



Scientex Berhad

New Land in Kulai

TP: RM8.50 (+33.8%)

Last Traded: RM6.70

BUY

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TA Research Team Coverage

Tel: +603-2072 1277 (ext: 9602)

damia@ta.com.my

www.taonline.com.my

Land acquisition

Yesterday, Scientex Berhad announced that its wholly-owned subsidiary, Scientex Quatari Sdn Bhd (SQSB) has entered into a sale and purchase agreement (SPA) with Dahlia Utama Sdn Bhd (DUSB) to acquire two parcels of land situated in Kulai, Johor with approximate area of 121.2 acres for a total cash consideration of RM123.6mn.

The Land

The average land cost for these two pieces of freehold lands, measuring 2.99 acres (RM5.1mn) and 118.20 acres (RM5.2mn), work out to RM40psf and RM23psf (see Table 2). This is higher than what the company paid for its Kulai land (RM13.5psf) in 2013 but within the current market price range between RM20psf and RM60psf. The land is surrounded by the Taman Aman Senai residences (north bound) Senai Highway (north-east bound), and Nort-South Highway (south bound).

Figure 1: Estimated Location of the Land (Shaded in Green)



Source: TA Research, Bursa/Google

Figure 2: Land Information and Estimated Price/psf

Title	Land Category	Acres	Sqf (mn)	Price (RM mn)	Price (RM/psf)
Lot 48172	Bangunan	2.99	0.13	5.21	40
PTD 104532	Tiada	118.20	5.15	118.43	23
Total		121.20	5.28	123.64	

Source: TA Research, Bursa

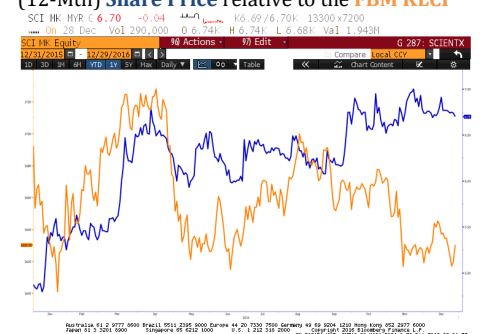
Share Information	
Bloomberg Code	SCI MK
Stock Code	4,731
Listing	Main Market
Share Cap (mn)	460.9
Market Cap (RMmn)	3,088.0
Par Value	0.5
52-wk Hi/Lo (RM)	7.08 / 4.72
12-mth Avg Daily Vol ('000 shrs)	407.3
Estimated Free Float (%)	33.0
Beta	0.5
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	10.0
Lim Teck Meng Sdn Bhd	8.1
Sim Swee Tin Sdn Bhd	5.3

Forecast Revision		
	FY17	FY18
Forecast Revision (%)	0.0	0.0
Core Net Profit (RMm)	319.1	384.8
Consensus	311.8	359.2
TA's / Consensus (%)	102.3	107.1
Previous Rating	Buy (Maintained)	

Financial Indicators		
	FY17	FY18
Net debt/ equity (%)	48.0	54.8
ROE (%)	21.6	21.9
ROA (%)	11.4	11.1
NTA/Share (RM)	2.2	2.7
Price/NTA (x)	3.1	2.5

Share Performance (%)		
Price Change	SCIENTEX	FBM KLCI
1 mth	(1.2)	0.2
3 mth	(0.7)	(2.4)
6 mth	3.9	(0.7)
12 mth	35.9	(3.3)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Prospects for the Land

Management advised that the land is strategically located. The purchase will boost Scientex's existing landbank in the area, especially given that the land is of close proximity to the company's existing Senai and Pulai developments. This will allow the company to leverage on operational efficiencies and generate better margins through economies of scale.

Figure 3: Scientex Existing Property Developments

Location	Acres	GDV (RMmn)	Use
Senai	250	910	Industrial/Residential/Commercial
Pulai	326	3,000	Residential/Commercial

Source: TA Research, Bursa

Our View

Overall, we are positive on this announcement as this SPA is in line with the company's long-term growth plan for the next eight to ten years. We are still expecting Scientex to launch RM580mn worth of projects for FY17.

Forecast

No change to our FY17 and FY18 earnings, pending finalization of the development plan and project GDV.

Recommendation

We maintain our SOP-valuation **RM8.50**/share for Scientex. We like Scientex for the ability to leverage on its existing operations for efficiencies, which would reflect positively on the company's long-term earnings. Maintain **Buy**

Earnings Summary

FYE July 31 (RM'mn)	2014	2015	2016	2017F	2018F
Revenue	1,589.7	1,801.7	2,201.0	3,095.3	3,670.5
Core EBIT	187.5	220.7	312.6	414.3	490.2
EI	(2.8)	(0.6)	1.9	0.0	0.0
D&A	(39.5)	(43.8)	(54.5)	(77.2)	(87.8)
Reported PBT	186.3	221.0	306.3	403.0	463.0
Core PBT	183.5	220.4	308.2	403.0	463.0
Taxation	(34.8)	(58.9)	(59.8)	(78.6)	(90.3)
Minority Interest	(3.1)	(3.9)	(5.7)	(9.7)	(11.2)
Reported Net Profit	148.5	158.2	240.9	314.7	361.6
Core Net Profit	145.7	157.6	242.7	314.7	361.6
Core EPS * (sen)	31.7	34.3	52.8	68.4	78.6
Dividend / Share * (sen)	10.0	11.0	16.0	20.0	23.0
Div Yield (%)	1.5	1.6	2.4	2.4	3.0

Cash Flow

FYE July 31 (RM'mn)	2014	2015	2016	2017F	2018F
PBT	186.3	221.0	306.3	403.0	463.0
D&A	39.5	43.8	54.5	77.2	87.8
Interest expense	7.1	8.3	17.4	17.2	20.3
Interest income	(2.1)	(4.2)	(7.4)	(6.2)	(15.2)
Others	(4.6)	0.5	4.5	0.0	0.0
Cash flow before WC	226.1	269.3	375.3	489.6	553.1
Changes in WC					
Inventories	(23.1)	(2.6)	(7.0)	(38.1)	(40.3)
Receivables	(19.8)	(45.8)	(34.8)	(122.1)	(87.9)
Payable	29.2	20.6	56.4	84.2	88.7
Others	(13.2)	(40.1)	28.0	0.0	0.0
Total working capital	(35.4)	(32.1)	70.4	(71.4)	(8.4)
Income tax paid	(37.3)	(45.4)	(65.0)	(78.6)	(90.3)
Others	191.1	237.1	445.4	419.8	554.5
CFO	153.8	191.8	380.4	341.2	464.2
Investing Cash Flow					
Capex	(65.7)	(100.0)	(281.4)	(300.0)	(200.0)
Others	(83.8)	60.9	(279.2)	6.2	15.2
CFI	(149.5)	(39.1)	(560.7)	(293.8)	(184.8)
Financing Cash Flow					
Net change in debts	(8.0)	(120.7)	217.6	236.3	130.0
Dividends paid	(47.1)	(47.1)	(49.8)	(94.4)	(108.5)
Finance costs paid	(7.2)	(8.3)	(17.4)	(17.2)	(20.3)
Others	(10.4)	30.2	39.7	0.0	0.0
CFF	(72.7)	(145.8)	190.2	20.0	4.0
Net change	(68.4)	6.9	10.0	67.4	283.5
Beginning cash	152.2	83.8	90.6	100.6	168.0
Ending cash	83.8	90.6	100.6	168.0	451.4

* Based on enlarged share base

FYE July 31 (RM'mn)	2014	2015	2016	2017F	2018F
PPE	552.1	642.8	952.5	1,175.3	1,287.5
Investment prop. + other inv.	9.6	24.1	25.0	25.0	25.0
Land held for prop. dev.	260.4	268.6	447.0	447.0	447.0
Associates & JV	37.5	41.5	48.7	48.7	48.7
Total Non-Current Assets	859.5	979.1	1,489.8	1,712.6	1,824.8
Prop. Dev. costs	104.6	136.5	174.7	174.7	174.7
Inventories	109.0	112.0	137.0	175.1	215.4
Receivables	243.5	321.7	350.7	472.8	560.7
Cash	83.8	90.6	100.6	168.0	451.4
Tax recoverable	0.0	0.0	0.0	0.0	0.0
Total Current Assets	540.8	660.8	763.0	982.8	1,337.5

FYE July 31 (RM'mn)	2014	2015	2016	2017F	2018F
Total Assets	1,400.4	1,639.9	2,252.8	2,695.4	3,162.3
Share Capital	115.0	115.0	115.0	115.0	115.0
Reserves	64.3	137.8	0.0	0.0	0.0
Retained profits	533.4	689.2	1,060.2	1,280.4	1,533.5
Shareholders' funds	712.7	942.0	1,175.2	1,395.4	1,648.5
MI	22.7	62.8	66.5	76.2	87.4
Total Equity	735.4	1,004.8	1,241.7	1,471.7	1,735.9
Non-Current Liabilities					
Loans & Borrowings	77.5	75.5	238.9	445.2	545.2
Others	40.9	59.5	60.7	60.7	60.7
Total Non-Current Liabilities	118.5	135.0	299.5	505.8	605.8
Current Liabilities					
Loans & Borrowings	262.9	149.9	232.7	262.7	292.7
Trade and other payables	254.4	308.3	431.2	520.0	639.8
Others	29.2	42.0	47.6	47.6	47.6
Total Current Liabilities	546.5	500.1	711.6	830.4	980.1
Total Equity and Liabilities	1,400.4	1,639.9	2,252.8	2,695.4	3,162.3

Ratios

FYE July 31 (RM'mn)	2014	2015	2016	2017F	2018F
Profitability ratios					
Gross Margin (%)	18.3	19.9	20.0	20.0	17.0
Core EBITDA Margin (%)	14.3	14.7	16.7	15.9	16.4
Core EBIT Margin (%)	11.8	12.3	14.2	13.4	13.4
PBT Margin (%)	11.7	12.3	13.9	13.2	13.8
Net Profit Margin (%)	9.3	8.8	10.9	10.3	10.7
Core Net Profit Margin (%)	9.2	8.7	11.0	10.3	10.7
Valuations					
PER (x)	20.9	19.6	12.9	9.8	8.0
NTA/share (x)	1.2	1.4	1.6	2.2	2.7
P/NTA (RM)	RM	5.6	4.8	4.2	3.1

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research