MEDIA CLIPPING

Client :	**SCGM Berhad**	**Date :**	**29 June 2017**
Media :	**Starbiz**	**Section :**	**Business**
Language :	**English**		

SCGM BHD
By Kenanga Research
Market perform
Ex-target price: RM3.35

SCGM plans to rent a new 47,000 sq ft factory in Telok Panglima Garang, which will be its first factory in the Klang Valley, beginning July 2017, and will be running at full capacity by December 2017.

The factory will house four thermoform machines and two extruders, producing 5,000 tonnes per year (at full capacity), costing RM20mil in capital expenditure (capex) which the group will fund from internally generated funds.

This new rented factory will produce lunchboxes to cater to the existing Klang Valley market, said Kenanga Research, which may provide better efficiency in the longer run from reduced transportation cost.

"All in, post the inclusion of this newly rented factory, we expect 2018 to 2019 average capacity to increase to 39.2 to 49.9 tonnes per year."

Kenanga Research said it is expecting 2018 capex allocation of RM60mil (from RM51mil) to be utilised mostly for the second factory construction in Kulai and the new Klang Valley rented factory.

It added that 2019 capex of RM54mil will be utilised for the Kulai factory construction. "As a result, we lower our 2018 effective tax rates to 13% (from 18%) post increasing our capex estimates as SCGM will benefit from reinvestment tax allowance, while we maintain 2019 tax rates at 18%.

Despite strong bottom-line growth in 2017, earnings before interest and taxes margins compressed to 15.1% in 2017 mostly due to higher resin cost, while we believe we have accounted for other cost increases previously.

"Management had guided that resin cost has moderated since a high in February and March 2017. However, the group's current resin cost is still higher by 10% year-on-year."

Client :	SCGM Berhad	Date :	29 June 2017
Media :	The Edge Financial Daily	Section :	Business
Language :	English		

SCGM's growth driven by increased capacity in FY18

SCGM Bhd
(June 28, RM4.16)

Maintain market perform with a target price of RM4.90: We attended SCGM Bhd's fourth quarter ended April 30, 2017 (4QFY17) analysts' briefing and remain positive about their long-term outlook.

Despite slight margin compression in FY17, growth is driven by increased capacity in FY18 from a newly rented factory in the Klang Valley riding on increased demand for both food and beverage (F&B) packaging and plastic cups, while we also expect lower tax rates in FY18.

All in, we lower FY18 estimated (FY18E) earnings (by 6%) and maintain FY19E numbers.

Despite strong bottom-line growth in FY17 (up 19% year-on-year [y-o-y]), earnings before interest and tax (Ebit) margins compressed to 15.1% in FY17 (versus 19.7% in FY16) mostly due to higher resin cost, while we believe we have accounted for other cost increases previously (which are staff cost, utilities, depreciation of plant and equipment).

Management had guided that resin cost had moderated since a high in February and March 2017 (4QFY17). However, the group's current resin cost is still higher by about 10% y-o-y.

SCGM announced its plan to rent a new 47,000 sq ft factory in Telok Panglima Garang, which will be its first factory in the Klang Valley, beginning July, and will be running at full capacity by December.

The factory will house four thermoforming machines and two extruders, producing 5,000 tonnes per year (at full capacity), costing RM20 million in capital expenditure which the group will fund from internally generated funds.

This newly rented factory will produce lunchboxes to cater to the existing Klang Valley market, which may provide better efficiency in the longer run from reduced transportation cost.

All in, post the inclusion of this newly rented factory, we expect FY18 to FY19 average capacity to increase to 39,200 tonnes to 49,900 tonnes per year (from 36,000 tonnes to 44,900 tonnes per year).

We are expecting FY18 capital expenditure (capex) allocation of RM60 million (from RM51 million) to be utilised mostly for the second factory construction in Kulai, and the new Klang Valley rented factory, while FY19 capex of RM54 million will be utilised for the Kulai factory construction.

As a result, we lower our FY18E effective tax rates to 13% (from 18%) post increasing our capex estimates as SCGM will benefit from reinvestment tax allowance, while we maintain FY19E tax rates at 18%.

All in, post accounting for increased top-line growth from the new capacity in the rented factory, Ebit margin compressions from higher raw material cost in FY18 to FY19 to 16.2% to 17.9% (from 19.1% to 19.8%), and lower effective tax rates in FY18 to 13% (from 18%), we are expecting FY18 to FY19E earnings of RM30.9 million to RM38.1 million.

We are comfortable with our "market perform" call as most upsides have been priced in, while the group's longer-term prospects are intact in light of decent earnings growth from long-term extrusion capacity expansion, and the F&B container market opening up on the state-wide polystyrene container ban. — *Kenanga Research, June 28*

SCGM Bhd

FYE APRIL (RM MIL)	2017A	2018E	2019E
Turnover	178.8	227.1	286.5
Ebit	27.3	36.8	51.4
PBT	26.6	35.5	46.5
Net profit (NP)	23.0	30.9	38.1
Core NP*	22.6	30.9	38.1
Consensus (NP)	na	28.2	32.9
Earnings revision (%)	na	-6	0
FD core EPS (sen)	10.6	14.5	17.9
Core EPS growth (%)	11.9	36.4	23.6
NDPS (sen)	7.8	7.2	9.0
FD BVPS (RM)	1.1	1.3	1.4
FD core PER	29.8	21.8	17.6
FD P/BV (x)	2.8	2.4	2.2
Net gearing (x)	0.1	Net cash	Net cash
Net dividend yield (%)	2.5	2.3	2.8

**FY17 share base is on a fully diluted basis for comparison purposes*

Source: Kenanga Research

MEDIA CLIPPING

Client :	**SCGM Berhad**	**Date :**	**29 June 2017**
Media :	**Nanyang Siang Pau**	**Section :**	**Business**
Language :	**Chinese**		

"SCGM to construct new plant in Klang for RM20mil; eyes demand for lunchboxes in Klang Valley market"

迎合巴生谷饭盒需求

SCGM 2000万巴生设厂

(吉隆坡28日讯) 为了迎合巴生谷市场对饭盒的需求，SCGM（SCGM，7247，主板工业产品股）斥资2000万令吉在巴生直落坡（Telok Panglima Garang）设厂。

根据大众投行的报告，SCGM管理层在分析员汇报会上透露，已租赁一块面积达4万7000平方尺的地皮，将在巴生设立新厂，预计12月投产。

该厂房的投资成本约2000万令吉，可容纳4座塑料热压机和2座塑料挤出机，年产量达500万公斤，每天生产80万个饭盒。

管理层估计，该厂房将带来4000万令吉营业额，目标市场是巴生谷，同时也减少交通成本。

至于兴建中的柔佛古来的食品包装制造厂房，放眼明年12月竣工。

一旦两座新厂房竣工，年产量会是6760万公斤。

明年税率更低

另一方面，SCGM获得再投资奖掖，加上成为东运会赞助商的税务减免，管理层相信2018财年的税率会更低。

该公司赞助东运会运动员50万令吉和现金及饭盒。

除了获得东运会期间的饭盒独家营销与品牌权，SCGM认为，还会带来介于800万至1000万令吉的溢出效应。

大众投行分析员倍受上述好消息鼓舞，维持"超越大市"评级和4.26令吉目标价。