1	11.1	10.0	2.4	2.2	20.7%	3.7%	3.15	OP
SCGM BHD	2.47	473.1	Υ	04/2022	14.8%	4.6%	10.0%	7.5%	13.9	12.6	11.8	2.5	2.2	18.6%	3.2%	3.02	OP
SCIENTEX BHD	4.57	7,086.5	Υ	07/2021	3.2%	13.7%	-3.8%	22.3%	17.4	18.1	14.8	2.8	2.5	15.6%	1.7%	4.34	MP
SLP RESOURCES BHD	0.945	299.5	Υ	12/2021	22.3%	3.1%	33.5%	4.7%	18.6	13.9	13.3	1.6	1.6	11.8%	5.8%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.87	1,092.6	Υ	12/2021	14.9%	10.9%	21.4%	8.6%	14.3	11.8	10.9	1.6	1.5	13.8%	1.6%	3.70	OP
TOMYPAK HOLDINGS	0.605	260.8	Υ	12/2021	15.0%	5.5%	5800.0%	5.1%	2,608.2	44.2	42.1	1.4	1.4	3.1%	0.0%	0.570	MP
Simple Average					16.7%	7.8%	985.8%	9.8%	448.2	18.6	17.1	2.1	1.9	13.9%	2.67%		

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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