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Scientex seeks 42.41% stake in Daibochi

Daibochi's listing status, management and staff to stay. Chester Tay has the story on Page 4.

Daibochi's listing status, management and staff to stay

BY CHESTER TAY

KUALA LUMPUR: Industrial packaging materials manufacturer Scientex Bhd plans to acquire a major stake in Daibochi Bhd, which will create a regional giant that can offer an integrated range of flexible packaging solutions.

Scientex yesterday announced that it had entered into a heads of agreement (HoA) to acquire 139.06 million shares or a 42.41% stake in Daibochi for RM222.5 million or RM1.60 apiece via a share swap.

Under the deal, holders of Daibochi shares will have the option to swap 5.5 of their shares for one Scientex share — exchange analysts deem fair.

The announcement by both parties confirmed a report by *The Edge Financial Daily* yesterday of a possible takeover bid by Scientex for Daibochi following requests to halt trading of their shares.

On Tuesday, Scientex closed at RM8.67, valuing the company at RM4.24 billion, while Daibochi closed at RM1.99, at RM651.42 million.

At RM1.60 a share, the proposed acquisition values Daibochi's issued base of some 327.3 million shares at RM523.68 million.

In a filing with Bursa Malaysia, Scientex said it had entered into a HoA with 14 shareholders who collectively own 42.41% of Daibochi.

They include former executive director Low Chan Tian (10.32%), Lim Koy Peng (8.46%), Datuk Wira Wong Soon Lim (5.43%) and Low Geoff Jin Wei (4.18%).

The HoA forms the basis of consensus between Scientex and the vendors to work together exclusively to negotiate on the terms of the conditional share sale agreement in relation to the proposed acquisition and prescribes indicative terms in connection with the proposed acquisition.

Upon the agreement becoming unconditional, Scientex said it is obliged to extend a mandatory takeover offer to acquire the remaining shares and warrants in Daibochi.

In a separate statement, Scientex said Daibochi's listing status would be maintained, and its management and staff retained.

Scientex managing director Lim Peng Jin described the corporate exercise as a "synergistic merger", which will create a formidable regional giant from Malaysia with extensive resources to compete globally, offering an integrated range of flexible packaging solutions to a larger client base.

"Further to extending our market reach, it brings together strong technical know-how and skilled talent to tap into the exciting growth prospects for this market segment.

"Together, we intend to become an internationally recognised global player to catalyse the future growth and development of the flexible packaging industry. To this end, Scientex endeavours to continue supporting our existing and prospective customers," he added.

TA Securities Holdings Bhd analyst Damia Othman believes that the deal is fair based on price-earnings ratio (PER).

"Generally the merger would result in better synergy, widen their (Scientex's) customer base and increase market presence, so we are positive on the deal," she said.


FD FINANCIAL DAILY

Flashback: Nov 14, 2018

Trading halt sparks Scientex-Daibochi merger talk

Talk is that Scientex is set to take over its smaller rival

"We believe it is good value for Scientex to acquire Daibochi on [a] PER basis, with about 20 times PER for Daibochi's FY17 (financial year ended Dec 31, 2017) earnings, 16.5 times for FY19, and 12.3 times for FY20. Industry average PER is about 15 times excluding Tomypak Holdings Bhd."

For Daibochi shareholders, although the offer price of RM1.60 per share is lower than the company's last closing price of RM1.99, Damia was of the view that it was still fair in terms of PER.

Based on the one-for-5.5 share swap at RM1.60 apiece, Daibochi shareholders would receive one Scientex share at RM8.80, or a 1.5% premium to the latter's last closing price of RM8.67.

"There is a slight premium, but on PER terms based on our earnings forecast for Scientex, it is about 14.7 times for Scientex's FY18 (financial year ended July 31, 2018) earnings, 12.1 times for FY19 and 10.9 times for FY20. So we still think it is generally fair for both parties," she said.

Another analyst, who declined to be named, said the way the acquisition is structured suggests that the 14 Daibochi shareholders believe there is a lot of potential in the tie-up.

"There is an element of trust in this deal; both companies have been working with each other for a long time; they know each other. That may explain the slight premium for them (Daibochi shareholders) to enter Scientex, because they believe there are prospects in future. They could sell their shares for cash, but they didn't do so.

"If the acquisition materialises, Scientex will have control over Daibochi. We estimate that the collective shareholding of the 14 Daibochi shareholders in Scientex will be around 4.9%, so they may lose influence in the business," the analyst said.

Yesterday, Daibochi also announced that its third-quarter net profit fell 21.2% to RM5.69 million, from RM7.22 million a year ago, on higher raw material cost. Quarterly revenue grew 7% to RM109.19 million in the quarter ended Sept 30, 2018 from RM102.03 million.

For the nine-month period, its net profit declined 6.7% year-on-year to RM16.81 million, despite revenue rising 13.2% to RM320.3 million.

Daibochi said while its prospects remain intact, it may continue to face high raw material prices, rising operating costs and fluctuation in foreign currency exchange rates in the near term.