

18 December 2019

Scientex Berhad

1QFY20 Within Expectations

By Marie Vaz | msvaz@kenanga.com.my;

1QFY20 core earnings of RM81.6m came in within expectations, representing 21% each of our and consensus full-year estimates. No dividends were declared, as expected. We maintain our FY20-21E CNP of RM386-474m. Maintain MARKET PERFORM on an unchanged SoP-derived TP of RM9.45.

1QFY20 core net profit of RM81.6m came in within our and consensus expectations, making up 21% each of full-year estimates. No dividends were declared, as expected.

Results highlight. YoY-Ytd, topline jumped 23%, lifted by higher contributions from both segments, namely the plastic manufacturing segment (+14%, driven by higher sales) and the property segment (+61%, driven by ongoing projects as well as new launches such as Taman Pulai Mutiara in Pulai, Taman Scientex Utama in Senai, Taman Scientex in Rawang and Scientex Durian Tunggal in Melaka). Group EBIT margins improved to 13.5% (+2.9ppt) on better product mix for the manufacturing segment (+2.2ppt) while the property segment margins remained flattish (-0.7ppt). Overall CNP increased by 55%. **QoQ**, topline was down by 7% mainly due to the timing of recognitions of unbilled property sales resulting in lower segment revenue (-27%) which was mitigated by improved sales from the manufacturing segment (+4%). All in, CNP was down by 34% on weaker EBIT margins at 13.5% (-5.6ppt) arising from the variability in product mix, higher financing cost (+17%) and higher effective tax rate (which normalized to 24.5% vs. 21.5%).

Outlook. SCIENTEX's manufacturing business will be focusing on ramping up the plant utilization rate to a target of c.75% over the next few years (vs. c.70% currently), coming mostly from its BOPP plant and Arizona plant in the United States. This, coupled with planned property launches of RM1.1-1.3b in FY20-21, is expected to drive overall growth going forward. Meanwhile, the group has acquired an 85.7ac leasehold agricultural land in Kota Tinggi, Johor for RM39m (translating to RM10.5psf), which we deem to be decent compared with the price range of recent land transactions in Johor between RM19 to 35psf, although the total land cost could subsequently increase on account of conversion premiums and re-zoning. Due to the small size of the acquisition cost, it will be internally funded (using its current RM241m cash pile) with fairly insignificant earnings impact (c.RM6.5m CNP p.a. or <1% of FY21 CNP) which is expected to only kick in from FY22 onwards (refer overleaf).

Maintain FY20-21E CNP of RM386-474m. Its unbilled property sales of RM700m will provide <1 year of earnings visibility. Our FY20-21 DPS of 21.6-26.6sen which are based on the Group's payout ratio of 30% imply yields of 2.3-2.8%.

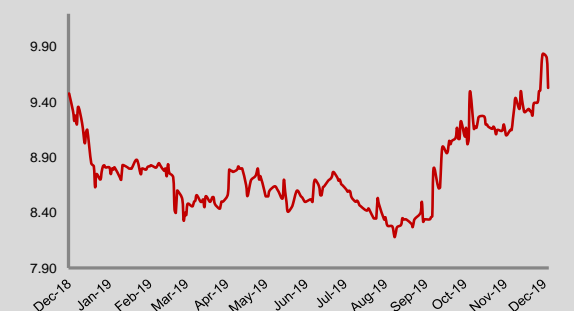
Maintain MARKET PERFORM and TP of RM9.45 based on FY20E valuations. Our TP is derived from our FY20E SoP valuation with: (i) an unchanged PER of 10.0x for the Property segment, which is on par with Johor-exposed peers' PER given SCIENTEX's exposure in the challenging Johor property market, and (ii) a 16.0x PER for the manufacturing segment, which is at a 9% discount compared to SLP's applied PER of 18% given its lower margins of 7% vs. SLP's 15%, but above TGUAN (11.0x PER) given its strong earnings growth. Maintain MARKET PERFORM as we believe the stock has already priced in its earnings outlook.

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.

MARKET PERFORM ↔

Price : **RM9.53**
Target Price : **RM9.45** ↔

Share Price Performance



KLCI 1,576.95
YTD KLCI chg -6.7%
YTD stock price chg 7.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	4,910.4
Shares Outstanding	515.3
52-week range (H)	9.87
52-week range (L)	8.11
3-mth avg daily vol:	319,395
Free Float	36%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	21.1%
Scientex Leasing Sdn Bhd	9.2%
Scientex Infinity Sdn Bhd	8.2%

Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	3247.4	3797.8	4126.1
EBIT	461.8	499.2	610.4
PBT	450.6	512.7	628.6
Net Profit (NP)	333.7	385.7	473.9
Core NP*	331.2	385.7	473.9
Consensus (NP)	N.A.	391.2	443.8
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	61.9	72.1	88.6
Core EPS growth (%)	8.2	16.4	22.9
NDPS (sen)	20.0	21.6	26.6
BVPS (RM)	3.75	4.87	5.69
Core PER	15.4	13.2	10.8
PBV (x)	2.5	2.0	1.7
Net Gearing (x)	0.4	0.4	0.3
Net Div. Yield (%)	2.3	2.3	2.8



18 December 2019

OTHER POINTS

Land acquisition in Kota Tinggi, Johor. The group has acquired an 85.7ac leasehold agricultural land in Kota Tinggi, Johor for RM39m (translating to RM10.5psf), which we deem to be decent compared with the price range of recent land transactions in Johor between RM19 to 35psf, although the total land cost could subsequently increase on account of conversion premiums and re-zoning. Based on our assumptions of a mixed development township comprising mostly affordable residential units, an average selling price per unit of RM200k with 15 units per acre, we derive a potential GDV of RM257m. This implies a land cost to GDV ratio of 15%, which we deem as decent (vs. recent land acquisition cost to GDV of c.11%).

Due to the small size of the acquisition cost, it will be internally funded from cash proceeds. We expect fairly insignificant earnings impact (c. RM6.5m CNP p.a. or <1% of FY21 CNP) based on a PBT margin of 10% (slightly lower than the Group PBT margins) given the product offerings, with recognitions will only start to kick in from FY22 onwards assuming the initial launch will be in late 2021.

**Our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.2m from the proposed Share Swap for DAIBOCI.*

Results Highlights

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY20	FY19	Chg	FY19	Chg
Turnover	877.4	938.8	-7%	713.6	23%
EBIT	118.5	179.2	-34%	75.6	57%
Interest income	2.6	1.8	40%	0.7	254%
Finance costs	(5.3)	(4.5)	17%	(3.8)	39%
Associates	0.0	0.0	n.a.	0.0	n.a.
Pretax profit	115.8	176.6	-34%	72.5	60%
Taxation	(28.4)	(38.0)	-25%	(17.2)	65%
Profit after tax	87.4	138.6	-37%	55.3	58%
Minority interest	(6.5)	(5.2)	24%	(1.7)	287%
Net profit	81.0	133.4	-39%	53.7	51%
Core net profit	81.6	132.5	-38%	52.6	55%
Core EPS (sen)	15.8	25.7	-38%	10.7	47%
NDPS (sen)	0.0	10.0	-100%	0.0	n.a.
NTA/share (RM)	3.7	3.7	0%	3.6	4%
EBIT margin	13.5%	19.1%		10.6%	
Pretax margin	13.2%	18.8%		10.2%	
Core net profit margin	9.3%	14.1%		7.4%	
Effective tax rate	24.5%	21.5%		23.7%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY20	FY19	Chg	FY19	Chg
Turnover					
Manufacturing	655.9	630.3	4%	575.8	14%
Property	221.5	308.5	-28%	137.8	61%
Group Turnover	877.4	938.8	-7%	713.6	23%
Segment Results					
Manufacturing	55.5	67.1	-17%	35.8	55%
Property	63.1	112.1	-44%	39.8	58%
Group EBIT	118.5	179.2	-34%	75.6	57%
EBIT Margin					
Manufacturing	8.5%	10.6%		6.2%	
Property	28.5%	36.3%		28.9%	
Group EBIT Margin	13.5%	19.1%		10.6%	

Source: Company, Kenanga Research

18 December 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.61	308.4	Y	04/2020	17.4%	21.7%	45.8%	47.9%	N.A.	32.2	21.8	2.0	1.8	5.8%	1.2%	1.600	MP
SCIENTEX BHD	9.53	4,910.4	Y	07/2020	16.9%	8.6%	16.5%	22.9%	15.4	13.2	10.8	2.5	2.0	20.0%	2.3%	9.45	MP
SLP RESOURCES BHD	1.25	396.2	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	15.6	16.7	15.8	2.2	2.0	12.6%	4.2%	1.45	OP
THONG GUAN INDUSTRIES BHD	3.52	646.3	Y	12/2019	3.4%	2.9%	28.3%	2.8%	13.5	10.5	10.2	1.3	1.2	12.0%	2.6%	4.10	OP
TOMYPAK HOLDINGS	0.500	209.3	Y	12/2019	-6.5%	7.2%	-3.0%	-137.2%	N.A.	N.A.	N.A.	1.4	1.0	-7.2%	0.0%	0.270	UP
Simple Average					8.8%	9.2%	16.2%	-11.6%	14.8	18.2	14.6	1.9	1.7	8.6%	2.1%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

18 December 2019

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.**