

Scientex Berhad

Foray Into Penang

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SCIENTX is acquiring 179.7ac of 6 parcels of freehold land in Seberang Prai, Penang for RM109.6m. Targeted for mixed development, project details for the land are minimal pending finalisation. We estimate a GDV of RM1.1b (assuming land cost to GDV ratio of 10%). Expect neutral impact to earnings in the near term, but mildly positive over the longer run. Maintain FY19-20E CNP of RM309-349m. Maintain MP and TP of RM8.50.

Acquiring land in Penang for RM109.6m. SCIENTX via its wholly owned subsidiary Scientex (Skudai) Sdn Bhd is acquiring six parcels of freehold land from Palma Indah Sdn Bhd for RM109.6m, implying a price of RM14.0 psf. The land is slated for mixed property development, but further details such as total GDV, development cost, commencement and completion dates are too preliminary to be ascertained. The land is in Tasek Gelugor town, and easily accessible from all directions from Butterworth, Kepala Batas and Padang Serai, Kedah and can access the North-South expressway via Kepala Batas easily (approximately 9km away). The acquisition will be funded by internally generated funds or bank borrowings and is expected to be completed in 2HFY20.

Neutral on the acquisition. We were not overly surprised as SCIENTX pursues land banking activities regularly while we also believe the pricing is decent at RM14.0psf vs. other land transactions within that area that range from RM8.50psf to RM15.00psf. However, we are neutral on the acquisition and do not expect significant impact to earnings in the near term as the project may not commence immediately. Based on our assumptions of affordable residential units and a mixed development township, price per unit of RM450k (vs. surrounding areas pricing of RM400-500k per unit) of 14 units per acre, we derive a potential GDV of RM1.1b, implying a land cost to GDV percentage of 10% which we deem as decent (vs. recent acquisitions land cost to GDV of c.11%). That said, land cost could increase on conversion premiums and re-zoning. Pending project details from management, land cost to GDV may change subject to the residential to commercial mix and its pricing strategies.

Outlook. SCIENTX's plastic manufacturing segment is focused on ramping up utilisation, targeting above 70% over the next few years, mostly from its BOPP plant and Arizona plant in the United States which will mostly start contributing from FY19 onwards. SCIENTX's growth is premised on gradual improvement in utilisation rate for the manufacturing segment, and full-year contribution from KHPI in FY19-20, whilst backed by its stable property segment on targeted launches of RM1.1-1.2b in FY19-20, and manufacturing utilisation rates of 65-70% in FY19-20.

Maintain FY19-20E CNP of RM309-349m, as we do not expect any near-term launches from these parcels of land and as such do not foresee any accretion to earnings for now. However, post this land acquisition by 2HFY20, net gearing in FY20E is expected to increase to 0.33x (from 0.29x).

Maintain MARKET PERFORM and Target Price of RM8.50. Our TP is based on FY20E SoP valuation with; (i) an unchanged PER of 10.0x for the Property segment, which is at a 12% discount to small-mid-cap property players and Johor-exposed peers due to SCIENTX's exposure in the challenging Johor market, and (ii) an unchanged applied PER of 15.5x for the manufacturing segment (at 14% discount compared to SLP's applied PER given its lower margin of 6-7% vs. 15%, but above TGUAN (9.0x PER) given its earnings stability. Maintain MARKET PERFORM as we believe we have priced in most foreseeable positives.

MARKET PERFORM ↔

Price : RM8.55
Target Price : RM8.50 ↔

Share Price Performance



KLCI	1,655.47
YTD KLCI chg	-2.1%
YTD stock price chg	-3.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,405.5
Shares Outstanding	515.3
52-week range (H)	9.48
52-week range (L)	6.51
3-mth avg daily vol:	215,694
Free Float	62%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	20.8%
Scientex Leasing Sdn Bhd	9.2%
Scientex Infinity Sdn Bhd	8.0%

Summary Earnings Table

FYE Jul (RM m)	2018A	2019E	2020E
Turnover	2626.8	3213.5	3350.3
EBIT	364.4	415.3	450.0
PBT	361.7	411.6	463.5
Net Profit (NP)	289.8	308.8	348.8
Core NP*	291.7	308.8	348.8
Consensus (NP)	n.a.	309.7	357.5
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	57.2	60.6	65.2
Core EPS growth (%)	14.3	5.9	7.6
NDPS (sen)	19.1	24.2	26.1
BVPS (RM)	3.46	4.51	5.21
Core PER	14.9	14.1	13.1
PBV (x)	2.5	1.9	1.6
Net Gearing (x)	0.43	0.39	0.33
Net Div. Yield (%)	2.2	2.8	3.0



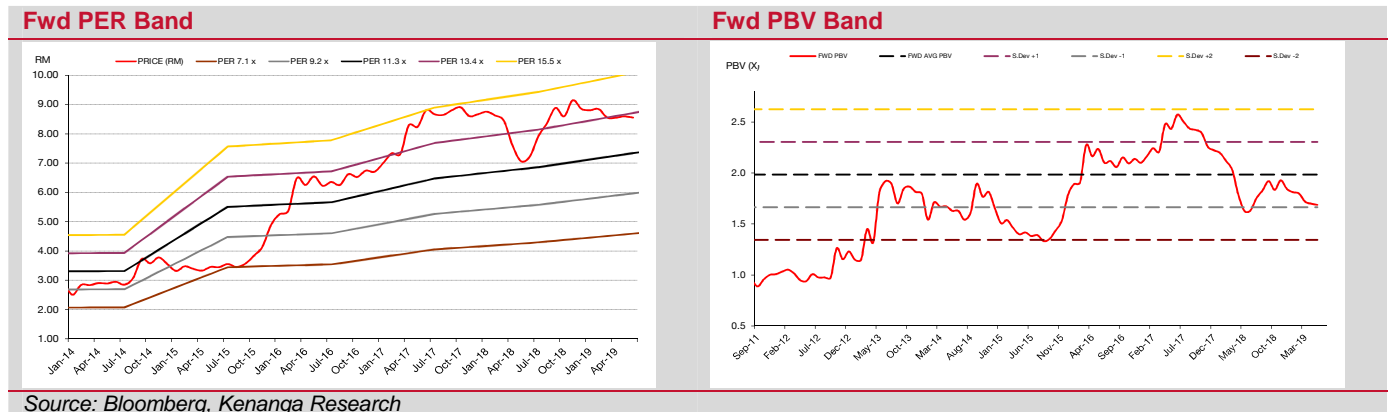
OTHER POINTS

Risks to our call include; (i) higher/lower-than-expected resin cost, (ii) stronger/weaker product demand from overseas, (iii) stronger/weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E	FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E
Revenue	2201.0	2403.2	2626.8	3213.5	3350.3	Growth (%)					
EBITDA	367.1	388.3	436.1	584.4	660.6	Turnover	22.2	9.2	9.3	22.3	4.3
Depreciation	-54.5	-63.2	-71.7	-169.1	-210.6	EBITDA	36.6	5.8	12.3	34.0	13.0
Operating Profit	312.6	325.1	364.4	415.3	450.0	Operating	38.9	4.0	12.1	14.0	8.4
Interest Exp	-13.7	-14.0	-10.8	-15.4	-15.2	PBT	38.6	3.8	13.7	13.8	12.6
Associate	7.4	6.9	8.0	11.7	28.7	Net Profit	52.3	6.2	13.2	6.6	12.9
Exceptionals	-7.1	0.7	0.0	0.0	0.0	Core Net	66.2	2.9	14.3	5.9	12.9
PBT	306.3	318.0	361.7	411.6	463.5						
Taxation	-59.8	-58.0	-67.6	-96.0	-107.8	Profitability					
Minority Interest	-5.7	-4.1	-4.2	-6.8	-6.9	EBITDA	16.7	16.2	16.6	18.2	19.7
Net Profit	240.9	255.9	289.8	308.8	348.8	Operating	14.2	13.5	13.9	12.9	13.4
Core Net Profit	248.0	255.2	291.7	308.8	348.8	PBT Margin	13.9	13.2	13.8	12.8	13.8
						Net Margin	10.9	10.6	11.0	9.6	10.4
						Core Net	11.3	10.6	11.1	9.6	10.4
						Eff. Tax Rate	19.5	18.2	18.7	23.3	23.3
						ROA	10.5	10.2	8.2	8.8	8.6
						ROE	22.8	18.9	17.6	16.0	15.2
						DuPont					
						Net Margin	11.3	10.6	11.1	9.6	10.4
						Assets T/O (x)	1.0	0.8	0.8	0.8	0.8
						Leverage Fac	2.1	1.9	2.0	2.0	1.8
						ROE (%)	22.8	18.9	17.6	16.0	15.2
						Leverage					
						Debt/Asset (x)	0.2	0.2	0.3	0.3	0.2
						Debt/Equity	0.4	0.4	0.5	0.5	0.4
						N.Debt/(Cash)	371.0	275.8	762.0	819.6	832.2
						Net Debt/Eq	0.32	0.16	0.43	0.39	0.33
						Valuations					
						EPS (sen)	48.6	50.0	57.2	60.6	65.2
						NDPS (sen)	16.0	15.2	19.1	24.2	26.1
						BV (RM)	2.55	3.01	3.46	4.51	5.21
						PER	17.6	17.1	14.9	14.1	13.1
						Net Div.Yield	1.9	1.8	2.2	2.8	3.0
						PBV	3.3	2.8	2.5	1.9	1.6
						EV/EBITDA	13.8	10.3	11.1	8.6	7.6

Source: Kenanga Research

*Note that our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.3m from the proposed Share Swap for 62% stake of DAIBOCI



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11 June 2019

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.		
STOCKS UNDER COVERAGE																	
SCGM BHD	0.885	170.6	Y	04/2019	9.3%	13.8%	-85.7%	95.5%	12.3	88.5	44.3	1.1	0.9	1.0%	1.5%	0.850	UP
SCIENTEX BHD	8.55	4,405.5	Y	07/2019	22.3%	4.3%	5.9%	13.0%	14.9	14.1	13.1	2.5	1.9	16.0%	2.8%	8.50	MP
SLP RESOURCES BHD	1.27	402.5	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	15.9	16.9	16.1	2.1	2.1	13.5%	3.0%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.44	386.7	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.3	9.2	9.0	0.9	0.8	9.5%	3.5%	2.40	MP
TOMYPAK HOLDINGS	0.515	215.7	Y	12/2019	5.7%	7.7%	-6.1%	-197.2%	N.A.	N.A.	N.A.	1.5	1.1	-3.3%	0.0%	0.430	UP
Simple Average					10.7%	6.8%	-18.4%	-16.2%	13.1	32.2	20.6	1.6	1.4	7.2%	2.2%		

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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