

DESCRIPTION

Established since 1984 and is Malaysia's leading thermo-vacuum form plastic packaging manufacturer

12-Month Target Price	RM2.62
Previous Target Price	RM3.84
Current Price	RM1.86
Expected Return	+40.9%

Market	Main
Sector	Packaging
Bursa Code	7247
Bloomberg Ticker	SCGM MK
Shariah-compliant	Yes

SHARE PRICE CHART


52 Week Range (RM)	1.05-3.95
3-Month Average Vol ('000)	1,212.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-1.1	-21.1	-40.0
Relative Returns	0.1	-11.8	-44.2

KEY STOCK DATA

Market Capitalisation (RM m)	356.2
No. of Shares (m)	192.8

MAJOR SHAREHOLDERS

	%
Lee Family	44.6
KWAP	4.1

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On Track for Record Finish

SCGM saw its 9MFY21 earnings double to RM25.9m, driven by stronger plastic packaging earnings from both the export and local markets. The results surpassed our and consensus expectations, making up 83.8% and 78.0% of full-year numbers respectively. A higher DPS of 2.2sen was declared for the quarter, bringing the cumulative dividend to 5.4sen (vs 9MFY20: 1.8sen). Despite the strong set of results, we retain our earnings forecasts as we expect margin pressure in the final quarter due to the rising resin material costs. We are lowering PE multiples to 15x (previously 22x) given the heightened uncertainties from resin costs. But we still like the growth prospects of the Group because of the strong F&B plastic packaging demand. Maintain **Outperform** call with a lower TP of RM2.62.

- § **3QFY21 sales rose 21% YoY.** Group sales rose to RM62.5m as F&B packaging sales climbed 23.2% YoY to RM52m. The encouraging F&B sales were mainly driven by robust demand for bento boxes, bakery trays and other products amidst the Covid-19 pandemic. Meanwhile, the new personal protective equipment segment also contributed to the stronger Group sales given the continuing demand of face masks and face shields from the local market.
- § **Bottomline jumped 88.1% YoY.** The Group's core earnings surged 88.1% YoY to RM7.9m on the back of improved gross margin and lower finance cost as a result of lower interest rates and reduced bank borrowings. Meanwhile, cost savings from closure of the Telok Panglima Garang plant also contributed to the stronger earnings.
- § **Allocating RM20m capex for FY22.** The Group has allocated RM20m for the purchase of extrusion and forming machines to meet the increasing demand from the F&B business given the increasing amount of food takeaways amidst the Covid-19 pandemic.
- § **Resin prices have been on the uptrend.** In tandem with rising crude oil prices, the price of resin (refer to Figure 3), which makes up more than 65% of the total operating cost, has seen a sharp increase. Polypropylene (PP), which accounts for 50% of the total resin consumption, saw its selling prices nearly double to USD1,540/mt since hitting the low in May 2020. Meanwhile, Polyethylene Terephthalate (PET), which is the second largest component of resin cost, saw its selling prices increase from USD775/mt to USD1,350/mt. We understand that the company has passed on the additional cost to the customers in view of the robust demand for plastic packaging products. However, there will be a lagged effect as it takes at least 2 quarters to reflect the adjustments.

KEY FINANCIAL SUMMARY

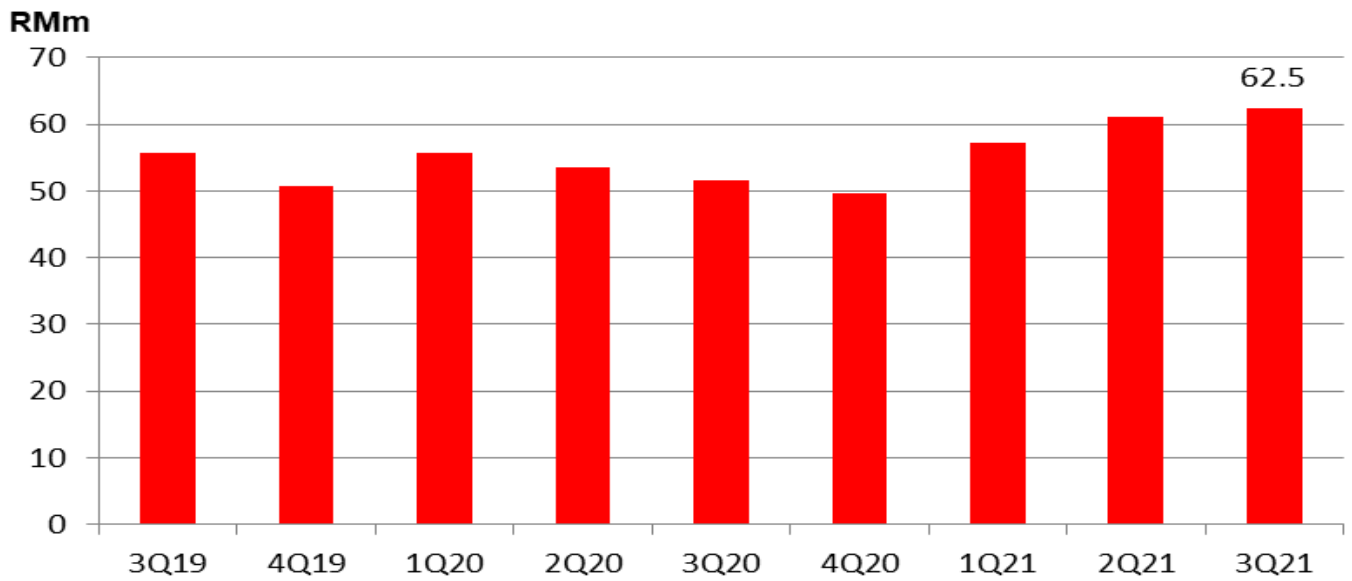
FYE Apr (RMm)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	219.6	210.5	289.5	327.8	357.7	13.0%
Gross Profit	24.3	18.9	66.6	75.4	80.5	34.9%
Pre-tax Profit	-1.6	15.9	34.4	39.8	42.0	38.3%
Core Net Profit	-5.0	17.3	30.9	33.8	35.7	27.3%
EPS (Sen)	-2.6	8.9	16.0	17.5	18.5	27.5%
P/E (x)	-96.0	22.2	15.5	14.2	13.4	
DPS (Sen)	1.5	3.3	6.4	7.0	7.4	
Dividend Yield (%)	0.6	1.7	2.6	2.8	3.0	

Source: Company, PublicInvest Research estimates

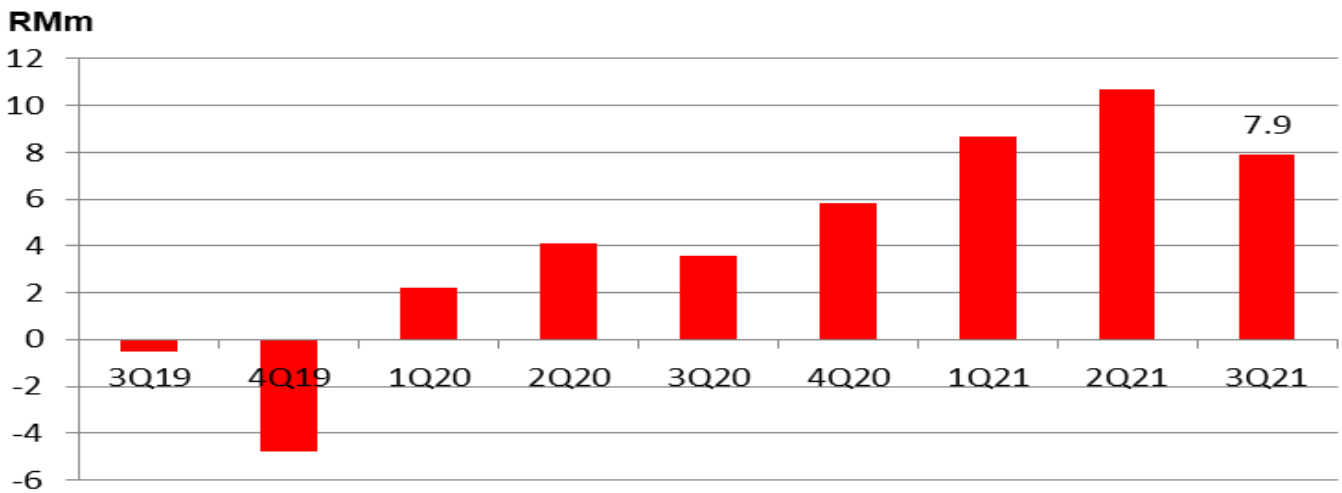
Table 1: Results Summary

<u>FY Apr</u> <u>(RMm)</u>	<u>3Q21</u>	<u>3Q20</u>	<u>2Q21</u>	<u>QoQ</u> <u>chg</u> <u>(%)</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>YTD</u> <u>FY21</u>	<u>YTD</u> <u>FY20</u>	<u>YoY</u> <u>chg</u> <u>(%)</u>	<u>Comments</u>
Revenue	62.5	51.6	61.0	2.5	21.1	180.7	160.8	12.4	Led by improved packaging sales to both local and export markets
Operating expenses	-54.4	-47.4	-49.9	9.0	14.8	-152.5	-148.4	2.8	
Gross profit	8.1	4.2	11.1	-27.0	92.9	28.2	12.4	>100	
Other Operating income	0.5	0.6	0.4	25.0	-16.7	1.4	1.4	0.0	
Operating profit	8.6	4.8	11.5	-25.2	79.2	29.6	13.8	114.5	
Finance costs	-0.7	-1.2	-0.8	-12.5	-41.7	-2.4	-3.8	-36.8	Total borrowings fell from RM89.8m to RM73.1m
Pre-tax profit	7.9	3.6	10.7	-26.2	119.4	27.2	10.0	172.0	
Taxation	0.2	0.5	-1.1	<-100	-60.0	-1.3	0.4	<-100	
Net profit	8.1	4.1	9.6	-15.6	97.6	25.9	10.4	>100	
Core net profit	7.9	4.2	9.9	-20.2	88.1	25.9	10.3	>100	Led by higher deliveries of F&B packaging products for local and export markets
Core EPS (sen)	4.1	2.2	5.1	-20.2	88.1	13.4	5.3	151.5	
DPS (sen)	2.2	0.5	1.5	46.7	>100	5.4	1.8	>100	Ex-date: 12 April 2021
Gross Margin (%)	13.0	8.1	18.2	-	-	15.6	7.7	-	
Pre-tax Margin (%)	12.6	7.0	17.5	-	-	15.1	6.2	-	
Net Margin (%)	13.0	7.9	15.7	-	-	14.3	6.5	-	
Effective tax rate (%)	-2.5	-13.9	10.3	-	-	4.8	-4.0	-	

Source: Company, PublicInvest Research

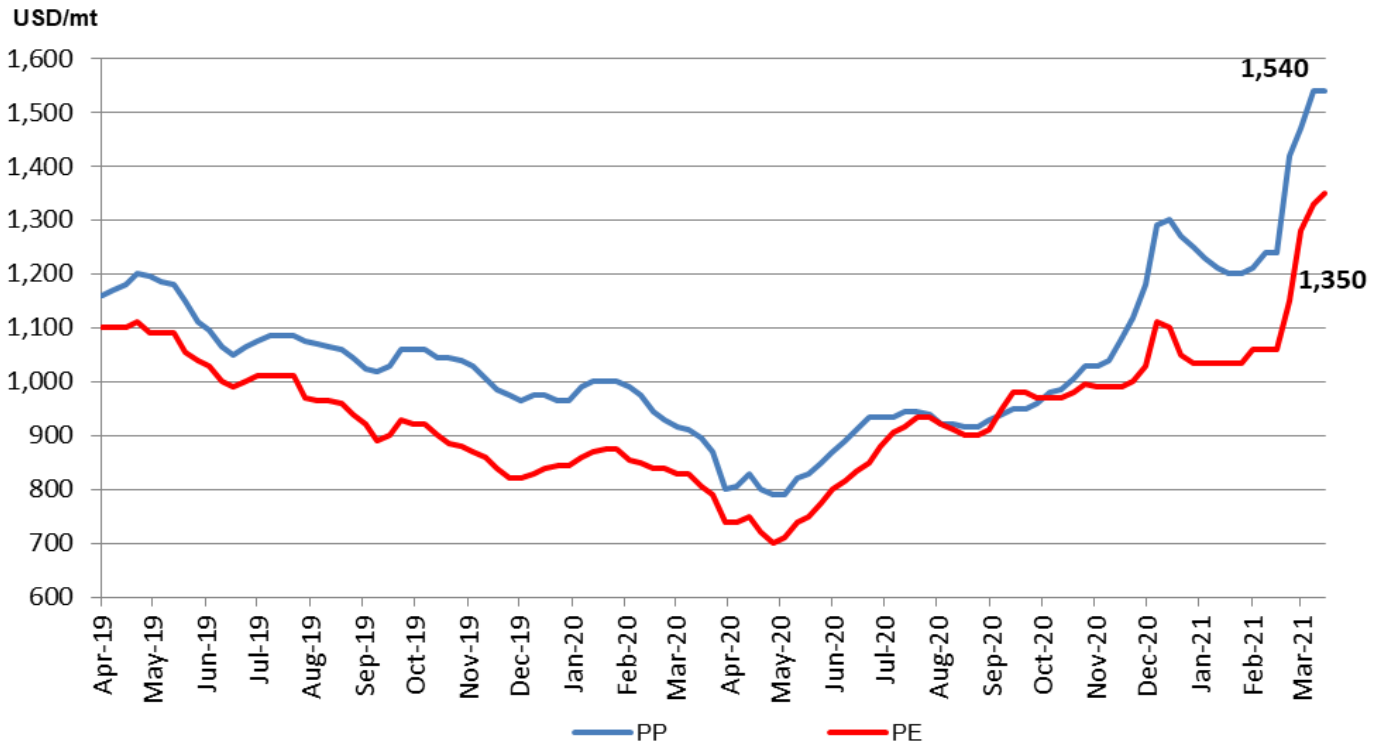
Figure 1: Quarterly Revenue


Source: Company, PublicInvest Research

Figure 2: Quarterly Pre-tax profit


Source: Company, PublicInvest Research

Figure 3: Resin prices have been on the uptrend since hitting the low in May 2020



Source: Bloomberg, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Apr (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	219.6	210.5	289.5	327.8	357.7
Gross Profit	24.3	18.9	66.6	75.4	80.5
EBITDA	18.5	34.3	71.2	80.6	88.0
Net Finance (costs)/income	-14.7	-13.6	-14.5	-14.6	-14.7
Other expenses	-5.6	-4.8	-5.4	-5.4	-5.4
Pre-tax Profit	-1.6	15.9	34.4	39.8	42.0
Income Tax	-3.4	1.4	-3.4	-6.0	-6.3
Effective Tax Rate (%)	-212.5	-	10.0	15.0	15.0
Core Net Profit	-5.0	17.3	30.9	33.8	35.7
Growth (%)					
Revenue	15.0	-4.1	37.5	13.2	9.1
Operating Profit	127.5	-21.9	66.0	13.2	6.7
Core Net Profit	14.7	>100	78.9	9.3	5.6

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Apr (RM m)	2019A	2020A	2021F	2022F	2023F
Fixed assets	213.4	193.2	191.5	178.9	166.2
Other long-term assets	1.5	10.7	0.0	0.0	0.0
Cash at bank	8.2	4.9	3.9	22.5	45.6
Other current assets	86.4	89.3	121.9	137.5	149.7
Total Assets	309.5	298.2	317.3	338.9	361.5
Short-term borrowings	53.5	42.7	42.8	42.8	42.8
Long-term borrowings	11.7	47.1	9.3	9.3	9.3
Payables	0.0	10.1	0.0	0.0	0.0
Other liabilities	87.4	28.2	76.5	77.9	79.0
Total Liabilities	152.6	128.1	128.6	130.0	131.1
Shareholder Equity	156.9	170.1	188.7	209.0	230.4
Total Equity and Liabilities	309.5	298.2	317.3	338.9	361.5

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Apr	2019A	2020A	2021F	2022F	2023F
Book Value Per Share (RM)	0.8	0.9	1.0	0.0	0.0
NTA Per Share (RM)	0.8	0.9	1.0	0.0	0.0
EPS (sen)	-2.6	8.9	16.0	17.5	18.5
DPS (sen)	1.5	3.3	6.4	7.0	7.4
Payout Ratio (%)	-58.1	36.5	40.0	40.0	40.0
ROA (%)	-1.6	5.8	9.8	10.0	9.9
ROE (%)	-3.2	10.1	16.4	16.2	15.5

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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