

11 June 2024

Scientex

Acquiring 350-Acre Land in Johor Bahru

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SCIENTX is acquiring 350 acres of land in Johor Bahru for RM381m cash, to be developed into a mixed-property project focusing on affordable homes. We believe SCIENTX is paying the market price for the piece of land adjacent to its existing projects. We maintain our forecasts but nudge up our TP by 3% to RM3.95 (from RM3.85). Maintain UNDERPERFORM on rich valuations.

SCIENTX is acquiring freehold land measuring 350 acres in Mukim Pulai, Johor Bahru from Singapore-incorporated Lee Pineapple Company (Pte) Ltd for RM381m cash, translating to RM25 per sq ft (psf). The proposed acquisition is expected to be completed in 1HCY25.

It intends to develop the land into a mixed property project focusing on affordable homes. The land is adjacent to its existing projects, namely Taman Pulai Mutiara, Taman Pulai Mutiara 2, and Taman Pulai Duta, allowing it to tap into its in-house resources there. This will be SCIENTX's fourth project in Pulai. SCIENTX has thus far done well in Pulai, with more than 90% of its launched units sold.

We believe SCIENTX is getting a fair deal here, judging from: (i) asking prices for agricultural land in the surrounding areas that range from RM18 to RM25 psf, (ii) MAHSING's recent acquisition of 100-acre land for RM23 psf in the same area, and (iii) ECOWLD's purchase of 240-acre land at RM43 psf (which is nearer to established commercial areas and the city centre).

The acquisition will increase its net debt and net gearing from RM531m and 0.15x as at end-Jan 2024 to RM912m and 0.25x, respectively, but still manageable.

Forecasts. Maintained as the contribution from the new project on the land is unlikely to come in within our forecast periods.

Valuations. However, we raise our SoP-TP by 3% to RM3.95 (from RM3.85) as the project increases our valuation by RM203m based on a 50% discount applied to its potential RNAV. We arrive at NPV of Profit for the land of RM406m, based on net margin assumption of 26% and discount rate of 10%. We maintain our valuation basis of 12x FY25F PER for its packaging business, at a premium to sector's average forward PER of 10x to reflect its size, being one of the largest players in the region. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 6).

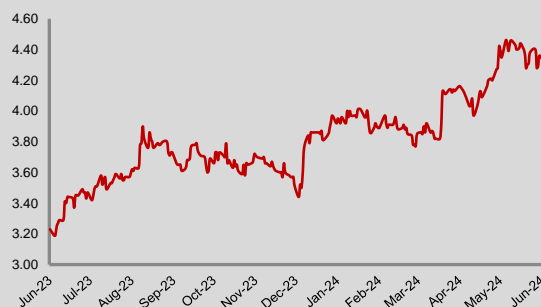
Investment case. We like SCIENTX for: (i) its competitiveness in the global plastic packaging industry given its size and low-cost structure (especially, as compared with its overseas rivals), and (ii) its strong foothold in the affordable housing segment in Johor. However, we believe valuations have become rich after the recent run-up in its share price. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a stronger and sooner recovery in the global economy, (ii) easing of input costs, and (iii) lower mortgage rates improving affordability for its properties.

UNDERPERFORM ↔

Price: **RM4.32**
Target Price: **RM3.95** ↑

Share Price Performance



KLCI	1,614.37
YTD KLCI chg	11.0%
YTD stock price chg	13.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	6,701.5
Shares Outstanding	1,551.3
52-week range (H)	4.50
52-week range (L)	3.18
3-mth avg. daily vol.	929,650
Free Float	33%
Beta	0.9

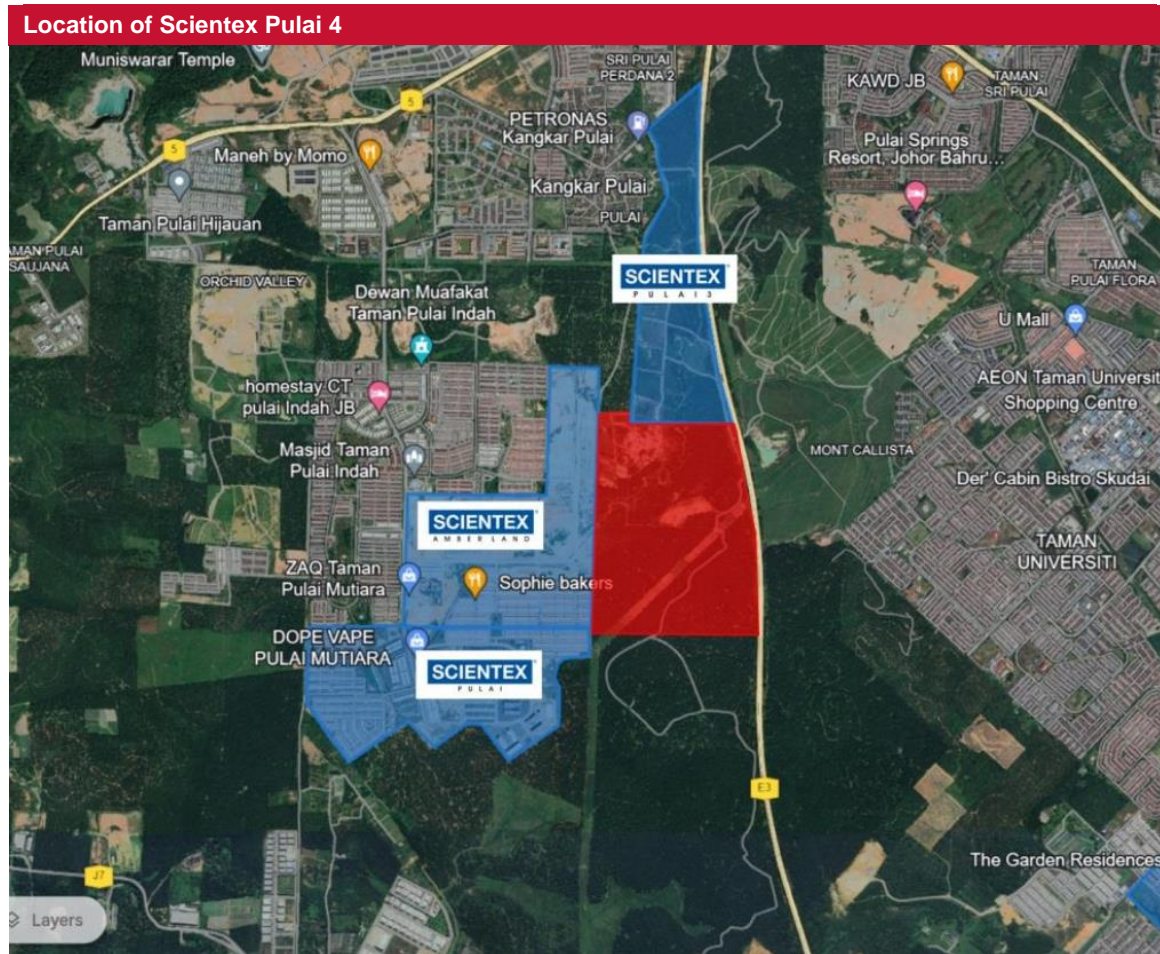
Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	10.8%
Scientex Leasing Sdn Bhd	9.1%

Summary Earnings Table

FYE Jul (RM m)	2023A	2024F	2025F
Turnover	4076.9	4724.2	4959.3
EBIT	589.6	755.9	793.5
PBT	568.7	726.0	751.3
Net Profit (NP)	438.1	547.7	566.8
Core NP	414.7	547.7	566.8
Consensus (NP)	-	548.3	592.9
Earnings Revision	-	-	-
Core EPS (sen)	26.7	35.3	36.5
Core EPS Growth (%)	4.9	32.1	3.5
NDPS (sen)	10.0	10.6	11.0
BVPS (RM)	2.2	2.4	2.7
Core PER (x)	16.2	12.2	11.8
PBV (x)	2.0	1.8	1.6
Net Gearing (x)	0.2	0.2	0.1
Net Div. Yield (%)	2.3	2.5	2.5

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Source: Company

SCIENTEX's Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Valuation Basis
Packaging	2,245	12x FY25F PER
Property	3,915	50% discount to RNAV (see the following table)
Total	6,159	
Paid-up Capital (m shares)	1,551	
SoP per share / TP (RM)	3.95	

Source: Kenanga Research

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RNAV of SCIENTX's Property Development Projects

Project	Outstanding GDV (RM m)	NPV of Profit (RM m)
Scientex Tasek Gelugor	418	82
Scientex Ipoh	984	194
Scientex Rawang	711	140
Scientex Kundang Jaya	1,040	166
Scientex Seremban	810	129
Taman Muzaffar Heights	721	142
Scientex Durian Tunggal	356	70
Scientex Jasin	4,658	744
Taman ScientexPasir Gudang	97	19
Taman Scientex Kulai	282	56
Taman Mutiara Mas	1,166	186
Taman Scientex Senai	1,984	317
Taman Pulau Mutiara	2,600	415
Scientex Kota Tinggi	167	33
Scientex Sg Petani	500	99
Scientex Sungai Dua	1,700	272
ScientexJenjarom	1,384	221
Scientex Kulai	1,999	319
*Scientex Muar	1,333	213
*Scientex Bestari Jaya	2,238	358
*Scientex Seberang Perai Selatan	3,083	493
*Scientex Pulau 4	2,543	406
<i>*pending completion of land acquisition</i>		
	30,774	5,075
Unbilled Sales (as of Jan-2024)	1,500	338
Property Shareholders Fund		2,416
Total RNAV (RM m)		7,829
Discount to RNAV (%)		50%
Discounted RNAV		3,915

Source: Kenanga Research, Company

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Income Statement

FYE Jul (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	3656.0	3985.3	4076.9	4724.2	4959.3
EBITDA	710.6	675.5	713.5	880.5	912.2
Depr & Amort	110.2	114.5	123.9	124.7	118.7
EBIT	600.3	561.0	589.6	755.9	793.5
Finance Income	601.0	548.3	568.7	726.0	751.3
PBT	-115.2	-115.7	-119.7	-152.5	-157.8
Taxation	28.5	22.7	10.8	25.8	26.7
Net Profit	457.2	409.9	438.1	547.7	566.8
Core Net Profit	443.8	395.5	414.7	547.7	566.8

Balance Sheet

FYE Jul (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	1382.7	1463.8	1558.2	1483.5	1464.9
Other FA	1772.2	2113.6	1875.5	2375.5	2975.5
Inventories	387.0	449.4	377.1	480.6	498.8
Receivables	891.0	858.5	861.5	828.4	849.9
Other CA	418.6	393.2	475.3	447.0	436.8
Cash	243.3	191.2	166.4	283.3	445.3
Total Assets	5094.7	5469.6	5314.0	5898.4	6671.1
Payables	708.2	820.3	790.3	916.7	964.7
ST Borrowings	818.8	921.5	766.8	816.8	866.8
Other ST Liability	39.6	37.6	30.7	30.7	30.7
LT Borrowings	250.0	70.0	70.0	70.0	0.0
Other LT liability	127.1	131.7	144.9	144.9	144.9
Net Assets	2895.7	3109.6	3392.2	3826.0	4527.5
Shr. Equity	2895.7	3109.6	3392.2	3775.6	4172.4
Minority Interest	201.5	198.1	214.1	188.3	161.6
Total Equity	3097.2	3307.7	3606.3	3963.9	4334.0

Cashflow Statement

FYE Jul (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	699.6	738.3	806.0	831.2	1032.1
Investing CF	-776.5	-667.7	-270.0	-550.0	-700.0
Financing CF	-93.0	-122.7	-560.7	-164.3	-170.1

Financial Data & Ratios

FYE Jul	2021A	2022A	2023A	2024F	2025F
Growth (%)					
Revenue	3.9	9.0	2.3	15.9	5.0
EBITDA	8.2	-4.9	5.6	23.4	3.6
EBIT	9.3	-6.5	5.1	28.2	5.0
PBT	10.4	-8.8	3.7	27.7	3.5
Net Profit	17.2	-10.4	6.9	25.0	3.5
Core Net Profit	8.9	-10.9	4.9	32.1	3.5
Profitability (%)					
EBITDA Margin	19.4	16.9	17.5	18.6	18.4
EBIT Margin	16.4	14.1	14.5	16.0	16.0
PBT Margin	16.4	13.8	13.9	15.4	15.1
Net Margin	12.1	9.9	10.2	11.6	11.4
Effective Tax Rate	-19.2	-21.1	-21.1	-21.0	-21.0
ROE	15.3	12.7	12.2	14.3	12.5
ROA	8.7	7.2	7.8	9.3	8.5
DuPont Analysis					
Net Margin (%)	12.1	9.9	10.2	11.6	11.4
Assets Turnover (x)	0.7	0.7	0.8	0.8	0.7
Leverage Factor (x)	1.6	1.7	1.5	1.5	1.5
ROE (%)	15.3	12.7	12.2	14.3	12.5
Leverage					
Debt/Asset (x)	0.21	0.18	0.16	0.15	0.13
Debt/Equity (x)	0.35	0.30	0.23	0.22	0.20
Net Debt/(Cash)	876.5	980.3	670.4	603.6	491.6
Net Debt/Equity (x)	0.27	0.24	0.19	0.15	0.10
Valuations					
Core EPS (sen)	28.6	25.5	26.7	35.3	36.5
DPS (sen)	9.00	9.00	10.00	10.59	10.96
BVPS (RM)	1.9	2.0	2.2	2.4	2.7
Core PER (x)	15.1	16.9	16.2	12.2	11.8
N. Div. Yield (%)	2.08	2.08	2.31	2.45	2.54
PBV (x)	2.3	2.2	2.0	1.8	1.6

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (R'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.05	1.50	42.9%	1,005.4	Y	05/2024	8.5	11.2	20.5%	36.7%	12.3	9.4	1.7	14.9%	1.0	1.0%
BM GREENTECH BHD	UP	1.78	1.15	-35.4%	918.5	Y	03/2025	6.7	7.2	2.7%	7.0%	26.6	24.9	3.4	13.3%	1.8	1.0%
BP PLASTICS HOLDINGS BHD	MP	1.41	1.42	0.7%	396.9	Y	12/2024	12.1	14.1	1.5%	16.8%	11.7	10.0	1.4	12.5%	6.5	4.6%
HPP HOLDINGS BHD	MP	0.355	0.320	-9.9%	137.9	Y	05/2024	0.7	2.2	-69.9%	203.6%	49.2	16.2	1.1	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.835	0.450	-46.1%	448.7	Y	12/2024	2.0	4.4	158.5%	125.5%	42.3	18.8	0.4	1.0%	2.0	2.4%
SCIENTEX BHD	UP	4.32	3.95	-8.6%	6,701.5	Y	07/2024	35.3	36.5	32.1%	3.5%	12.2	11.8	1.7	14.5%	11.0	2.5%
SLP RESOURCES BHD	OP	0.960	1.16	20.8%	304.3	Y	12/2024	5.8	7.0	68.8%	20.7%	16.5	13.7	1.6	9.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.435	0.500	14.9%	238.3	Y	06/2024	3.7	4.3	112.8%	14.0%	11.6	10.2	1.2	10.9%	1.3	2.9%
THONG GUAN INDUSTRIES BHD	OP	2.05	2.86	39.5%	822.0	Y	12/2024	25.5	29.8	22.1%	16.6%	8.0	6.9	0.8	10.3%	5.5	2.7%
Sector Aggregate					10,973.4					42.6%	11.8%	12.8	11.5	1.4	11.0%		2.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	☆	
SPECIFIC	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★	★		
	Resource Management	★	★	★	★	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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