

24 June 2020

# Scientex Berhad

## 9MFY20 Above Our Expectation

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my);

**9MFY20 core earnings of RM252.3m (27% YoY) came in above our estimate at 91% due to stronger-than-expected top-line, but below consensus at 68%. Dividend of 10.0 sen is deemed as above expectations at 64% of 15.6 sen, as FY20 payouts will be skewed to 2H20 with this payout being the first for the year. All in, we increase our FY20-21E earnings by 26-3% on higher property launches and increase utilisation rate for FY20. Upgrade to OP (from MP) on a higher TP of RM9.70 (from RM6.50) post rolling forward our valuations.**

**9MFY20 core net profit of RM252.3m came in above our expectation at 91% but below consensus estimates at 68%.** We believe the deviation was due to our conservative top-line estimate that overly anticipated weaker contributions from both the property and plastic segments due to the Covid-19 pandemic, while the deviation from consensus was likely due to consensus' bullish top-line growth contribution from both segments. A 10.0 sen dividend was announced which only made up 64% of our estimated 15.6 sen for FY20. We deem this as above as FY20 payouts will be skewed to 2H20 with this payout being the first for the year.

**Results' highlight. YoY-Ytd**, top-line was up by 11% with stronger plastic manufacturing segment (+12%) driven by higher sales and higher property segment revenue (+9%) due to increased recognitions from new launches in Melaka and Johor. Group EBIT margin improved (+2.0ppt) on better improvements in the manufacturing segment on increased product efficiency and better product mix, resulting in CNP increasing by 27%. **QoQ**, top-line was down by 16% mainly due to weakness from the property segment (-38%) due to the disruption of construction activities and inability to execute sales, as well as a decline in the plastic packaging segment (-7%) due to the Covid-19 pandemic. EBIT margin took a 1.6ppt hit due to weakness from the plastic segment likely due to lower top-line, resulting in CNP declining by 29% to RM70m.

**Outlook.** The Group is targeting affordable project launches going forward, with sales target of RM1.0-1.3b in FY20-21, while unbilled sales of RM730m provides <1 year's visibility. Its manufacturing segment is focused on ramping up utilisation, targeting c.75% over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States

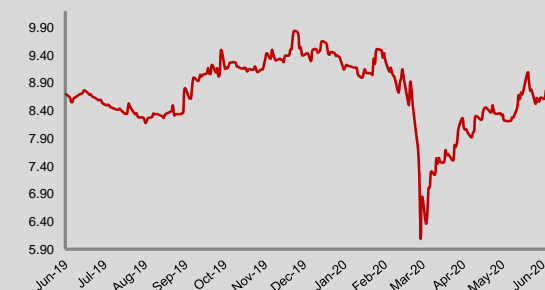
**Increased earnings by 26-3% for FY20-21E.** Given the stronger-than-expected earnings in 9MFY20 thus far, we increase FY20-21E earnings by 26-3% to RM351-443m on stronger property launches to RM1-1.3b (from RM800m-1.2b), and increase manufacturing utilization rates to 65% in FY20 (from 60%). FY20-21E dividend of 19.7-24.8 sen is based on payout ratio of 30%, which is achievable given the groups low gearing of 0.31x and sizeable cash pile of RM292m, implying yield of 2.2-2.8%.

**Upgrade to OUTPERFORM (from MP) and increase TP to RM9.70 (from RM6.50)** post rolling forward valuation base to FY21. Our TP is based on our FY21E SoP valuation with: (i) 10x PER for the Property segment, which is on par with mid-cap and Johor-based peers, and (ii) an unchanged 15x applied PER for the manufacturing segment which is a premium to its industrial peer TGUAN (10x PER) given stronger margin of 10% (vs. 7%) and as SCIENTX is the largest plastic packager under coverage, allowing it better economies of scale. We are confident with our call given that SCIENTX has been able to weather the Covid-19 pandemic better than expected with utilization rates bouncing back to 60% currently while we are confident of its ability to generate strong earnings growth YoY (+6/+26% in FY20/FY21), cushioned by high margins from the property segment.

**OUTPERFORM** ↑

Price : **RM8.77**  
Target Price : **RM9.70** ↑

### Share Price Performance



KLCI	1,507.04
YTD KLCI chg	-5.1%
YTD stock price chg	-7.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	4,524.2
Shares Outstanding	515.9
52-week range (H)	9.87
52-week range (L)	5.96
3-mth avg daily vol:	460,870
Free Float	36%
Beta	0.9

### Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Leasing Sdn Bhd	9.1%
Scientex Infinity Sdn Bhd	8.6%

### Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	3247.4	3627.1	4100.0
EBIT	461.8	452.5	569.3
PBT	450.6	466.0	587.5
<b>Net Profit (NP)</b>	<b>333.7</b>	<b>350.6</b>	<b>442.9</b>
<b>Core NP*</b>	<b>331.2</b>	<b>350.6</b>	<b>442.9</b>
Consensus (NP)	n.m.	369.6	431.8
Earnings Revision	n.m.	+26%	+3%
Core EPS (sen)	61.9	65.5	82.8
Core EPS growth (%)	8.2	5.8	26.3
NDPS (sen)	20.0	19.7	24.8
BVPS (RM)	3.75	4.82	5.61
Core PER (x)	14.2	13.4	10.6
PBV (x)	2.3	1.8	1.6
Net Gearing (x)	0.32	0.31	0.33
Net Div. Yield (%)	2.3	2.2	2.8

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**OTHER POINTS**

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

\*Our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan.

**Results Highlights**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : July (RM mn)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	772.2	914.4	-16%	828.5	-7%	2564.0	2308.7	11%
EBIT	106.4	140.8	-24%	103.1	3%	365.7	282.5	29%
Interest income	2.2	3.0	-26%	2.2	2%	7.9	2.5	215%
Finance costs	(3.9)	(4.3)	-9%	(3.8)	3%	(13.5)	(11.0)	23%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>104.7</b>	<b>139.5</b>	<b>-25%</b>	<b>101.4</b>	<b>3%</b>	<b>360.1</b>	<b>274.0</b>	<b>31%</b>
Taxation	(28.7)	(33.7)	-15%	(25.3)	14%	(90.8)	(66.7)	36%
Profit after tax	76.0	105.7	-28%	76.2	0%	269.2	207.3	30%
Minority interest	(6.4)	(8.3)	-23%	(3.3)	94%	(21.2)	(7.0)	203%
<b>Net profit</b>	<b>69.6</b>	<b>97.5</b>	<b>-29%</b>	<b>72.9</b>	<b>-4%</b>	<b>248.1</b>	<b>200.3</b>	<b>24%</b>
<b>Core net profit</b>	<b>70.9</b>	<b>99.8</b>	<b>-29%</b>	<b>72.6</b>	<b>-2%</b>	<b>252.3</b>	<b>198.8</b>	<b>27%</b>
Core EPS (sen)	13.7	19.4	-29%	14.2	-4%	48.9	40.1	22%
NDPS (sen)	10.0	0.0	n.m.	10.0	0%	10.0	10.0	0%
EBIT margin	13.8%	15.4%		12.4%		14.3%	12.2%	
Pretax margin	13.6%	15.3%		12.2%		14.0%	11.9%	
Core net profit margin	9.2%	10.9%		8.8%		9.8%	8.6%	
Effective tax rate	27.4%	24.2%		24.9%		25.2%	24.4%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : July (RM mn)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>								
Manufacturing	614.4	659.4	-7%	549.0	12%	1929.7	1727.5	12%
Property	157.8	255.0	-38%	217.6	-27%	634.3	581.1	9%
<b>Group Turnover</b>	<b>772.2</b>	<b>914.4</b>	<b>-16%</b>	<b>766.6</b>	<b>1%</b>	<b>2564.0</b>	<b>2308.7</b>	<b>11%</b>
<b>Segment Results</b>								
Manufacturing	59.3	65.2	-9%	39.0	52%	179.9	108.1	66%
Property	47.2	75.6	-38%	64.9	-27%	185.8	174.4	7%
<b>Group EBIT</b>	<b>106.4</b>	<b>140.8</b>	<b>-24%</b>	<b>103.9</b>	<b>2%</b>	<b>365.7</b>	<b>282.5</b>	<b>29%</b>
<b>EBIT Margin</b>								
Manufacturing	9.6%	9.9%		7.1%		9.3%	6.3%	
Property	29.9%	29.6%		29.8%		29.3%	30.0%	
<b>Group EBIT Margin</b>	<b>13.8%</b>	<b>15.4%</b>		<b>13.6%</b>		<b>14.3%</b>	<b>12.2%</b>	

Source: Company, Kenanga Research

**SoP Valuations**

Segment	Fair Value (RM'm)	PER (x)	Net Income (RM'm)
Property	2876	10	288
Manufacturing	2325	15	155
<b>Sum-of-Parts (RM'm)</b>	<b>5201.2</b>		<b>443</b>
<b>No. of Shares ('m)</b>	<b>535.1</b>		
<b>Target Price (RM)</b>	<b>9.70</b>		

Source: Company, Kenanga Research

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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)	
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	1.99	381.1	Y	04/2020	-2.8%	35.2%	213.6%	40.6%	N.A.	27.6	19.7	2.4	2.2	8.3%	1.5%	1.400	MP
SCIENTEX BHD	8.77	4,524.2	Y	07/2020	38.1%	13.0%	20.2%	26.3%	14.2	13.4	10.6	2.7	2.1	17.3%	2.2%	9.70	OP
SLP RESOURCES BHD	0.85	267.8	Y	12/2020	11.0%	22.3%	-25.5%	57.0%	11.3	16.9	10.8	1.4	1.3	7.8%	3.0%	0.625	UP
THONG GUAN INDUSTRIES BHD	3.76	699.8	Y	12/2020	3.9%	6.9%	12.4%	12.3%	11.3	10.0	8.9	1.3	1.2	12.4%	2.4%	4.00	UP
TOMYPAK HOLDINGS	0.47	194.4	Y	12/2020	-13.3%	16.8%	n.m.	-144.3%	N.A.	N.A.	N.A.	1.3	n.m.	-11.9%	0.0%	0.245	UP
<b>Simple Average</b>					<b>7.4%</b>	<b>18.9%</b>	<b>55.2%</b>	<b>-1.6%</b>	<b>12.6</b>	<b>17.0</b>	<b>12.5</b>	<b>1.8</b>	<b>1.7</b>	<b>6.8%</b>	<b>1.8%</b>		

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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Published and printed by:

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