

25 September 2019

SCGM Berhad

1Q20 Above Expectation

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SCGM returned to the black in 1Q20 which exceeded our expectation by 168%, as EBIT margin swung to +6.4% (from -6.4% in 4Q19) on lower raw material cost. First interim dividend of 0.25 sen is within. The group has also fully moved to its Kulai plant, bringing capacity to 67.6k MT/year (from c.41.0k MT/year). We increase FY20-21E CNP to RM7.7-9.2m (from RM1.4-4.2m) on better EBIT margins. Upgrade to MP (from UP) with a higher TP of RM1.05 (from RM0.805).

1Q20 above expectations. 1Q20 earnings returned to the black with CNP of RM2.4m (168%) which was above our expectation of RM1.4m for FY20 given the low base effect. Topline came in within our expectation, but the deviation in the results was due to the swing in EBIT margins which improved to 6.4% on lower raw material cost (vs. -6.4% in 4Q19), while our estimate for FY20 is 3.5%. The Group announced a first interim dividend of 0.25 sen which was within our expectation (at 25%) as we expected above average dividend payout (of 134%) as it is not unusual for SCGM to pay dividends even during loss-making quarters.

Results' highlight. QoQ, topline was up (+10%) on higher local and international sales. EBIT margins picked up to 6.4% (from -6.4%) on lower raw material cost while effective tax rate was unusually low at 0.3% (vs. 48% in 4Q19), which caused bottomline to return to the black to RM2.4m (vs. CNL of RM6.3m). **YoY,** topline was flatish, but EBIT margin saw improvements of 1.5ppts likely due to similar reasons mentioned above. This coupled with low effective rates due to the utilisation of capital allowance allowed CNP to increase by 110%.

Outlook. The group will focus on increasing sales of F&B packaging in both the local and export markets and aims to introduce more degradable and biodegradable plastic packaging products. Meanwhile, the group has fully moved to the Kulai Plant at end of April 2019, boosting production capacity to 67.6k MT/year (from c.41.0k MT/year). Over the longer run, SCGM will focus on improving operational efficiency through increased automation to achieve better economies of scale from the new factory. We assume maintenance capex of RM15-15m for FY20-21.

Going forward, we increase FY20-21E CNP to RM7.7-9.2m (from RM1.4-4.2m), up by 437-116% (low base effect) on higher EBIT margin of 6.3-7.0% (vs. 3.0-4.6% in FY20-21E) closer to current levels. We will continue to monitor margin going forward as it remains a volatile factor to earnings stability, while other contributing factors include a stable product mix. We may look to increase margin estimates in coming quarters as the Group continues to garner better topline growth and economies of scale.

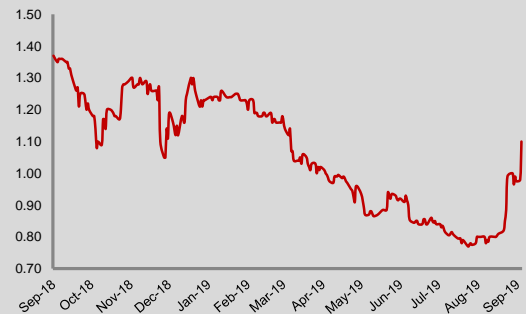
Upgrade to MARKET PERFORM (from UP) with a higher Target Price of RM1.05 (from RM0.805). We increase our TP upon increasing our ascribed PBV multiple to 1.15x based on -1.5SD to its 4-year historical average Fwd. PBV (from 0.90x, -2.0SD) on earnings improvement this quarter. That said, we maintain our PBV valuation method as we remain cautious given that this is the first quarter of positive earnings, and will look to switch our valuation method back to PER upon more consistent earnings delivery going forward.

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

MARKET PERFORM ↑

Price : **RM1.10**
Target Price : **RM1.05** ↑

Share Price Performance



KLCI	1,592.33
YTD KLCI chg	-5.8%
YTD stock price chg	-6.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCGM MK EQUITY
Market Cap (RM m)	210.7
Shares outstanding	191.5
52-week range (H)	1.37
52-week range (L)	0.76
3-mth avg daily vol:	264,534
Free Float	38%
Beta	0.9

Major Shareholders

SCGM Lee Sdn Bhd	16.0%
Lee Hock Seng	9.3%
Kumpulan Wang Persaraan Diperbadankan	7.6%

Summary Earnings Table

FY Apr (RM m)	2019A	2020E	2021E
Turnover	219.6	244.8	256.7
EBIT	3.9	15.3	18.0
PBT	-1.7	9.7	11.6
Net Profit (NP)	-5.1	7.7	9.3
Core NP	-4.4	7.7	9.3
Consensus (NP)	N.A.	5.2	8.4
Earnings Revision	N.A.	437%	116%
Core EPS (sen)	-2.3	4.0	4.8
Core EPS growth (%)	-131.7	N.M.	19.6
NDPS (sen)	1.5	1.6	1.9
BV/Share (RM)	0.8	0.9	0.9
Core PER	N.A.	27.4	22.9
Price/BV (x)	1.4	1.2	1.2
Net Gearing (x)	0.6	0.5	0.5
Net Dvd Yield (%)	1.4	1.5	1.7

*FY19 share base is on a Fully Diluted basis for comparison purposes

OTHER POINTS

Results Highlights					
FY Apr	1Q20	4Q19	QoQ %	1Q19	YoY%
Revenue	55.7	50.7	10%	55.8	0%
Other Income	0.4	0.2	90%	0.2	132%
Op Profit	3.6	(3.3)	n.m.	2.7	31%
Finance Cost	-1.4	-1.6	-14%	-1.2	13%
Pretax Profit	2.2	-4.8	-146%	1.5	46%
Tax	0.0	-2.3	-100%	-0.5	-99%
MI	0.0	0.0	n.a.	0.0	n.a.
Net Profit	2.2	(7.1)	n.m.	1.1	107%
Core Net Profit	2.4	(6.3)	n.m.	1.2	110%
EPS (sen)	1.14	-3.70	n.m.	0.55	107%
Core EPS (sen)	1.26	-3.25	n.m.	0.60	111%
Net DPS (sen)	0.3	0.3		0.5	
EBIT Margins %	6.4%	-6.4%		4.9%	
Core Net Profit Margins %	4.4%	-12.3%		2.1%	
Effective Tax Rate %	-0.3%	47.8%		-29.7%	

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 Price	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.	(RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.10	210.7	Y	04/2020	11.5%	4.9%	57.1%	20.8%	N.A.	27.4	22.9	1.4	1.2	4.6%	1.5%	1.05	MP
SCIENTEX BHD	8.62	4,441.6	Y	07/2019	26.0%	14.7%	-4.2%	18.4%	15.1	15.7	13.9	2.5	2.1	14.5%	2.8%	8.15	MP
SLP RESOURCES BHD	1.41	446.9	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	17.6	18.8	17.8	2.5	2.3	12.6%	3.2%	1.45	OP
THONG GUAN INDUSTRIES BHD	2.51	444.0	Y	12/2019	3.4%	2.9%	0.8%	2.7%	9.5	9.5	9.2	0.9	0.9	9.5%	3.6%	2.45	MP
TOMYPAK HOLDINGS	0.480	201.1	Y	12/2019	-2.5%	5.6%	-3.3%	-123.3%	N.A.	N.A.	N.A.	1.4	1.0	-6.1%	0.0%	0.270	UP
Simple Average					10.2%	6.7%	8.8%	-15.2%	14.1	17.9	16.0	1.7	1.5	7.0%	2.2%		

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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