

SCGM Berhad

1HFY21 Within Expectations

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1HFY21 revenue/CNP came in within our expectation at 48%/50% while dividend of 3.20 sen is also within at 44% of estimates. Moving forward, the Group continue to focus on production of higher-margin customised packaging, and increasing face mask production capacity. Maintain FY21-22E CNP of RM35-43m but upgrade it to OUTPERFORM on same TP of RM3.85 given the recent share price correction.

1HFY21 within expectations. 1HFY21 CNP of RM17.8m is within our expectation at 50% of our RM35.3m estimate. 1HFY21 dividend of 3.2 sen is also broadly within at 44% of our FY21 estimate of 7.3 sen as we expect higher dividend in 2HFY21 (i.e. 62% of FY20 dividends were declared in 2HFY20).

Results' highlight. QoQ, top-line was up by 7% mainly from stronger local sales on higher deliveries of F&B packaging. EBIT and PBT margins have also improved (EBIT margin +2% from 17% to 19%; PBT margin +3% from 15% to 18%) likely due to a better product mix. However, higher effective tax rate of 11% (vs. 5%) weighted on CNP, causing CNP margin to remain at 15%. In line with increased revenue, CNP was up 6%. **YoY-YTD**, revenue grew by 8.3% as a result of higher deliveries of F&B packaging and its new PPE product line. CNP jumped 140% on better margin by 8% (from 7% to 15%) on favorable product mix, reduced resin costs and lower interest expense.

Outlook. SCGM will continue to focus on producing customized F&B packaging to achieve a more favorable and higher margin product mix. The Group will continue to grow its new PPE segment with the latest addition of one unit of face mask production machine, increasing its face mask production capacity from 6m to 7.2m pieces per month. Moving forward, we also expect operational costs such as electricity and rental expenses to be maintained as their Telok Panglima Garang factory has been consolidated with the Kulai plant.

Maintain FY21-22E CNP at RM35.3-42.8m for now as 1HFY21 results came within expectations. FY21-22E dividends of 7.3-8.9 sen are based on a 40% pay-out ratio, implying 3.0-3.6% yield.

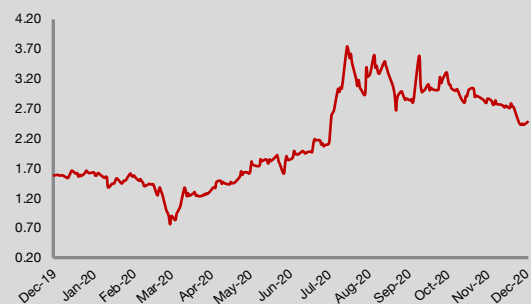
Upgrade to OUTPERFORM (from MARKET PERFORM) on an unchanged TP of RM3.85 based on 19x PER (+0.5SD to its 5-year historical average, excluding loss-making period) on an average FY21-22E EPS of 20.3 sen to encapsulate the bulk of new contributions which will be coming in FY22. With future contributions focused on moving into higher-margin products, backed by the resilience of the F&B packaging demand, we maintain our valuations. However, we upgrade our call to an Outperform given the recent share price correction.

Risks to our call include: (i) higher-than-expected resin cost, (ii) weaker-than-expected product demand, and (iii) weaker foreign currency rates.

OUTPERFORM ↑

Price : **RM2.48**
Target Price : **RM3.85** ↔

Share Price Performance



KLCI 1,647.89
YTD KLCI chg 3.7%
YTD stock price chg 61.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCGM MK Equity
Market Cap (RM m) 475.0
Shares outstanding 191.5
52-week range (H) 3.95
52-week range (L) 0.76
3-mth avg daily vol: 2,653,206
Free Float 45%
Beta 1.0

Major Shareholders

Scgm Lee Sdn Bhd 16.0%
Lee Hock Seng 9.3%
Lee Hock Guan 6.7%

Summary Earnings Table

| FY Apr (RM m) | 2020A | 2021E | 2022E |
|------------------------|-------------|-------------|-------------|
| Turnover | 210.5 | 244.2 | 276.8 |
| EBIT | 20.7 | 45.3 | 53.8 |
| PBT | 15.9 | 42.1 | 50.9 |
| Net Profit (NP) | 17.3 | 35.3 | 42.8 |
| Core NP | 17.5 | 35.3 | 42.8 |
| Consensus (NP) | N/M | 33.1 | 38.3 |
| Earnings Revision | N/M | N/A | N/A |
| Core EPS (sen) | 9.1 | 18.3 | 22.2 |
| Core EPS growth (%) | N/M | 101.4 | 21.1 |
| NDPS (sen) | 3.6 | 7.3 | 8.9 |
| BV/Share (RM) | 0.88 | 0.99 | 1.13 |
| Core PER (x) | 27.2 | 13.5 | 11.2 |
| Price/BV (x) | 2.8 | 2.5 | 2.2 |
| Net Gearing (x) | 0.5 | 0.3 | 0.2 |
| Net Dvd Yield (%) | 1.5 | 3.0 | 3.6 |



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Results Highlights

| FY Apr (RM m) | 2Q21 | 1Q21 | QoQ% | 2Q20 | YoY% | 1H21 | 1H20 | YoY% |
|-------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|
| Revenue | 61.0 | 57.2 | 7% | 53.5 | 14% | 118.2 | 109.2 | 8% |
| Other Income | 0.4 | 0.6 | -42% | 0.4 | -8% | 1.0 | 0.8 | 19% |
| Operating Profit | 11.5 | 9.6 | 20% | 5.4 | 113% | 21.1 | 9.0 | 135% |
| Finance Cost | -0.8 | -0.9 | -17% | -1.2 | -38% | -1.7 | -2.6 | -35% |
| Pre-tax Profit | 10.7 | 8.7 | 24% | 4.2 | 158% | 19.4 | 6.4 | 205% |
| Tax | -1.1 | -0.4 | 177% | -0.1 | 743% | -1.5 | -0.1 | 999% |
| Net Profit | 9.6 | 8.3 | 16% | 4.0 | 138% | 17.9 | 6.2 | 187% |
| Core Net Profit | 9.2 | 8.6 | 6% | 3.9 | 138% | 17.8 | 7.4 | 140% |
| EPS (sen) | 4.99 | 4.29 | 16% | 2.09 | 138% | 9.28 | 3.24 | 187% |
| Core EPS (sen) | 4.76 | 4.49 | 6% | 2.00 | 138% | 9.24 | 3.54 | 161% |
| Net DPS (sen) | 1.50 | 1.70 | | 1.00 | | 3.20 | 1.25 | |
| EBIT Margins % | 18.9% | 16.8% | | 10.1% | 8.8% | 17.8% | 8.2% | |
| CNP Margins % | 15.0% | 15.1% | | 7.2% | | 15.1% | 6.8% | |
| Effective Tax Rate % | -10.5% | -4.7% | | -3.2% | | -7.9% | -2.2% | |

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 | 2.48 | 475.0 | Y | 04/2021 | 16.0% | 13.3% | 101.4% | 21.1% | 27.2 | 13.5 | 11.2 | 2.8 | 2.5 | 19.5% | 2.8% | 3.85 | OP |
| SCIENTEX BHD | 12.24 | 6,326.4 | Y | 07/2021 | 14.9% | 0.8% | 11.6% | 5.1% | 15.5 | 14.4 | 13.8 | 2.7 | 2.3 | 17.3% | 2.1% | 11.35 | MP |
| SLP RESOURCES BHD | 0.950 | 301.1 | Y | 12/2020 | -12.9% | 25.1% | -18.9% | 22.7% | 11.9 | 15.8 | 11.9 | 1.5 | 1.4 | 8.5% | 5.8% | 0.950 | MP |
| THONG GUAN INDUSTRIES BHD | 2.64 | 1,002.8 | Y | 12/2020 | 3.9% | 6.9% | 23.7% | 11.1% | 7.9 | 7.0 | 6.3 | 1.7 | 1.6 | 12.6% | 1.8% | 3.25 | MP |
| TOMYPAK HOLDINGS | 0.715 | 307.8 | Y | 12/2020 | 3.9% | 6.7% | -84.8% | 65.0% | N.A. | 178.8 | 119.2 | 1.6 | 1.7 | 1.1% | 0.0% | 0.415 | UP |
| Simple Average | | | | | 5.2% | 10.6% | 6.7% | 25.0% | 15.7 | 46.0 | 32.5 | 2.1 | 1.9 | 11.8% | 2.5% | | |

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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