

Synergy in privatisation of Scientex subsidiary

Formidable group to emerge, say analysts

CORPORATE

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KUALA LUMPUR: Scientex Bhd's proposed privatisation of subsidiary Daibochi Bhd is expected to pave the way for the combined entities to achieve greater business flexibility and stronger manufacturing capabilities.

On Monday, packaging manufacturer and property developer Scientex had proposed a voluntary takeover exercise that would entail buying 38.12% of Daibochi's issued shares, excluding treasury shares, for RM2.70 a piece and 95.75% of its outstanding warrants for 32 sen each.

Analysts said the privatisation is expected to provide Scientex with the flexibility of integrating Daibochi's business activities into the Scientex group to become a formidable, one-stop plastic packaging solution provider.

"Daibochi will be able to leverage on Scientex's widespread manufacturing facilities across Malaysia, South-East Asia and the United States, as well as reinforce the strength of its product brand to reach a larger footprint of customers.

"Furthermore, the combined entities will also have technical synergy, given that Scientex is the expert in plastic film manufacturing while Daibochi is strong in converting flexible plastic packaging," TA Securities said in a report.

The synergy is expected to allow the combined entities to develop more sustainable packaging products, such as fully recyclable mono material laminate solutions, which are widely sought after by multinational companies.

CGS-CIMB said Scientex's decision to take Daibochi private stemmed from the latter's short and long-term pitfalls.

"We had already seen Daibochi failing to grow its sales and core net profit for the nine-months period of its current financial year, due to shipping constraints in the wake of the Covid-19 pandemic. Increasing logistics and raw materials costs, meanwhile, gradually ate into its quarterly pre-tax margins, from 11% in the first quarter to 8.5% in the third quarter."

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packaging manufacturing business.

It primarily produces high-barrier laminated flexible plastic packaging for reputable multinational clients in the food and beverage and fast moving consumer goods segments, as well as specialty sectors.

Scientex acquired a 42.48% stake in Daibochi for RM222.5mil in February 2019.

Following the acquisition, Scientex launched a mandatory general offer at RM1.59 per share and increased its stake in Daibochi to 61.89%.

CGS-CIMB said taking Daibochi private would also put it in a better position to meet the stringent requirements of multinationals and local prominent brands.

"These companies are increasingly reliant on suppliers that are equipped with good risk management and business contingency plans with the capacity and capability to provide reliable, dependable and quality products on a consistent basis.

Pending completion of the takeover, TA Securities said it is making no changes to its earnings forecast for Scientex.

"Based on our back-of-the-envelope calculation, a 38.1% increment in the stake of Daibochi funded by 50% borrowings would result in a 4% to 5% increase in Scientex's earnings per share and potentially raise Scientex's fair value to RM5.30 per share.

"Scientex's net gearing ratio is expected to increase to 0.44-times from 0.32-times currently. We believe the spike in net gearing would not exert excessive stress on the group, given that operating cash flow

remains robust."

Kenanga Research is maintaining its earnings forecast for Scientex for 2021, but raising it for 2022.

"All in, we maintain our 2021 estimates. Accounting for Scientex's acquisition of the remaining 38.1% of Daibochi, we raise Scientex's 2022 revenue and core net profit by 1% and 5% respectively.

"We maintain our 2021 dividend per share of 7.6 sen and increase our 2022 estimated dividends per share to 9.3 sen, based on a 30% payout ratio, yielding 1.7% and 2% respectively."

MIDF Research, meanwhile, said the deal's offer price per ordinary share represents a premium of 13% over the current market value.

"The offer prices are RM2.70 per ordinary share and 32 sen per warrant, totalling RM345.3mil. Each warrant is exercisable into one new share at the price of RM2.50 per share, which is payable in cash for a five-year period up to June 19, 2022." Kenanga Research said the offer price was fair.

"Based on our back-of-the-envelope calculation, by ascribing a price-to-earnings ratio of 13 times to Bloomberg's 2022 consensus core net profit of RM65.7mil, we believe Daibochi's fair value per share is RM2.60. Thus, in our view, the offer price of RM2.70 is fair, as the 4% premium is justifiable to gain full control of Daibochi. The 13 times ascribed price-to-earnings ratio is lower than our peers' average of 15.5 times, mainly due to its lack of pricing power."