Malaysia Results Review

Shariah Compliant

18 February 2020

Industrials| Capital Goods

Luxchem Corp (LUXC MK)

Buy (Maintained)

COVID-19 To Help Lift Earnings; Maintain BUY

Target Price (Return)	MYR0.65 (+19%)
Price:	MYR0.54
Market Cap:	MYR488m
Avg Daily Turnover (MYR/USD)	0.34m/0.08m

- **Maintain BUY with a new MYR0.65 TP from MYR0.59, 24% total expected return.** Excluding a one-off item, FY19 core net profit of MYR38.2m accounted for 97% of our forecast – in line. Post results, we raise FY20F earnings by 3%, as we expect Luxchem Corp's trading segment to benefit from higher demand from the glove-making sector – particularly in 1Q20 due to COVID-19. We also raise P/E to 14x from 13x, as we believe its significant overseas exposure is a plus, given the soft domestic economy.
- **Topline lower on softer selling prices.** FY19 revenue fell 6% to MYR765.5m on generally softer chemicals prices – this was despite volumes sold seeing organic growth. Gross profit fell by <1% to MYR80.4m – this was due to a higher blended margin of 10.5% in FY19 vs 10% in FY18. Excluding a one-off impact relating to a fire incident by Transform Master of MYR780,000 (impact before tax), core net profit improved by 1% to MYY38.2m. A second interim dividend of 1.25 sen was proposed, bringing FY19 DPS to 2.25 sen.
- The trading and manufacturing segments recorded a decline of 4.4% (MYR628m) and 12.6% (MYR137m) respectively due to lower product selling prices, which tracked the weak global chemical price trend. However, both segments saw better PBT margins of 4.2% (FY18: 4%) and 17.3% (FY18: 15.1%). While the reported export sales were at 31% of total revenue, we estimate that direct and indirect (particularly for the glove making sector) exports stood at c.55%.
- **We raise our FY20F earnings by 3%** to account for the higher demand from the glove-making sector, arising from the COVID-19 outbreak. Anchoring this view is that pressure on materials supply should ease in the coming weeks, as suppliers from China are resuming production on a staggered basis.
- **Maintain BUY with a higher TP of MYR0.65** on a combination of higher FY20F earnings and P/E of 14x. The latter is due to Luxchem's higher export market exposure, which should act as a hedge for the soft domestic economy. Its 14x P/E is still at a discount to the FBMSC's 1-year forward P/E of 14.8x. Supportive of these are the company's strong operating cash flow, low capex intensity, net cash balance sheet, as well as healthy and sustainable ROE.

Analyst

Chiong Tong Chai
+6(03) 9280 8872
chiong.tong.chai@rhbgroup.com

Share Data

Avg Daily Turnover (MYR/USD)	0.09m/0.02m
52-wk Price low/high (MYR)	0.47 - 0.6
Free Float (%)	32
Shares outstanding (m)	896
Expected Share Price Return	19%
Expected Dividend Return	5%
Expected Total Return	24%

Shareholders (%)

Chemplex Resources S	46.5
Chow Cheng Moey	7.7

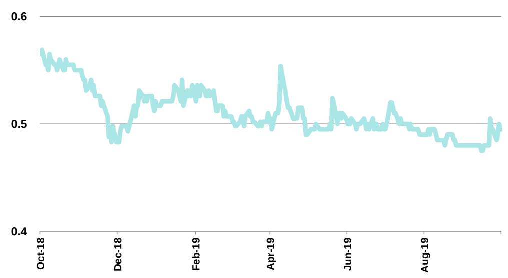
Additional Data

Bursa Code	5143
Listing Market	Main
Beta	0.21
3-Month Average Volume ('000)	640
ROA (%)	9.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.5	13.5	13.5	7.9	0.9
Relative	16.4	16.8	16.7	11.4	9.5

Luxchem Corp (LUXC MK)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	814	765	804	847	875
Recurring net profit (MYRm)	38	38	42	45	48
Recurring net profit growth (%)	-7.3	1.1	9.0	7.7	7.7
Recurring EPS (MYR)	0.04	0.04	0.05	0.05	0.05
Recurring P/E (x)	11.9	13.0	11.7	10.9	10.1
P/B (x)	1.7	1.6	1.5	1.4	1.3
P/CF (x)	35.6	7.8	11.7	8.6	8.4
Dividend Yield (%)	4.0	4.1	4.6	4.6	5.4
EV/EBITDA (x)	8.1	7.2	6.6	6.0	5.4
Return on average equity (%)	13.9	12.9	13.1	13.2	13.4
Net debt to equity (%)	n/a	n/a	n/a	n/a	n/a

Source: Company data, RHB

Financial Exhibits

Asia
Malaysia
Industrial, Capital Goods
Luxchem Corp
Bloomberg LUXC MK
BUY

Valuation basis

P/E of 14x on FY20F EPS of 4.7 sen

Key drivers

i. Sales volume;
ii. Product margins.

Key risks

i. Entry of new competitors into the market;
ii. Volatile raw materials prices;
iii. Slower-than-expected demand growth.

Company Profile

Luxchem is principally involved in the trading and manufacturing of industrial chemicals and materials.

Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS (MYR)	0.04	0.04	0.05	0.05	0.05
DPS (MYR)	0.02	0.02	0.03	0.03	0.03
BVPS (MYR)	0.51	0.48	0.51	0.55	0.59
ROE (%)	13.2	12.0	12.6	13.1	13.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	11.9	13.0	11.7	10.9	10.1
P/B (x)	1.72	1.58	1.49	1.39	1.31
FCF Yield (%)	1.2	11.3	5.5	8.5	8.9
Dividend yield (%)	4.0	4.1	4.6	4.6	5.4
EV/EBITDA (x)	8.1	7.2	6.6	6.0	5.4
EV/EBIT (x)	7.4	7.4	6.2	5.6	5.2

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	814	765	804	847	875
Gross profit	81	80	85	93	100
EBITDA (adj.)	58	59	64	70	76
Depreciation & amortisation	(4)	(4)	(4)	(5)	(5)
Operating profit	54	55	60	66	71
Net interest	(4)	(5)	(4)	(5)	(5)
Pre-tax profit	50	50	56	61	67
Taxation	(13)	(13)	(14)	(15)	(17)
Net profit	38	38	42	45	48
Recurring net profit	38	38	42	45	48

Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(26)	17	(4)	6	4
Cash flow from operations	14	63	42	57	58
Capex	(8)	(7)	(15)	(15)	(15)
Cash flow from investing	(14)	(16)	(15)	(15)	(15)
Dividends paid	(21)	(20)	(22)	(22)	(27)
Cash flow from financing	(7)	(37)	(22)	(22)	(27)
Cash at beginning of period	109	108	126	131	150
Net change in cash	(7)	10	4	19	17
Ending balance cash	108	126	131	150	168

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	108	126	131	150	168
Tangible fixed assets	59	62	73	84	94
Total investments	270	244	252	264	271
Total assets	436	433	456	497	533
Short-term debt	87	64	65	80	91
Total long-term debt	0	0	0	0	0
Total liabilities	153	124	128	146	160
Total equity	283	308	328	351	373
Total liabilities & equity	436	433	456	497	533

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	0.9	(6.0)	5.0	5.4	3.4
Recurrent EPS growth (%)	(9.3)	(4.0)	10.7	7.7	7.7
Gross margin (%)	10.0	10.5	10.6	11.0	11.4
Operating EBITDA margin (%)	7.1	7.7	8.0	8.3	8.7
Net profit margin (%)	4.6	5.0	5.2	5.3	5.5
Capex/sales (%)	1.0	0.9	1.9	1.8	1.7
Interest cover (x)	13.4	12.8	15.4	15.4	16.3

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Dec (MYR'm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY19	FY18	YoY (%)	Comments – FY19 vs. FY18
Revenue	206.2	187.5	187.2	(0.2)	(9)	765.5	814.1	(6)	Lower ASPs
EBITDA	13.9	13.6	14.7	8.3	6	58.8	57.9	1	
EBITDA margin (%)	6.7%	7.2%	7.9%	8.5	17	7.7%	7.1%		
Depreciation	1.3	1.0	1.1	1.1	(16)	4.1	3.8	9	
EBIT	12.6	12.5	13.6	8.9	8	54.7	54.2	1	
EBIT margin (%)	6.1%	6.7%	7.3%	9.1	19	7.1%	6.7%		
Other ops income	1.1	2.3	1.5	(33.1)	41	5.5	3.3	63	
Selling and distribution costs	(1.8)	(1.6)	(1.5)	(4.4)	(17)	(6.0)	(6.2)	(3)	
Administrative expenses	(5.7)	(4.7)	(6.7)	42.6	19	(21.9)	(21.7)	1	
Administrative expenses - Share option expenses	(0.2)	0.0	0.0	nm	(100)	(0.1)	(1.2)	(88)	All expenses related to ESOS have been fully recognised in 2Q19
Other expenses	(0.9)	(2.0)	(1.1)	(45.2)	26	(3.1)	(1.2)	>100	
Pretax profit	11.2	11.4	12.8	12.4	14	50.1	49.9	0	
Pretax profit margin (%)	5.4%	6.1%	6.8%	12.6	26	6.5%	6.1%	7	
Tax	(2.7)	(3.1)	(3.3)	7.4	23	(13.2)	(12.5)	5	
Effective tax rate (%)	24.3%	27.4%	26.2%	(4.4)	8	-26.3%	-25.1%	5	
PAT	8.5	8.2	9.4	14.2	11	37.0	37.4	(1)	
Net margin (%)	4.1%	4.4%	5.0%	14.4	22	4.8%	4.6%	5	
MI	(0.1)	(0.3)	(0.2)	(55.4)	49.9	(0.7)	(0.4)	68	
PATAMI	8.6	8.6	9.6	11	12	37.6	37.8	(0)	
EI	0.0	0.0	(0.8)	nm	nm	(0.8)	0.0	nm	Related to a fire incident
Core net	8.6	8.6	10.1	18	18	38.2	37.8	1	

Source: Company data, RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211