

SCGM Berhad

Proposed Disposal of Core Business

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SCGM intends to divest its entire core business for a cash consideration of RM544.4m (or RM2.83 per share), to be followed by a proposed distribution of RM425.5m (or RM2.21 per share) to its shareholders. The disposal consideration (using enterprise value methodology) is above our initial target market cap of RM450.7m (which is derived from our previous TP of RM2.34 based on PER of 13x). Given the selling premium, which offers a timely exit opportunity for its shareholders, the deal will likely go through. We have adjusted our TP to RM2.53 but maintain our MP call.

Proposed disposal. SCGM has entered into a conditional share sale agreement (“SSA”) with Mitsui & Co. Ltd (“Mitsui”) and FP Corporation (“FPCO”) for the proposed disposal of 100% equity interest in Lee Soon Seng Plastic Industries (LSSPI), for a total cash consideration of RM544.4m (60% equity interest to Mitsui and 40% equity interest to FPCO). This exercise will be completed by 3QCY22 pending approvals by at least 75% of the total number of issued shares held by SCGM shareholders at an extraordinary general meeting. SCGM also entered into a conditional sale and purchase agreement (“SPA”) to transfer three parcels of land with factory building and other ancillary buildings in Johor for a total cash consideration of RM18.8m.

Proposed distribution. Following the divestment, SCGM has proposed to distribute to its shareholders: (i) RM69.3m (or RM0.36 per share) via a capital reduction and repayment exercise, and (ii) an indicative RM356.2m (or RM1.85 per share) in special dividend (the final amount of which is subject to change). This translates to a combined distribution sum of RM425.5m / RM2.21 per share (or 78.2% of the entire divestment consideration), with the balance to be utilised for acquisition of new business/assets/working capital (RM84m), transfer of properties (RM18.8m) and estimated expenses related to the exercise (RM16m).

Rationale of the proposal. We believe that the purpose of the disposal is to enable SCGM to unlock the value of its investment in LSSPI and reward the existing shareholders for their support of the Group. Post-divestment, SCGM – which is expected to be classified as a “cash company” – intends to maintain its listing status while looking to acquire new business/assets. We are keeping our earnings forecasts for now pending the completion of the deal.

Selling premium. The entire disposal consideration of RM544.4m is derived from an enterprise value of RM588.1m for LSSPI, after deducting net debt of LSSPI of RM62.0m and adding back properties transfer consideration (net of RPGT) of RM18.2m. This translates to RM2.83 per share, which is above our previous target price of RM2.34 (based on ascribed FY23 PER of 13x). The premium valuation – which implies EV/EBITDA of 10.6x and PER of 16.0x based on LSSPI’s historical financial data for FY Apr 2021 – offers a timely exit opportunity for SCGM shareholders. As such, we believe the deal will likely get the necessary approvals from the shareholders. Taking into account: (i) the proposed distribution sum (RM425.6m), (ii) the allocation for new business/assets acquisition (RM84.0m), and (iii) the properties transferred (RM18.8m), the sum-of-parts valuation works out to be RM528.4m. After applying a 5% discount to (i) (for timing risk) and a 20% discount to (ii) and (iii) (for execution risk as an ongoing concern post-disposal), we have adjusted our TP to RM2.53. Remain as MP given the limited potential upside of 6.3% from its current share price.

MARKET PERFORM ↔

Price: RM2.38
Target Price: RM2.53 ↑

Share Price Performance



KLCI	1,549.18
YTD KLCI chg	-1.2%
YTD stock price chg	-1.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGM MK Equity
Market Cap (RM m)	458.3
Shares Outstanding	192.6
52-week range (H)	2.83
52-week range (L)	1.96
3-mth avg daily vol:	1,104,676
Free Float	46%
Beta	0.5

Major Shareholders

Scgm Lee Sdn Bhd	15.9%
Lee Hock Seng	9.3%
Lee Hock Guan	6.7%

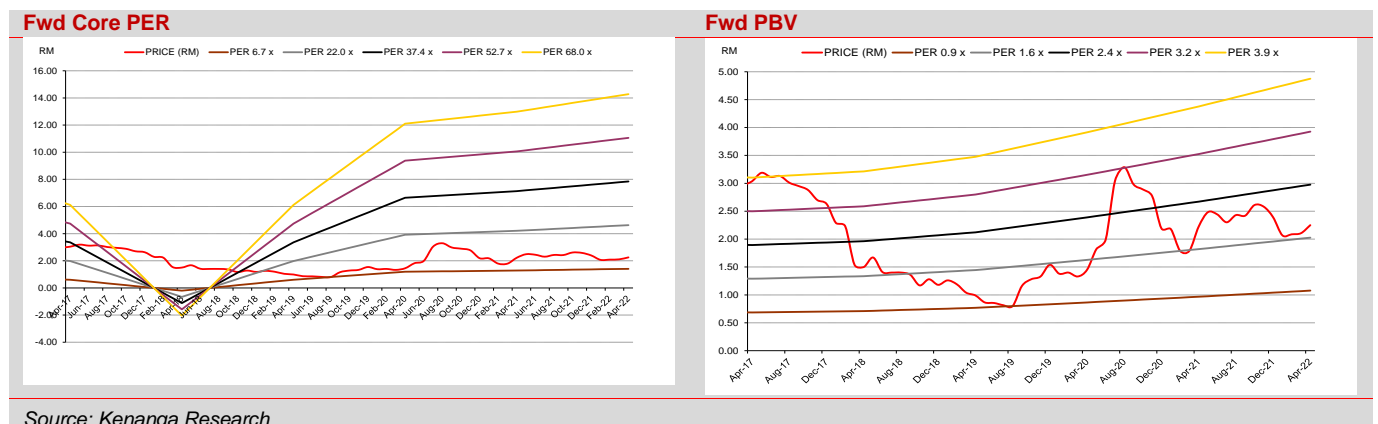
Summary Earnings Table

FY Apr (RM m)	2021A	2022E	2023E
Turnover	246.5	283.6	328.9
EBIT	40.2	41.1	46.0
PBT	37.1	38.2	43.3
Net Profit (NP)	33.6	30.5	34.6
Core NP	34.0	30.5	34.6
Consensus (NP)	N/A	29.3	33.4
Earnings Revision	N/A	N/A	N/A
Core EPS (sen)	17.8	15.8	17.9
EPS growth (%)	94	-10.3	13.4
NDPS (sen)	7.3	6.3	7.2
BVPS (RM)	1.0	0.9	1.4
Core PER (x)	13.4	15.0	13.2
PBV (x)	2.4	2.7	1.7
Net Gearing (x)	0.3	0.3	0.0
Net Div. Yield (%)	3.1	2.7	3.0



Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2019A	2020A	2021A	2022E	2023E	FY Apr	2019A	2020A	2021A	2022E	2023E
Revenue	219.6	210.5	246.5	283.6	328.9	Growth (%)					
EBITDA	18.6	35.5	55.1	56.0	60.8	Revenue	5.9	-4.1	17.1	15.1	16.0
Depreciation	14.7	14.8	15.0	14.9	14.8	EBITDA	-41.7	91.1	55.1	9.9	14.5
EBIT	3.9	20.7	40.2	41.1	46.0	EBIT	-81.2	432.1	93.6	13.7	18.1
IntExp/(Income)	-5.6	-4.9	-3.0	-2.9	-2.7	Pre-tax Income	-108.8	-1041	133.8	14.3	20.6
PBT	-1.7	15.9	37.1	38.2	43.3	Net Income	-131.2	-437.5	94.5	9.2	11.6
Taxation	-3.4	1.4	-3.5	-7.7	-8.8	Core Net Income	-129.4	-495.9	94.4	7.9	11.6
Net Income	-5.1	17.3	33.6	30.5	34.6						
Core Net Income	-4.4	17.5	34.0	30.5	34.6	Profitability (%)					
Balance Sheet						EBITDA Margin	8.5	16.9	22.4	21.4	21.1
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	EBIT Margin	1.8	9.9	16.3	16.1	16.4
Fixed Assets	213.4	204.0	204.4	211.5	201.1	PBT Margin	-0.8	7.5	15.1	15.0	15.6
Other FA	1.5	0.0	0.0	0.0	0.0	Net Margin	-2.0	8.3	13.8	12.9	12.4
Inventories	33.2	40.2	41.5	44.7	55.1	Effective Tax Rate	203.5	8.8	-9.5	-13.5	-20.0
Receivables	42.5	45.9	45.0	49.0	56.8	ROE	-2.7	10.7	18.9	18.3	18.3
Other CA	10.7	3.6	2.2	4.3	4.5	ROA	-1.4	5.9	11.1	10.6	10.8
Cash	8.3	4.9	13.6	37.7	61.9						
Total Assets	309.5	298.5	306.8	347.1	379.3	DuPont Analysis					
Payables	7.3	10.1	15.9	24.8	35.2	Net margin (%)	-2.0	8.3	13.8	12.9	12.4
ST Borrowings	53.5	42.8	32.2	35.2	25.2	Assets Turnover (x)	0.7	0.7	0.8	0.9	0.9
Other ST liability	20.6	15.6	18.1	18.2	20.7	Leverage Factor (x)	1.9	1.9	1.7	1.6	1.6
LT Borrowings	54.9	47.2	39.0	40.0	39.0	ROE (%)	-2.7	10.7	18.9	18.3	18.3
Other LT liability	16.4	12.7	11.9	17.1	22.8						
Net Assets	156.9	170.1	189.8	211.8	236.4	Leverage					
Share Capital	134.7	134.7	134.7	134.7	134.7	Debt/Asset (x)	0.4	0.3	0.2	0.2	0.2
Other Equity	22.1	35.4	55.0	77.1	101.6	Debt/Equity (x)	0.7	0.5	0.4	0.4	0.3
S. Equity	156.9	170.1	189.8	211.8	236.4	N.Debt/(Cash)	0.6	0.5	0.3	0.2	0.01
						N.Debt/Equity (x)	0.6	0.5	0.3	0.2	0.01
Cashflow Statement						Valuations					
FY Apr (RM m)	2019A	2020A	2021A	2022E	2023E	Core EPS (sen)	-2.7	9.1	17.8	19.1	21.3
Operating CF	-3.2	28.7	59.4	57.7	55.6	NDPS (sen)	2.8	3.6	7.3	8.5	8.4
Investing CF	-13.9	-2.5	-12.6	-22.0	-5.0	BV/share (RM)	0.8	0.9	1.0	1.2	1.2
Financing CF	21.0	-29.7	-38.0	-11.7	-26.4	Core PER (x)	-83.5	24.3	12.5	10.4	11.7
						Net Div. Yield	1.2	1.6	3.3	3.8	3.4
						PBV (x)	2.7	2.5	2.2	1.8	2.0

Source: 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																	
BP PLASTICS HOLDING BHD	1.52	427.8	Y	12/2022	8.9%	12.7%	4.5%	5.4%	9.2	8.8	8.4	1.8	1.7	19.8%	7.2%	2.07	OP
SCGM BHD	2.38	458.3	Y	04/2022	15.1%	16.0%	-10.3%	13.4%	13.4	15.0	13.2	2.4	2.2	15.1%	2.6%	2.34	MP
SCIENTEX BHD	3.77	5,847.3	Y	07/2022	12.4%	10.7%	6.1%	17.6%	13.2	12.4	10.6	2.0	1.8	15.4%	2.5%	4.15	MP
SLP RESOURCES BHD	0.920	291.6	Y	12/2022	9.7%	5.5%	28.6%	9.3%	16.7	13.0	11.9	1.6	1.5	12.0%	6.0%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.51	966.4	Y	12/2022	19.7%	20.4%	22.2%	21.2%	10.2	8.4	6.9	1.3	1.1	14.3%	2.2%	3.90	OP
Simple Average					13.1%	13.1%	10.2%	13.4%	12.5	11.5	10.2	1.8	1.7	15.3%	4.11%		

Source: Bloomberg, Kenanga Research

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10 May 2022

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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