



Company report

LUXCHEM CORPORATION

(LUXC MK EQUITY, LCBH.KL)



30 July 2020

1HFY20 core net profit eases 7% YoY

SELL

(Maintained)

AmInvestment Bank

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Rationale for report: Company results/update

Price	RM0.83
Fair Value	RM0.63
52-week High/Low	RM1.01/RM0.33

Key Changes

Fair value	↕
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	765.5	772.6	800.4	827.8
Core net profit (RM mil)	37.5	37.9	40.2	41.4
FD Core EPS (sen)	4.2	4.2	4.5	4.6
FD Core EPS growth (%)	(4.9)	0.3	6.2	2.8
Consensus Net Profit (RM mil)	-	36.0	39.1	41.7
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	19.6	19.5	18.4	17.9
EV/EBITDA (x)	13.5	13.3	12.3	11.6
Div yield (%)	3.0	3.0	3.0	3.0
ROE (%)	12.9	12.2	12.2	11.8
Net Gearing (%)	nm	nm	nm	nm

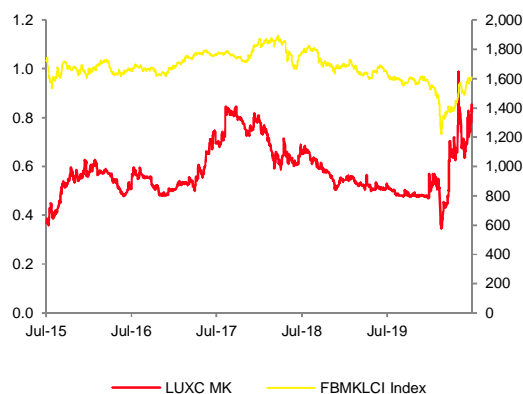
Stock and Financial Data

Shares Outstanding (million)	895.0
Market Cap (RM mil)	738.4
Book Value (RM/share)	0.34
P/BV (x)	2.4
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)	15.8

Price performance	3mth	6mth	12mth
Absolute (%)	26.0	54.2	55.7
Relative (%)	7.9	48.4	58.7



Investment Highlights

- We maintain our forecasts, but raise our fair value (FV for Luxchem by 9% to RM0.63 (vs. RM0.58 previously) based on 14x FY21F EPS (vs. 13x previously) as we now value the stock at a 2x multiple premium to its average historical forward P/E of 12x (vs. 1x multiple premium previously). This is to reflect the improved trading sentiment towards glove-related stocks (Luxchem is engaged in latex and nitrile processing/compounding) on expectations of a prolonged Covid-19 pandemic.
- Luxchem's 1HFY20 results met expectations at 47% and 49% of our full-year forecast and the full-year consensus estimates respectively.
- The group's 1HFY20's turnover shrank 19% YoY due to lower sales for most of its chemical products (except latex) during the movement control order (MCO) period. However, its core net profit only eased by 7% YoY, we believe, mainly due to improved margins for nitrile products as a result of good prices on strong demand, coupled with better economies of scale on increased production volumes.
- Key highlights from the briefing yesterday are:
 1. Transform Master Sdn Bhd (TMSB), the unit engaged in latex and nitrile processing/compounding, completed its capacity expansion (by one-third from 1,500MT/month to 2,000MT/month) in June 2020. At present, it operates at about 75% capacity. Luxchem guided for higher orders to come in 2HFY20 or early FY21 in tandem with the commissioning of new capacity of several glove players.
 2. Production of unsaturated polyester resin (UPR) (used largely in the construction, automobile and electrical industries) under Luxchem Polymer Industries (LPI) is expected to remain stable at 40K MT/annum, translating to a utilisation rate of 70%-75% for FY20 (vs. ~75% historically).
 3. Luxchem noticed a significant pick-up in orders for most of its chemicals post the MCO. However, it is cautious that these could just be spikes as customers rebuild their inventory (or in other words, recurring orders still depend on sustained economic recovery). Despite the improved orders, margins for the trading segment remain soft as suppliers (Luxchem included) are still stuck with build-up stock of chemicals during the lockdown.

- We believe the Covid-19 pandemic cuts both ways for Luxchem. The surge in demand for personal protective equipment such as gloves will drive Luxchem's latex and nitrile processing/compounding businesses (the segment contributes about 35% of its turnover in FY19). On the other hand, a sharp downturn in the global economy due to the pandemic (coupled with the cutbacks in infrastructure spending locally) will hurt demand for chemicals from customers in other sectors such as construction, automobile and the electrical.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

YE 30 Dec (RM mil)	1HFY19	1HFY20	YoY (%)	2QFY19	1QFY19	2QFY20	QoQ (%)	YoY (%)
Turnover	390.8	314.8	(19.5)	188.4	202.4	140.3	(30.7)	(25.5)
EBITDA	29.2	26.4	(9.7)	14.6	14.6	9.4	(35.5)	(35.4)
Depreciation/Amortisation	(2.0)	(2.1)	(3.6)	(1.1)	(0.9)	(1.0)	(8.5)	5.6
EBIT	27.2	24.3	(10.6)	13.5	13.7	8.4	(38.5)	(37.8)
Interest expense	(2.5)	(1.6)	37.6	(1.3)	(1.2)	(0.8)	35.6	42.1
Interest income	0.9	0.8	(10.2)	0.5	0.4	0.3	(28.5)	(40.8)
Pre-Associates profit	25.6	23.6	(8.0)	12.7	12.9	7.9	(38.5)	(37.5)
Associates	0.0	0.0	nm	0.0	0.0	0.0	nm	nm
Pre-Exceptionals profit	25.6	23.6	(8.0)	12.7	12.9	7.9	(38.5)	(37.5)
Exceptionals	0.4	(0.1)	nm	0.5	(0.1)	2.4	nm	>100
Pre-tax profit	26.0	23.4	(10.0)	13.2	12.8	10.3	(19.5)	(21.4)
Taxation	(6.7)	(6.8)	(1.0)	(3.6)	(3.2)	(2.8)	12.3	22.4
Minority interest	0.2	0.9	>100	0.3	(0.1)	1.9	nm	>100
Net Profit	19.5	17.6	(9.9)	9.9	9.6	9.5	(1.5)	(4.4)
Core Net Profit	19.1	17.7	(7.4)	9.4	9.7	7.6	(20.8)	(18.7)
EBITDA margin (%)	7.5%	8.4%		7.7%	7.2%	6.7%		
Pretax margin (%)	6.7%	7.4%		7.0%	6.3%	7.4%		
Effective tax (%)	25.8%	29.0%		27.1%	24.5%	26.7%		
Segmental Breakdown (RM mil)								
Revenue								
Trading	326.0	256.1	(21.5)	154.9	171.2	112.3	(34.4)	(27.5)
Manufacturing	128.1	122.5	(4.3)	66.6	61.5	58.5	(4.9)	(12.2)
Others (elimination)	(63.3)	(63.8)	(0.9)	(33.1)	(30.2)	(30.4)	(0.8)	7.9
Total	390.8	314.8	(19.5)	188.4	202.4	140.3	(30.7)	(25.5)
Pretax profit								
Trading	12.9	8.4	(35.0)	5.8	7.1	4.7	(33.0)	(18.2)
Manufacturing	13.1	14.8	13.3	7.3	5.7	5.6	(1.9)	(23.1)
Others	0.1	0.2	>100	0.0	0.0	(0.0)	nm	nm
Total	26.0	23.4	(10.0)	13.2	12.8	10.3	(19.5)	(21.4)
Pretax margin								
Trading	4.0%	3.3%		3.7%	4.1%	4.2%		
Manufacturing	10.2%	12.1%		11.0%	9.4%	9.6%		
Others	-0.1%	nm		-0.1%	-0.1%	nm		
Total	6.7%	7.4%		7.0%	6.3%	7.4%		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: RESULTS BY GEOGRAPHICAL SEGMENT

Regional Breakdown (RM mil)	1HFY19	1HFY20	YoY (%)	2QFY19	1QFY19	2QFY20	QoQ (%)	YoY (%)
Malaysia	273.2	217.8	(20.3)	134.1	139.1	97.6	(29.9)	(27.2)
Indonesia	58.8	42.3	(28.1)	24.8	34.0	15.2	(55.4)	(38.9)
Vietnam	35.1	32.3	(8.1)	18.2	16.9	17.6	4.0	(3.4)
Thailand	9.7	11.9	23.0	4.5	5.2	5.5	6.7	23.8
Australia	1.4	1.4	(6.0)	0.7	0.7	0.7	(12.8)	(5.3)
Cambodia	1.1	0.6	(45.0)	0.7	0.5	0.4	(7.8)	(39.9)
Bangladesh	1.7	1.8	5.1	0.9	0.8	0.3	(61.3)	(63.6)
Singapore	1.8	1.3	(27.3)	0.3	1.5	0.6	(61.6)	90.6
Others	7.9	5.4	(31.8)	4.2	3.7	2.5	(33.6)	(41.7)
Total	390.8	314.8	(19.5)	188.4	202.4	140.3	(30.7)	(25.5)
Summary	1HFY19	1HFY20	YoY (%)	2QFY19	1QFY19	2QFY20	QoQ (%)	YoY (%)
Local	273.2	217.8	(20.3)	134.1	139.1	97.6	(29.9)	(27.2)
Exports	117.6	96.9	(17.6)	54.3	63.3	42.7	(32.5)	(21.3)

Revenue Contribution %	1HFY19	1HFY20	Var (YoY)	2QFY19	1QFY19	2QFY20	Var (QoQ)	Var (YoY)
Malaysia	70%	69%	-1%	71%	69%	70%	1%	-2%
Indonesia	15%	13%	-2%	13%	17%	11%	-6%	-2%
Vietnam	9%	10%	1%	10%	8%	13%	4%	3%
Thailand	2%	4%	1%	2%	3%	4%	1%	2%
Australia	0%	0%	0%	0%	0%	0%	0%	0%
Cambodia	0%	0%	0%	0%	0%	0%	0%	0%
Bangladesh	0%	1%	0%	0%	0%	0%	0%	0%
Singapore	0%	0%	0%	0%	1%	0%	0%	0%
Others	2%	2%	0%	2%	2%	2%	0%	0%
Total	100%	100%		100%	100%	100%		
Summary	1HFY19	1HFY20	Var (YoY)	2QFY19	1QFY19	2QFY20	Var (QoQ)	Var (YoY)
Local	70%	69%	-1%	71%	69%	70%	1%	-2%
Exports	30%	31%	1%	29%	31%	30%	-1%	2%

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART

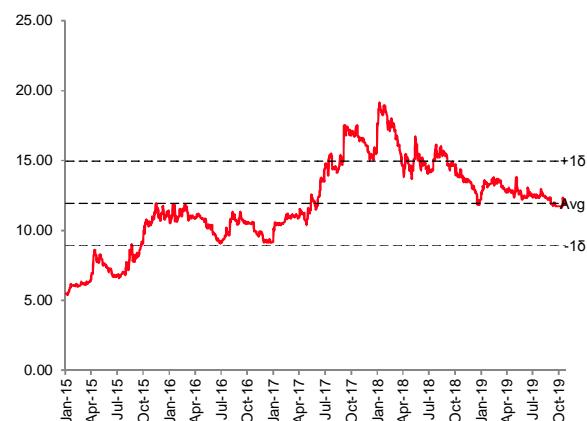


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	814.1	765.5	772.6	800.4	827.8
EBITDA	56.5	51.2	51.0	54.4	56.3
Depreciation/Amortisation	(3.8)	(4.1)	(4.2)	(4.5)	(4.9)
Operating income (EBIT)	52.7	47.1	46.8	49.9	51.4
Other income & associates	0.1	5.5	5.5	5.5	5.5
Net interest	(2.7)	(2.6)	(2.6)	(2.6)	(2.6)
Exceptional items	(0.3)	0.2	-	-	-
Pretax profit	49.9	50.1	49.6	52.8	54.3
Taxation	(12.5)	(13.2)	(12.4)	(13.2)	(13.6)
Minorities/pref dividends	0.4	0.7	0.7	0.7	0.7
Net profit	37.8	37.6	37.9	40.2	41.4
Core net profit	38.1	37.5	37.9	40.2	41.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	48.2	49.1	49.8	50.4	50.9
Intangible assets	40.3	43.9	47.5	51.0	54.5
Other long-term assets	6.2	6.2	6.2	6.2	6.2
Total non-current assets	94.7	99.3	103.5	107.6	111.7
Cash & equivalent	100.2	134.5	150.8	166.6	184.5
Stock	84.4	76.7	77.7	80.5	83.2
Trade debtors	138.8	126.9	128.1	132.7	137.2
Other current assets	18.3	18.3	18.3	18.3	18.3
Total current assets	341.7	356.5	374.9	398.1	423.2
Trade creditors	54.5	56.3	57.0	59.0	61.1
Short-term borrowings	86.8	86.8	90.8	95.8	101.6
Other current liabilities	9.1	9.1	9.1	9.1	9.1
Total current liabilities	150.4	152.2	156.9	164.0	171.8
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	319.0	339.3	360.7
Minority interests	0.1	(0.6)	(1.3)	(2.0)	(2.7)
BV/share (RM)	0.32	0.34	0.36	0.38	0.41
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	49.9	50.1	49.6	52.8	54.3
Depreciation/Amortisation	3.8	4.1	4.2	4.5	4.9
Net change in working capital	(26.1)	21.3	(1.4)	(5.4)	(5.3)
Others	(11.1)	(10.5)	(9.8)	(10.6)	(11.0)
Cash flow from operations	16.4	65.0	42.6	41.3	42.9
Capital expenditure	(3.8)	(3.8)	(3.7)	(3.8)	(3.9)
Net investments & sale of fixed assets	0.2	-	-	-	-
Others	(8.7)	(2.5)	(2.0)	(1.9)	(1.8)
Cash flow from investing	(12.3)	(6.3)	(5.7)	(5.7)	(5.8)
Debt raised/(repaid)	9.5	-	4.0	5.0	5.8
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)	(19.8)	(19.3)
Net cash flow	(7.2)	34.3	16.3	15.8	17.8
Net cash/(debt) b/f	107.8	100.2	134.5	150.8	166.6
Net cash/(debt) c/f	100.1	134.5	150.8	166.6	184.5
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	0.9	(6.0)	0.9	3.6	3.4
EBITDA growth (%)	(5.4)	(9.2)	(0.5)	6.7	3.4
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	18.0	19.3	19.6
Effective tax rate (%)	25.1	26.3	25.1	25.1	25.1
Dividend payout (%)	52.7	52.9	52.5	49.5	48.1
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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