

24 June 2021

Scientex Berhad

9MFY21 Below, Uninspiring Outlook

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9MFY21 CNP of RM304m fell short of our/street's estimates at 69% each, mainly due to weaker-than-expected revenue while DPS of 4.0 sen also came in below. Plastics and property margins dragged. In the near future, we expect plastics manufacturing margins to marginally expand as resin costs gradually decline. While the property segment proved resilient in 3QFY21, we believe FMCO will adversely affect 4QFY21 progress billings. Lower FY21E/FY22E CNP by 11%/8% and DPS accordingly. Despite the sluggish near-term outlook, we raise our SoP-TP to RM3.80 (from RM3.75) as we roll forward our valuation base to FY22E EPS of 28.2 sen, valuing property at 12.5x PER and plastics at 14.5x PER. Reiterate MP.

9MFY21 below estimates. 9MFY21 CNP of RM304m (+21% YoY) came below at 69% of our/street full year estimate. We believe the deviation was mainly due to the weaker-than-expected revenue of RM2.7b (+5% YoY), making up only 67% of our/street estimates. DPS of 4.0 sen made up 47% of our FY21E DPS of 8.5 sen, We lower dividend forecast to 7.6 sen, which still implies a higher payout as Scientex tends to pay slightly more in the fourth quarter.

YoY, 9MFY21 revenue rose by 5%, lifted by higher property revenue (+28%), mainly due to increased recognitions from new launches with strong take-up rates in Melaka, Penang, Johor and Selangor. However, lower plastic manufacturing revenue (-3%) dragged, likely due to the lower ASPs in 1HFY21, when ASPs were slow to catch up with recovering resin prices. Overall, group EBIT margin rose 16.1% likely due to cheap resins secured in 1QFY21. Lower effective tax rate of 21% (vs. 9MFY20: 25%) lifted CNP, which was up 21%.

QoQ, 3QFY21 revenue rose 7.7% to RM976.8m (vs. 2QFY21: RM906.5m), as plastics and property revenues grew 9% and 6%, respectively. However, plastics EBIT only rose by 2% as margin fell 0.6ppt, likely caused by the spike in resin prices in March. Property EBIT fell 2% as margin fell 2.4ppt, likely due to higher raw material costs. While EBIT came in flat, core PATAMI rose 8%.

Outlook. In the near term, we expect plastics ASPs to trend down in tandem with resin prices, and for plastics volumes to increase. That said, as resin prices are *gradually* trending down, we suspect that ASPs will be falling at a slower rate, thus expect marginal plastics manufacturing margin expansion in the near-term. The near-term outlook for the property segment remains subdued, as FMCO will likely delay progress billings in 4QFY21, and continued softer MCOs in subsequent periods may continue to hinder progress billings.

Decrease FY21/FY22 estimates. We decrease FY21E/22E CNP by 11%/8% mainly on lower revenues. Consequently, we also lower FY21E/22E DPS to 7.6/8.5 sen, yielding 1.8%/2%, respectively.

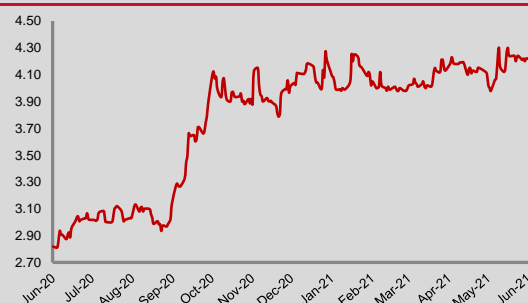
Maintain MARKET PERFORM with a slightly higher SoP-derived TP of RM3.80 (from RM3.75) as we roll forward our valuation base to FY22. We maintain our ascribed 12.5x PER for the property segment and 14.5x for the plastics segment.

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

MARKET PERFORM ↔

Price : RM4.26
Target Price : RM3.80 ↑

Share Price Performance



KLCI	1,564.76
YTD KLCI chg	-3.8%
YTD stock price chg	0.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	6,605.5
Shares Outstanding	1,550.6
52-week range (H)	4.45
52-week range (L)	2.92
3-mth avg daily vol:	653,779
Free Float	35%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn	21.0%
Scientex Leasing Sdn	9.2%
Scientex Infinity Sdn	9.1%

Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3518.6	3,630.1	4,019.2
EBIT	549.5	533.4	605.3
PBT	544.3	533.6	602.9
Net Profit (NP)	390.1	392.1	437.3
Core NP*	407.5	392.1	437.3
Consensus (NP)	N/A	441.1	507.7
Earnings Revision	N/A	-11%	-8%
Core EPS (sen)	26.3	25.3	28.2
Core EPS growth (%)	23.7	-3.8	11.5
NDPS (sen)	7.7	7.6	8.5
BVPS (RM)	1.65	1.83	2.03
Core PER (x)	16.2	16.8	15.1
PBV (x)	2.7	2.3	2.1
Net Gearing (x)	0.25	0.28	0.34
Net Div. Yield (%)	1.9	1.8	2.0



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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE July (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	976.8	906.5	8%	772.2	26%	2685.6	2564.0	5%
EBIT	148.6	149.2	0%	106.4	40%	424.5	365.7	16%
Interest income	3.3	2.7	19%	2.2	46%	9.6	7.9	21%
Finance costs	(3.0)	(2.4)	24%	(3.9)	-25%	(7.6)	(13.5)	-44%
PBT	148.9	149.5	0%	104.7	42%	426.5	360.1	18%
Taxation	(32.3)	(28.4)	14%	(28.7)	13%	(88.9)	(90.8)	-2%
Net Profit	116.6	121.1	-4%	76.0	53%	337.6	269.2	25%
Minority interest	(6.7)	(8.9)	-25%	(6.4)	5%	(23.0)	(21.2)	9%
PATAMI	109.9	112.2	-2%	69.6	58%	314.6	248.1	27%
Core PATAMI	110.0	101.9	8%	70.9	55%	304.1	252.3	21%
Core EPS (sen)	7.1	6.6	8%	4.6	55%	19.6	16.3	21%
NDPS (sen)	4.0	0.0	N.A.	10.0	-60%	4.0	10.0	-60%
EBIT margin	15.2%	16.5%		13.8%		15.8%	14.3%	
PBT margin	15.2%	16.5%		13.6%		15.9%	14.0%	
Core PATAMI margin	11.3%	11.2%		9.2%		11.3%	9.8%	
Effective tax rate	21.7%	19.0%		27.4%		20.8%	25.2%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE July (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover								
Manufacturing	671.5	618.8	9%	614.4	9%	1874.1	1929.7	-3%
Property	305.3	287.8	6%	157.8	93%	811.5	634.3	28%
Group Turnover	976.8	906.5	8%	772.2	26%	2685.6	2564.0	5%
Segment Results								
Manufacturing	64.5	63.0	2%	59.3	9%	196.1	179.9	9%
Property	84.0	86.2	-2%	122.8	-32%	228.4	185.8	23%
Group EBIT	148.6	149.2	0%	182.0	-18%	424.5	365.7	16%
EBIT Margin								
Manufacturing	9.6%	10.2%		9.6%		10.5%	9.3%	
Property	27.5%	29.9%		77.8%		28.1%	29.3%	
Group EBIT Margin	15.2%	16.5%		23.6%		15.8%	14.3%	

Source: Company, Kenanga Research

SoP Valuations

Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	2,857	12.5	228.6
Manufacturing	3,027	14.5	208.7
Sum-of-Parts (RM m)	5,885		437.3
No. of Shares (m)	1550.6		
Target Price (RM)	3.80		

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)	
STOCKS UNDER COVERAGE																	
SCGM BHD	2.48	475.0	Y	04/2021	13.1%	16.1%	88.2%	1.8%	27.2	14.4	14.2	2.8	2.5	18.3%	2.8%	2.62	OP
SCIENTEX BHD	4.26	6,605.5	Y	07/2021	3.2%	10.7%	-3.8%	11.5%	16.2	16.8	15.1	2.7	2.3	16.1%	1.8%	3.80	MP
SLP RESOURCES BHD	1.05	332.8	Y	12/2021	22.3%	3.1%	33.3%	4.9%	20.7	15.5	14.8	1.8	1.8	11.8%	5.2%	1.22	OP
THONG GUAN INDUSTRIES BHD	2.64	1,000.1	Y	12/2021	12.8%	8.6%	14.5%	8.5%	13.1	11.4	10.5	1.5	1.4	12.8%	1.7%	3.38	OP
TOMYPAK HOLDINGS	0.540	232.6	Y	12/2021	12.8%	3.8%	4790.0%	7.2%	2,325.2	47.6	44.4	1.3	1.2	2.6%	0.0%	0.570	MP
Simple Average					12.8%	8.5%	984.5%	6.8%	480.5	21.2	19.8	2.0	1.9	12.3%	2.3%		

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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