

18 December 2020

Scientex Berhad

1QFY21 Within Expectations

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1QFY21 core earnings of RM92.2m came in within our and consensus estimates at 20% each. No dividend as expected. We make no changes to FY21-22E earnings of RM456-478m, on the back of RM1.3-1.4b property sales. Maintain MARKET PERFORM but on a higher TP of RM11.35 as we increase our property segment PER to 12.5x (from 10.0x) in line with Johor based peers.

FY20 core net profit of RM92.2m came in within our and consensus expectation at 20%, each. No dividend, as expected.

Results' highlight. YoY-Ytd, top-line was down by 9% on lower manufacturing sales due to the slowdown in global economy while property sales was rather flattish (-1%). However, EBIT margins improved by 2.3ppt on better margins from better product mix from the manufacturing segment. All in, CNP was up by 13% on lower finance cost (-57%) and lower tax rate of 22% (vs. 24%). QoQ, topline was down by 16% on weaker contributions from both segments but mainly due to the property (-34%) on lower progress billings during the quarter. As a result, CNP was down by 41% due to significantly weaker property contributions given that the segment commands superior margins vs. manufacturing. Net gearing remained low at 0.25x.

Outlook. The Group is targeting affordable project launches going forward, with our sales target of RM1.3-1.4b in FY21-22 targeting B40 and M40 groups, while unbilled sales of RM760m provides less than one year of visibility. Its manufacturing segment is focused on ramping up utilization, targeting c.75% over the next few years, mostly from its BOPP plant and Arizona plant in the United State on the back of RM150m capex on manufacturing segment in FY21, with another RM150m spread out over FY22-23. SCIENTX two-for-one bonus shares issuance and issuance of up to 103,372,974 free warrants on the basis of one free warrant for every 5 shares has been approved and is expected to be completed by 1QCY21.

Maintain FY21-22E CNP of RM455-RM478m. FY21-22E dividend of 25.5-26.8 sen is based on pay-out ratio of 30%, implying yield of 2.1-2.2%.

Maintain MARKET PERFORM but on a higher TP of RM11.35 (from RM10.00) and a post bonus adjusted TP of RM3.78. Our TP is increased post adjusting our Property segment PER to 12.5x (from 10x) in line with Johor based property peers, and an unchanged 15x applied PER for the manufacturing segment which is at a slight premium to its industrial peer TGUAN (14.5x PER) given SCIENTX superior size allowing for economies of scale. We are comfortable with our MP call given the share price run up of 27% since our last results note, while we believe upsides are limited at this juncture given the lack of strong re-rating catalyst.

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

MARKET PERFORM ↔

Price : RM12.02
Target Price : RM11.35 ↑

Share Price Performance



KLCI 1,674.35
YTD KLCI chg 5.4%
YTD stock price chg 27.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCI MK EQUITY
Market Cap (RM m) 6,212.7
Shares Outstanding 516.9
52-week range (H) 12.90
52-week range (L) 5.96
3-mth avg daily vol: 878,677
Free Float 36%
Beta 0.7

Major Shareholders

Scientex Holdings Sdn 21.0%
Scientex Leasing Sdn 9.1%
Scientex Infinity Sdn 9.0%

Summary Earnings Table

FYE Jul (RM m)	2020E	2021E	2022E
Turnover	3518.6	4044.1	4076.9
EBIT	549.5	579.0	612.9
PBT	544.3	597.3	632.1
Net Profit (NP)	390.1	454.6	477.7
Core NP*	407.5	454.6	477.7
Consensus (NP)	n.m.	453.6	509.9
Earnings Revision	n.m.	n.m.	n.m.
Core EPS (sen)	79.0	85.0	89.3
Core EPS growth (%)	28.4	7.5	5.1
NDPS (sen)	23.0	25.5	26.8
BVPS (RM)	4.97	5.56	6.18
Core PER (x)	15.2	14.1	13.5
PBV (x)	2.4	2.3	1.9
Net Gearing (x)	0.25	0.28	0.30
Net Div. Yield (%)	1.9	2.1	2.2

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Results Highlights					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY21	FY20	Chg	FY20	Chg
Turnover	802.3	954.6	-16%	877.4	-9%
EBIT	126.8	183.7	-31%	118.5	7%
Interest income	3.6	3.3	8%	2.6	37%
Finance costs	(2.3)	(2.8)	-19%	(5.3)	-57%
Associates	0.0	0.0	n.a.	0.0	n.a.
Pretax profit	128.0	184.2	-30%	115.8	11%
Taxation	(28.1)	(35.4)	-20%	(28.4)	-1%
Profit after tax	99.9	148.8	-33%	87.4	14%
Minority interest	(7.4)	(6.7)	9%	(6.5)	13%
Net profit	92.5	142.1	-35%	81.0	14%
Core net profit	92.2	155.2	-41%	81.6	13%
Core EPS (sen)	17.8	30.1	-41%	15.8	13%
NDPS (sen)	0.0	13.0	-100%	0.0	n.a.
EBIT margin	15.8%	19.2%		13.5%	
Pretax margin	16.0%	19.3%		13.2%	
Core net profit margin	11.5%	16.3%		9.3%	
Effective tax rate	22.0%	19.2%		24.5%	

Source: Company, Kenanga Research

Segmental Breakdown					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY21	FY20	Chg	FY20	Chg
Turnover					
Manufacturing	583.8	621.4	-6%	655.9	-11%
Property	218.4	333.2	-34%	221.5	-1%
Group Turnover	802.3	954.6	-16%	877.4	-9%
Segment Results					
Manufacturing	68.6	71.1	-4%	55.5	24%
Property	58.2	112.6	-48%	63.1	-8%
Group EBIT	126.8	183.7	-31%	118.5	7%
EBIT Margin					
Manufacturing	11.7%	11.4%		8.5%	3.3%
Property	26.6%	33.8%		28.5%	
Group EBIT Margin	15.8%	19.2%		13.5%	2.3%

Source: Company, Kenanga Research

SoP Valuations			
Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	3694	12.5	295.5
Manufacturing	2387	15	159
Sum-of-Parts (RM m)	6080.4		454.6
No. of Shares (m)	535.1		
Target Price (RM)	11.35		

Source: Company, Kenanga Research

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	2.45	469.2	Y	04/2021	16.0%	13.3%	101.7%	21.2%	27.0	13.4	11.0	2.8	2.5	19.5%	2.9%	3.85	OP
SCIENTEX BHD	12.02	6,212.7	Y	07/2021	14.9%	0.8%	11.6%	5.1%	15.2	14.1	13.5	2.7	2.3	17.3%	2.1%	11.35	MP
SLP RESOURCES BHD	0.970	307.5	Y	12/2020	-12.9%	25.1%	-18.9%	22.7%	12.1	16.2	12.1	1.6	1.5	8.5%	5.7%	0.950	MP
THONG GUAN INDUSTRIES BHD	2.67	1,013.5	Y	12/2020	3.9%	6.9%	23.7%	11.1%	8.0	7.1	6.3	1.8	1.6	12.6%	1.8%	3.25	MP
TOMYPAK HOLDINGS	0.725	312.2	Y	12/2020	3.9%	6.7%	-84.8%	65.0%	N.A.	181.3	120.8	1.6	1.7	1.1%	0.0%	0.415	UP
Simple Average					5.2%	10.6%	6.7%	25.0%	15.6	46.4	32.8	2.1	1.9	11.8%	2.5%		

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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