



Company report

LUXCHEM CORPORATION

(LUXC MK EQUITY, LCBH.KL)



18 Feb 2020

Flattish FY19, but better prospects ahead
HOLD

(Maintained)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company results

Price	RM0.55
Fair Value	RM0.56
52-week High/Low	RM0.60/RM0.47

Key Changes

Fair value	↑
EPS	↑

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	765.5	807.3	826.7	851.9
Core net profit (RM mil)	37.5	39.6	41.5	42.5
FD Core EPS (sen)	4.1	4.3	4.5	4.6
FD Core EPS growth (%)	(1.5)	5.6	4.7	2.4
Consensus Net Profit (RM mil)	-	38.7	43.2	-
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	13.4	12.7	12.1	11.8
EV/EBITDA (x)	8.6	8.1	7.5	7.0
Div yield (%)	4.1	4.1	4.1	4.1
ROE (%)	12.9	12.7	12.5	12.0
Net Gearing (%)	nm	nm	nm	nm

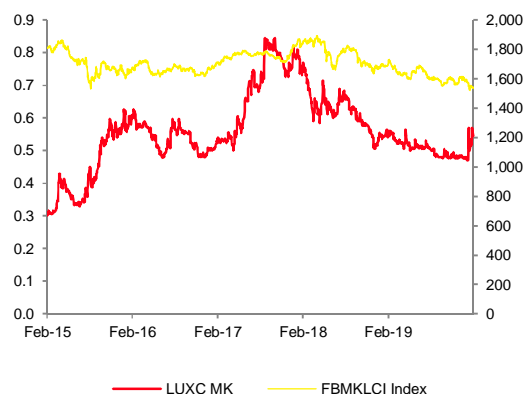
Stock and Financial Data

Shares Outstanding (million)	895.0
Market Cap (RM mil)	487.8
Book Value (RM/share)	0.34
P/BV (x)	1.6
ROE (%)	12.9
Net Gearing (%)	-

Major Shareholders	Chemplex Resources Sdn Bhd(46.5%) Chow Cheng Moey(7.7%) EPF(1.8%)
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Free Float	31.6
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	13.5	7.9	0.9
Relative (%)	17.8	12.3	10.9


Investment Highlights

- We raise our FY20F net profit forecast by 6% and FV by 6% to RM0.56 (from RM0.53) based on 13x revised FD FY20F EPS. The earnings upgrade is to reflect higher demand for chemicals used in the manufacture of gloves on the back of the Covid-19 outbreak. Typically, glove-related sales make up ~35% of Luxchem's total turnover. Maintain HOLD.
- Luxchem's FY19 results met our forecast and consensus estimates.
- FY19's turnover shrank 6% YoY as export sales fell by 8% YoY due to intensified competition in the export market, coupled with slowing demand for chemical products amidst a global economic slowdown.
- However, core profit only eased by 1% YoY mainly due to better margins in construction-related products such as unsaturated polyester resin (UPR), paint/coating, PVC, etc., we believe, on the pick-up of construction activities locally. We estimate that construction-related sales make up ~40% of Luxchem's total turnover.
- Key highlights from the briefing yesterday are:
 1. Luxchem has seen higher demand for its glove-related products recently due to the Covid-19 outbreak. This is timely as it has just expanded its latex manufacturing arm's (TMSB) capacity by 30% to 18K MT in 4QFY19 from 13.8K MT. The company foresees the utilization rate of TMSB reaching close to full capacity by the end of 2020.
 2. The company has yet to encounter any supply chain issues as a result of the Covid-19 outbreak. However, Luxchem is mindful of a potential disruption if the situation persists as it sources a substantial portion of its inputs from China.
 3. There was a one-off impairment of around RM700K in 4QFY19 for a fire incident at TMSB which happened in December 2019. The fire has not disrupted TMSB's operations while the damage is adequately covered by insurance (and hence, there should be a reversal for the impairment in FY20F).
- Meanwhile, Luxchem continues to pursue export-led growth (particularly in Vietnam and Indonesia) and focus on improving margins by increasing the utilization rates and efficiencies of its manufacturing arms (LPI and TMSB).

- We continue to like Luxchem for its large and diversified clientele (about 1,000) and wide application of its chemical products, and also its sustained capacity expansions planned for its manufacturing segment, particularly that of its latex-related arm TMSB. However, valuations have become rich after the recent run-up in its share price on the back of the Covid-19 outbreak.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

YE 30 Dec (RM mil)	FY18	FY19	YoY (%)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)
Turnover	814.1	765.5	(6.0)	206.2	187.5	187.2	(0.2)	(9.3)
EBITDA	55.8	56.7	1.7	13.2	13.5	14.0	4.3	6.4
Depreciation/Amorisation	(3.5)	(4.1)	(16.9)	(1.3)	(1.0)	(1.1)	(1.1)	16.2
EBIT	52.3	52.6	0.7	11.9	12.4	13.0	4.6	8.8
Interest expense	(4.3)	(4.6)	(6.6)	(1.4)	(1.2)	(0.9)	24.4	37.7
Interest income	1.6	1.9	18.5	0.4	0.5	0.5	2.1	35.5
Pre-Associates profit	49.6	50.0	0.7	10.9	11.8	12.6	7.4	15.8
Associates	0.0	0.0	nm	0.0	0.0	0.0	nm	nm
Pre-Exceptionals profit	49.6	50.0	0.7	10.9	11.8	12.6	7.4	15.8
Exceptionals	0.3	0.2	(42.7)	0.3	(0.4)	0.1	nm	(52.4)
Pre-tax profit	49.9	50.1	0.5	11.2	11.4	12.8	12.4	14.0
Taxation	(12.2)	(13.2)	(7.6)	(2.4)	(3.1)	(3.3)	(7.4)	(36.6)
Minority interest	0.3	0.7	>100	0.0	0.3	0.2	(55.4)	>100
Net Profit	38.0	37.6	(0.9)	8.8	8.6	9.6	11.5	9.2
Core Net Profit	37.7	37.5	(0.5)	8.5	9.0	9.5	5.3	11.7
EBITDA margin (%)	6.9%	7.4%		6.4%	7.2%	7.5%		
Pretax margin (%)	6.1%	6.5%		5.4%	6.1%	6.8%		
Effective tax (%)	24.5%	26.3%		21.8%	27.4%	26.2%		
Segmental Breakdown (RM mil)								
Revenue								
Trading	668.6	629.5	(5.8)	243.1	154.9	148.6	(4.0)	(38.9)
Manufacturing	281.6	268.0	(4.8)	99.3	67.0	72.9	8.7	(26.6)
Others (elimination)	(136.2)	(132.0)	3.0	(136.2)	(34.4)	(34.4)	0.2	74.8
Total	814.1	765.5	(6.0)	206.2	187.5	187.2	(0.2)	(9.3)
Pretax profit								
Trading	26.5	26.4	(0.3)	7.0	5.3	8.3	57.1	18.3
Manufacturing	23.7	23.7	0.1	4.5	6.1	4.5	(25.9)	1.8
Others	(0.3)	0.0	nm	(0.2)	(0.0)	(0.0)	(106.6)	89.1
Total	49.9	50.1	0.5	11.2	11.4	12.8	12.4	14.0
Pretax margin								
Trading	4.0%	4.2%		2.9%	3.4%	5.6%		
Manufacturing	8.4%	8.9%		4.5%	9.1%	6.2%		
Others	0.2%	nm		0.2%	0.0%	nm		
Total	6.1%	6.5%		5.4%	6.1%	6.8%		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: RESULTS BY GEOGRAPHICAL SEGMENT

Regional Breakdown (RM mil)	FY18	FY19	YoY (%)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)
Malaysia	578.2	530.7	(8.2)	140.3	129.1	128.4	(0.5)	(8.5)
Indonesia	105.6	111.4	5.5	27.6	28.8	23.8	(17.6)	(13.8)
Vietnam	87.4	80.1	(8.4)	25.7	17.6	27.3	54.9	6.5
Thailand	15.0	20.7	37.4	5.2	4.8	6.2	31.1	20.0
Australia	4.9	3.2	(35.1)	0.8	0.5	1.3	>100	61.0
Cambodia	3.6	2.5	(32.0)	1.0	0.7	0.6	(4.4)	(33.2)
Bangladesh	4.6	3.4	(25.0)	1.9	0.4	1.3	>100	(32.9)
Singapore	3.5	3.7	5.6	1.2	1.0	1.0	0.4	(17.9)
Others	11.1	9.8	(11.4)	2.7	4.6	(2.7)	nm	nm
Total	814.1	765.5	(6.0)	206.2	187.5	187.2	(0.2)	(9.3)
Summary	FY18	FY19	YoY (%)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)
Local	578.2	530.7	(8.2)	140.3	129.1	128.4	(0.5)	(8.5)
Exports	235.9	234.8	(0.5)	66.0	58.4	58.8	0.6	(10.9)

Revenue Contribution %	FY18	FY19	Var (YoY)	4QFY18	3QFY19	4QFY19	Var (QoQ)	Var (YoY)
Malaysia	71%	69%	-2%	68%	69%	69%	0%	1%
Indonesia	13%	15%	2%	13%	15%	13%	-3%	-1%
Vietnam	11%	10%	0%	12%	9%	15%	5%	2%
Thailand	2%	3%	1%	3%	3%	3%	1%	1%
Australia	1%	0%	0%	0%	0%	1%	0%	0%
Cambodia	0%	0%	0%	0%	0%	0%	0%	0%
Bangladesh	1%	0%	0%	1%	0%	1%	0%	0%
Singapore	0%	0%	0%	1%	1%	1%	0%	0%
Others	1%	1%	0%	1%	2%	-1%	-4%	-3%
Total	100%	100%		100%	100%	100%		
Summary	FY18	FY19	Var (YoY)	4QFY18	3QFY19	4QFY19	Var (QoQ)	Var (YoY)
Local	71%	69%	-2%	68%	69%	69%	0%	1%
Exports	29%	31%	2%	32%	31%	31%	0%	-1%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	814.1	765.5	807.3	826.7	851.9
EBITDA	56.5	51.2	53.3	56.2	57.9
Depreciation/Amortisation	(3.8)	(4.1)	(4.2)	(4.6)	(4.9)
Operating income (EBIT)	52.7	47.1	49.1	51.7	53.0
Other income & associates	0.1	5.5	5.5	5.5	5.5
Net interest	(2.7)	(2.6)	(2.6)	(2.7)	(2.7)
Exceptional items	(0.3)	0.2	-	-	-
Pretax profit	49.9	50.1	51.9	54.5	55.8
Taxation	(12.5)	(13.2)	(13.0)	(13.6)	(14.0)
Minorities/pref dividends	0.4	0.7	0.7	0.7	0.7
Net profit	37.8	37.6	39.6	41.5	42.5
Core net profit	38.1	37.5	39.6	41.5	42.5
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	48.2	49.1	49.8	50.6	51.3
Intangible assets	40.3	43.9	47.7	51.3	54.9
Other long-term assets	6.2	6.2	6.2	6.2	6.2
Total non-current assets	94.7	99.3	103.8	108.2	112.4
Cash & equivalent	100.2	134.5	145.6	164.4	184.0
Stock	84.4	76.7	81.2	83.1	85.6
Trade debtors	138.8	126.9	133.8	137.0	141.2
Other current assets	18.3	18.3	18.3	18.3	18.3
Total current assets	341.7	356.5	378.9	402.9	429.2
Trade creditors	54.5	56.3	59.5	61.0	62.8
Short-term borrowings	86.8	86.8	90.8	96.2	102.4
Other current liabilities	9.1	9.1	9.1	9.1	9.1
Total current liabilities	150.4	152.2	159.5	166.3	174.3
Long-term borrowings	0.1	0.1	0.1	0.1	0.1
Other long-term liabilities	2.6	2.6	2.6	2.6	2.6
Total long-term liabilities	2.6	2.6	2.7	2.7	2.7
Shareholders' funds	283.2	301.0	320.7	342.3	364.9
Minority interests	0.1	(0.6)	(1.3)	(2.0)	(2.7)
BV/share (RM)	0.32	0.34	0.36	0.39	0.41
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	49.9	50.1	51.9	54.5	55.8
Depreciation/Amortisation	3.8	4.1	4.2	4.6	4.9
Net change in working capital	(26.1)	21.3	(8.1)	(3.7)	(4.8)
Others	(11.1)	(10.5)	(10.4)	(11.0)	(11.3)
Cash flow from operations	16.4	65.0	37.6	44.3	44.6
Capital expenditure	(3.8)	(3.8)	(3.8)	(4.0)	(4.1)
Net investments & sale of fixed assets	0.2	-	-	-	-
Others	(8.7)	(2.5)	(2.2)	(2.1)	(2.0)
Cash flow from investing	(12.3)	(6.3)	(6.0)	(6.1)	(6.0)
Debt raised/(repaid)	9.5	-	4.0	5.4	6.2
Equity raised/(repaid)	5.5	-	-	-	-
Dividends paid	(21.4)	(19.9)	(19.9)	(19.9)	(19.9)
Others	(4.9)	(4.5)	(4.6)	(4.9)	(5.2)
Cash flow from financing	(11.3)	(24.4)	(20.5)	(19.4)	(18.9)
Net cash flow	(7.2)	34.3	11.1	18.8	19.6
Net cash/(debt) b/f	107.8	100.2	134.5	145.6	164.4
Net cash/(debt) c/f	100.1	134.5	145.6	164.4	184.0
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	0.9	(6.0)	5.5	2.4	3.0
EBITDA growth (%)	(5.4)	(9.2)	4.0	5.5	3.0
Pretax margin (%)	6.1	6.5	6.4	6.6	6.6
Net profit margin (%)	4.6	4.9	4.9	5.0	5.0
Interest cover (x)	19.8	17.8	18.9	19.3	19.7
Effective tax rate (%)	25.1	26.3	25.1	25.1	25.1
Dividend payout (%)	52.7	52.9	50.2	48.0	46.8
Debtors turnover (days)	62	61	61	61	61
Stock turnover (days)	34	30	-	-	-
Creditors turnover (days)	22	22	-	-	-

Source: Company, AmInvestment Bank Bhd estimates

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