

14 September 2021

## Scientex Berhad

### Proposed Privatization of Daibochi

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SCIENTX is proposing to acquire the remaining 38.1% of DAIBOCI shares and 95.8% of warrants for RM345.3m. We believe the offer price of RM2.70 is fair, as it is only 4% higher than our back-of-the-envelope DAIBOCI's fair value calculation of RM2.60. The privatization of DAIBOCI should provide SCIENTX with greater control to streamline its business operations. Accounting for the additional stake in DAIBOCI, we increase our FY22E CNP by 5%. We maintain our MARKET PERFORM call on SCIENTX with a higher SoP-TP of RM4.34 (from RM3.96) after the privatization on earnings accretion.

**Proposed privatization.** SCIENTX has proposed an unconditional voluntary takeover of its subsidiary, DAIBOCI for all the remaining shares and warrants. This offer is expected to be completed by 4QCY21 pending clearance from the SC. (refer overleaf for more)

**Rationale of the privatization.** We believe the purpose of SCIENTX's proposed privatization of DAIBOCI is to gain full control in order to streamline its production and supply chain. However, we believe that any additional synergies from this exercise will be limited, as any operational synergies between DAIBOCI and SCIENTX would have already been realized.

**Fair offer price.** Based on our back-of-the-envelope calculation, by ascribing as PER of 13x to Bloomberg's consensus FY22E CNP of RM65.7m, we believe DAIBOCI'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 DAIBOCI. The 13x ascribed PER is lower than our peers' average of 15.5x mainly due to its lack of pricing power.

**Likely half cash, half borrowing.** Based on the regulatory filings, we assume that SCIENTX will fund half the privatization with internal generated funds and another half with debt. With the additional bank borrowings of RM172.6m, we estimate it would lift SCIENTX's net gearing to 0.45x, (vs our net gearing FY21E-FY22E of 0.29-0.41x).

**5% earnings accretion from privatization.** After accounting for the post-tax additional interest expense (RM2.6m) for the privatization, SCIENTX's acquisition of the remainder of DAIBOCI shares should increase the former's FY22E CNP by 5% from RM456m to RM479m as we have included the full year estimate impact.

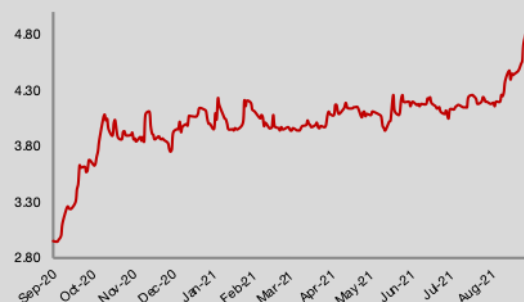
**Maintain FY21 estimates, raise FY22 estimates.** All in, we maintain our FY21 estimates. Accounting for SCIENTX's acquisition of the remaining 38.1% of DAIBOCI, we raised SCIENTX's FY22E revenue/CNP by 1%/5%. We maintain our FY21E DPS of 7.6 sen and increase FY22E DPS to 9.3 sen based on 30% payout ratio, yielding 1.7%/2.0%, respectively.

**Maintain MARKET PERFORM with higher SoP-derived TP of RM4.34** (from RM3.96) as based on our FY22 estimates. We maintain our ascribed 12.5x PER for the property segment, but raised our ascribed plastics segment PER from 14.5x to 15.5x, marginally to be in line with the peers' average of 15.5x, given the potential full control of an entity in its supply chain.

## MARKET PERFORM ↔

Price : RM4.57  
Target Price : RM4.34 ↑

### Share Price Performance



KLCI 1,570.13  
YTD KLCI chg -3.5%  
YTD stock price chg 8.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	7,086.5
Shares Outstanding	1,550.7
52-week range (H)	4.87
52-week range (L)	3.00
3-mth avg daily vol:	601,780
Free Float	35%
Beta	0.7

### Major Shareholders

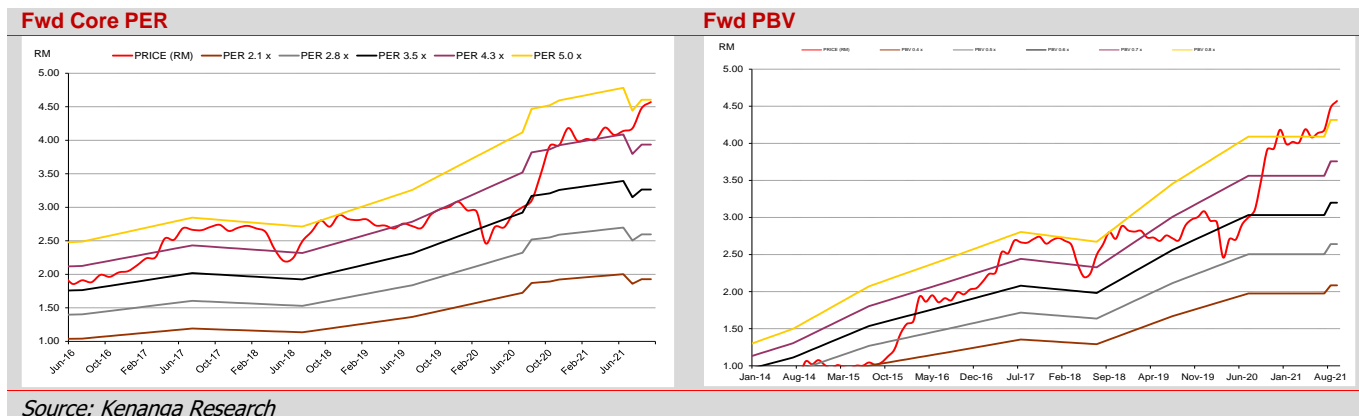
Scientex Holdings Sdn	21.0%
Scientex Infinity Sdn	9.2%
Scientex Leasing Sdn	9.1%

### Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3518.6	3630.2	4126.4
EBIT	549.5	533.4	670.5
PBT	544.3	533.2	630.9
<b>Net Profit (NP)</b>	<b>390.1</b>	<b>391.8</b>	<b>479.4</b>
<b>Core NP</b>	<b>407.5</b>	<b>391.8</b>	<b>479.4</b>
Consensus (NP)	N/A	422.0	497.1
Earnings Revision	N/A	N/A	+5%
Core EPS (sen)	26.3	25.3	30.9
Core EPS growth (%)	23.7	-3.8	22.3
NDPS (sen)	7.7	7.6	9.3
BVPS (RM)	1.65	1.83	2.05
Core PER (x)	17.4	18.1	14.8
PBV (x)	2.8	2.5	2.2
Net Gearing (x)	0.25	0.29	0.41
Net Div. Yield (%)	1.7	1.7	2.0



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SoP Valuations			
Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	2937	12.5	234.9
Manufacturing	3790	15.5	244.5
<b>Sum-of-Parts (RM m)</b>	<b>6726.7</b>		<b>479.4</b>
<b>No. of Shares (m)</b>	<b>1550.6</b>		
<b>Target Price (RM)</b>	<b>4.34</b>		

Source: Company, Kenanga Research

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)	
<b>STOCKS UNDER COVERAGE</b>																	
BPP PLASTICS HOLDINGS BHD	2.68	502.9	Y	12/2021	29.8%	9.0%	53.7%	10.6%	17.1	11.1	10.0	2.4	2.2	20.7%	3.7%	3.15	OP
SCGM BHD	2.47	473.1	Y	04/2022	14.8%	4.6%	10.0%	7.5%	13.9	12.6	11.8	2.5	2.2	18.6%	3.2%	3.02	OP
SCIENTEX BHD	4.57	7,086.5	Y	07/2021	3.2%	13.7%	-3.8%	22.3%	17.4	18.1	14.8	2.8	2.5	15.6%	1.7%	4.34	MP
SLP RESOURCES BHD	0.945	299.5	Y	12/2021	22.3%	3.1%	33.5%	4.7%	18.6	13.9	13.3	1.6	1.6	11.8%	5.8%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.87	1,092.6	Y	12/2021	14.9%	10.9%	21.4%	8.6%	14.3	11.8	10.9	1.6	1.5	13.8%	1.6%	3.70	OP
TOMYPAK HOLDINGS	0.605	260.8	Y	12/2021	15.0%	5.5%	5800.0%	5.1%	2,608.2	44.2	42.1	1.4	1.4	3.1%	0.0%	0.570	MP
<b>Simple Average</b>					<b>16.7%</b>	<b>7.8%</b>	<b>985.8%</b>	<b>9.8%</b>	<b>448.2</b>	<b>18.6</b>	<b>17.1</b>	<b>2.1</b>	<b>1.9</b>	<b>13.9%</b>	<b>2.67%</b>		

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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