



AmInvestment Bank

## Company report

# LUXCHEM CORPORATION

(LUXC MK EQUITY, LCBH.KL)

23 Feb 2021

Riding on economic recovery

## HOLD

(Maintained)

## AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company update

Price	RM0.80
Fair Value	RM0.84
52-week High/Low	RM1.47/RM0.33

## Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	726.3	989.0	1,031.8	1,070.4
Core net profit (RM mil)	45.9	61.6	62.6	63.7
FD Core EPS (sen)	5.1	6.0	6.1	6.2
FD Core EPS growth (%)	21.7	16.6	1.6	1.7
Consensus Net Profit (RM mil)	-	49.4	50.1	-
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	16.2	13.9	13.7	13.4
EV/EBITDA (x)	10.5	6.9	6.4	5.9
Div yield (%)	2.7	2.7	2.7	2.7
ROE (%)	14.8	15.2	12.7	11.9
Net Gearing (%)	nm	nm	nm	nm

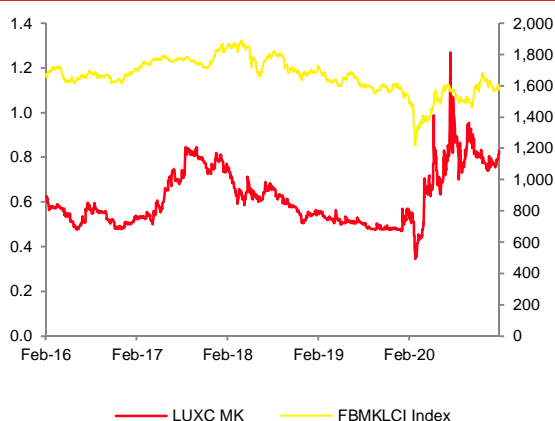
## Stock and Financial Data

Shares Outstanding (million)	966.6
Market Cap (RM mil)	802.2
Book Value (RM/share)	0.38
P/BV (x)	2.2
ROE (%)	14.8
Net Gearing (%)	-

Major Shareholders	Chemplex Resources Sdn Bhd(46.5%) Chow Cheng Moey(7.7%) EPF(2.0%)
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Free Float	43.9
Avg Daily Value (RM mil)	2.0

Price performance	3mth	6mth	12mth
Absolute (%)	0.6	(15.3)	48.2
Relative (%)	1.2	(15.7)	43.2



## Investment Highlights

- We maintain our forecasts and fair value of RM0.84 based 14x FY21F EPS, which is at 2x multiple premium to its average historical forward P/E of 12x. This is to reflect investors' sustained appetite for glove-related stocks since the pandemic (Luxchem is engaged in latex and nitrile processing/compounding). Maintain HOLD.
- We came away from Luxchem's analyst briefing yesterday feeling positive as our assumptions on recovery in demand and prices, and increased capacity utilisation have by and large panned out accordingly. The key takeaways are as follows:
  1. Luxchem guided for completion by 2QFY21 of its proposed acquisition of a 55% equity stake for RM121mil in Lexis Chemical, Lexis Specialties and Lexis Corporation, which are involved in manufacturing and trading of industrial chemicals and materials for the rubber glove and latex dipping industries. The exercise is pending a shareholders' vote in EGM in April 2021. Post-acquisition, Luxchem is planning to double the capacity of the new manufacturing company (which is principally involved in the latex dipping industry). It is currently already running at close to full capacity. Our forecasts assume the completion of the deal in FY21F.
  2. Luxchem's latex compounding unit now has a maximum capacity of 2,400 tonnes/month, up from 2,000 tonnes/month in FY20 (during which the capacity was 85% utilised). It is confident of achieving full utilisation rate during FY21F. Meanwhile, Luxchem will also increase productivity via efficiency improvement (through measures such as installing more machines and boosting shifts and manpower).
  3. There has been a strong recovery in demand and hence prices of chemical products on the back of the recovery in demand as economies reopen, led by China. This has benefited Luxchem's unsaturated polyester resin (UPR) production unit, which has seen utilisation rate hitting above 90% of its total capacity of 40K tonnes in 2HFY20 (vs. only 70% in mid-FY20).
- We believe Luxchem has shrugged off the pandemic. The demand for chemical products has recovered as economies reopen. Meanwhile, the demand for personal protective equipment such as gloves will continue to drive Luxchem's latex and nitrile processing/compounding businesses, of which it is expanding via capacity expansion and acquisition. For FY20, the segment contributed to more than 40% of its turnover (vs. only about 35% in FY19). However, at 13–15x forward earnings for a small-cap manufacturing company, we believe the upside to its valuation is capped.

EXHIBIT 1: PB BAND CHART

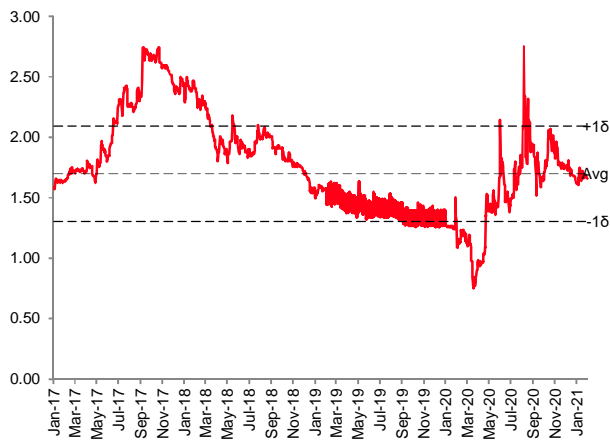
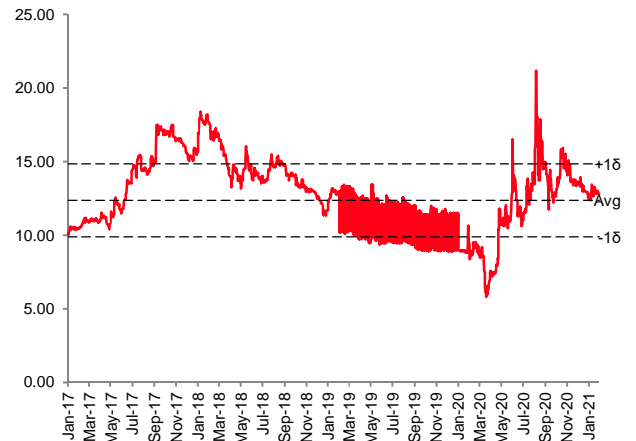


EXHIBIT 2: PE BAND CHART



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