

10 August 2017

Scientex Berhad

Acquiring Land in Rawang

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SCIENTX has entered into an agreement for the proposed acquisition for a 65.3ac freehold land in Rawang for RM85.4m which is slated for mixed development. Project details are still sketchy with development plans and GDV yet to be finalised, but we estimate a GDV of RM592m (14.4% land cost to GDV ratio). We are neutral on the deal on minimal impact to earnings. We increase FY18E earnings by 4%. Maintain MARKET PERFORM, but increase TP to RM8.50 (from RM8.15).

Acquiring 65.3ac in Rawang. SCIENTX's wholly-owned subsidiary Scientex Park (M) Sdn Bhd has entered into an agreement with Medium Development Sdn Bhd for the proposed acquisition of a 65.3ac freehold land in Rawang, Gombak for RM85.4m, implying a price of RM30psf. The land is the Group's first foray into the Klang Valley and is slated for mixed development, but the total GDV, development cost, commencement and completion dates are yet to be determined. The acquisition will be funded by internally generated funds or bank borrowings, and is expected to be completed in 1HCY18 (2HFY18) (refer overleaf).

Land pricing decent. We were not overly surprised as management has always been on the look-out for land banks, and are neutral on the exercise as we do not expect significant impact to earnings. We are unable to derive a direct comparable for the said land due to minimal historical references. However, based on the assumptions of affordable residential units and a mixed development township, price per unit of RM650k on 14 units per acre, we derive a potential GDV of RM592m, implying 14.4% land cost to GDV ratio which we deem as decent. However, we note that land cost could increase on conversion premiums (from agricultural land to commercial) and re-zoning. As project details are still sketchy with management yet to guide on the finalised development plans and potential GDV, land cost to GDV may change subject to the residential to commercial mix and pricing strategies.

Outlook. The Group expects its consumer packaging plant expansion to be completed by end-CY17, and will focus on ramping up capacity going forward, while the industrial packaging segment is focused on expansion in the US with contributions accreting mostly in FY19. All in, we expect total capacity to increase to 304-340k MT p.a. in FY17-18, and sales tonnage to ramp up by c.16-27% YoY as plant utilisation increases throughout FY17-18. We believe the Group will allocate c. RM260-140m for capex in FY17-18, which we have accounted for in our estimates. As for the property segment, the Group has launched 10 new projects worth RM395m up to 9M17, which includes maiden launches in Ipoh, consisting mainly affordable properties.

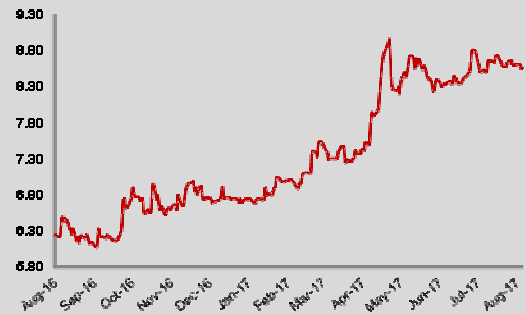
Maintain FY17E but increase FY18E earnings by 4%. The launch date is yet to be finalised, but we anticipate launching in 2H18, which would increase FY18E earnings by 4.3% to RM347.3m. Going forward, FY17E net gearing will remain unchanged at 0.18x, while for FY18, it will increase marginally to 0.06x (from net cash).

Maintain MARKET PERFORM with a higher TP of RM8.50 (from 8.15). Our TP is based on our Sum-of-Parts (SoP) FY18E valuations, applying an unchanged 6.8x PER for the Property segment, which is at a 10% discount to small-mid-cap property players due to SCIENTX's exposure in Johor, and 17.6x applied PER for the manufacturing segment. We are comfortable with our MARKET PERFORM call as foreseeable upsides and risks have been accounted for.

MARKET PERFORM ↔

Price : **RM8.56**
Target Price : **RM8.50** ↑

Share Price Performance



KLCI	1,777.94
YTD KLCI chg	8.3%
YTD stock price chg	27.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,139.3
Issued shares	483.6
52-week range (H)	8.99
52-week range (L)	6.01
3-mth avg daily vol:	177,654
Free Float	62%
Beta	0.4

Major Shareholders

Scientex Holdings Sd	20.8%
Scientex Leasing Sdn	9.6%
Lim Teck Meng Sdn Bh	7.8%

Summary Earnings Table

FYE Jul (RM m)	2016A	2017E	2018E
Turnover	2201.0	2789.6	3314.9
EBIT	312.6	342.2	440.4
PBT	306.3	340.7	444.9
Net Profit (NP)	240.9	265.8	347.3
Core NP*	248.0	265.8	347.3
Consensus (NP)	250.3	276.0	336.0
Earnings Revision	53.9	n.a.	+4%
Core EPS (sen)	48.6	52.1	68.1
Core EPS growth (%)	66.2	7.2	30.7
NDPS (sen)	16.0	15.6	20.4
BVPS (RM)	2.55	3.38	4.02
Core PER	17.8	16.4	12.6
PBV (x)	3.4	2.5	2.1
Net Gearing (x)	0.32	0.18	0.06
Net Div. Yield (%)	1.9	1.8	2.4

OTHER POINTS

Strategic location near matured developments. The land is strategically located, adjacent to Rawang AEON Shopping mall surrounded by a matured neighbourhood. It is 2km from the Rawang toll, and 5km from Rawang City Centre with accessibility to North-South Expressway, New Klang Valley Expressway (NKVE), Guthrie Corridor Expressway and LATAR Expressway.

We were not overly surprised as management has always on the look-out for land banks, and are neutral on the exercise as we do not expect significant impact to earnings. We are unable to derive a direct comparable for the said land due to minimal historical references. However, based on the assumptions of affordable residential units and a mixed development township, price per unit of RM650k on 14 units per acre, we derive a potential GDV of RM592m, implying 14.4% land cost to GDV ratio which we deem as decent. However, we note that land cost could increase on conversion premiums (from agricultural land to commercial) and re-zoning. At this juncture, project details are still scarce with management yet to guide on the finalised development plans and potential GDV. We note pricing may differ as land use conversion cost and re-zoning may not have been paid yet.

Risks to our call include; (i) higher-than-expected resin cost, (ii) weaker product demand from overseas, (iii) weaker-than-expected property sales, (iv) foreign currency risk from strengthening Ringgit, and (iv) new entrants/competition biting into its market share.

Rawang Land Details		
Land Details		
Land area	65.3 ac	
Tenure	Freehold	
Category of land use	Agricultural	
Proposed use	Mixed Development	
Registered owner	Medius Developments Sdn Bhd	
Proposed Purchase Consideration	RM85.4m	

Source: Kenanga Research, Company

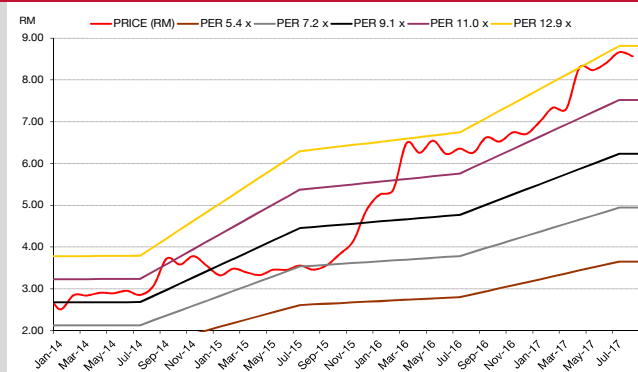
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Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E	FY Jul (RMm)	2014	2015A	2016A	2017E	2018E
Revenue	1590.5	1801.7	2201.0	2789.6	3314.9	Growth (%)					
EBITDA	229.5	268.8	367.1	431.1	538.3	Turnover	29.4	13.3	22.2	26.7	18.8
Depreciation	-39.9	-43.8	-54.5	-88.9	-97.9	EBITDA	29.2	17.1	36.6	17.4	24.9
Operating Profit	189.6	225.0	312.6	342.2	440.4	Operating Profit	29.8	18.6	38.9	9.5	28.7
Interest Exp	-7.1	-8.3	-13.7	-13.1	-7.2	PBT	30.3	18.6	38.6	11.2	30.6
Associate	3.8	4.2	7.4	11.7	11.7	Net Profit	34.6	6.6	52.3	10.3	30.7
Exceptionals	0.0	9.0	-7.1	0.0	0.0	Core Net Profit	34.6	0.5	66.2	7.2	30.7
PBT	186.3	221.0	306.3	340.7	444.9	Profitability (%)					
Taxation	-34.8	-58.9	-59.8	-68.4	-89.0	EBITDA Margin	14.4	14.9	16.7	15.5	16.2
Minority Interest	-3.1	-3.9	-5.7	-6.6	-8.6	Operating	11.9	12.5	14.2	12.3	13.3
Net Profit	148.5	158.2	240.9	265.8	347.3	PBT Margin	11.7	12.3	13.9	12.2	13.4
Core Net Profit	148.5	149.2	248.0	265.8	347.3	Net Margin	9.3	8.8	10.9	9.5	10.5
						Core N. Margin	9.3	8.3	11.3	9.5	10.5
						Eff. Tax Rate	18.7	26.6	19.5	20.1	20.0
						ROA	11.1	10.4	12.5	9.7	11.3
						ROE	22.1	19.1	23.9	18.3	18.4
						DuPont Analysis					
						Net Margin (%)	9.3	8.3	11.3	9.5	10.5
						Assets T/O (x)	1.1	1.1	1.0	0.9	1.1
						Leverage Fac	2.1	2.0	2.1	1.8	1.6
						ROE (%)	22.1	19.1	23.9	18.3	18.4
						Leverage					
						Debt/Asset (x)	0.2	0.1	0.2	0.2	0.1
						Debt/Equity (x)	0.5	0.2	0.4	0.4	0.1
						N. Casg/(Debt)	-256	-135	-371	-316	-127
						Net Debt/Eq (x)	0.36	0.14	0.32	0.18	0.06
						Valuations					
						EPS (sen)	29.1	29.3	48.6	52.1	68.1
						NDPS (sen)	21.0	22.0	16.0	15.6	20.4
						BV (RM)	1.40	1.85	2.55	3.38	4.02
						NTA (RM)	1.40	1.85	2.32	3.38	4.02
						PER	29.4	29.3	17.6	16.4	12.6
						Net Div. Yield	2.5	2.6	1.9	1.8	2.4
						PBV	6.1	4.6	3.4	2.5	2.1
						P/NTA	6.1	4.6	3.7	2.5	2.1
						EV/EBITDA	20.3	16.9	11.8	11.0	8.4

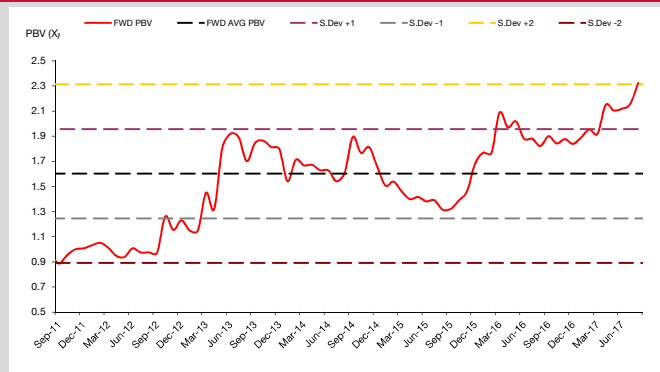
Balance Sheet					
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	551.8	642.8	952.5	1174.0	1341.5
Prepaid lease	0.0	0.0	0.0	0.0	0.0
Other	9.6	24.1	25.0	24.1	24.1
Other Fixed Assets	297.	310.1	512.3	644.5	644.5
Inventories	109.0	112.0	137.0	187.4	220.6
Receivables	243.5	321.7	350.7	497.3	563.7
Ot. Current	104.6	136.5	174.7	167.2	171.0
Cash	83.8	90.6	100.6	390.0	83.0
Total Assets	1400.1	1637.8	2252.8	3084.5	3048.4
Payables	272.1	328.6	458.8	543.7	657.2
ST Borrowings	262.9	149.9	232.7	412.8	129.7
Other ST	11.5	21.6	20.0	33.5	39.8
LT Borrowings	77.5	75.5	238.9	292.7	80.0
Other LT	40.9	57.4	60.7	78.2	89.5
Minority Interest	22.7	62.8	66.5	97.2	115.5
Net Assets	712.4	942.0	1175.2	1723.6	2052.1
Share Capital	115.0	115.0	115.0	593.2	593.2
Reserves	597.7	827.0	1060.2	1130.4	1458.9
Shareholder	712.7	942.0	1175.2	1723.6	2052.1

Cashflow Statement					
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E
Operating CF	154	303.3	380.4	577.4	684.0
Investing CF	-150	-170.0	-560.7	-280.0	-180.0
Financing CF	-73	-132.9	190.2	29.1	-607.1
Change In Cash	-68	0.4	10.0	326.5	-103.1
Free CF	4	133.3	-180.3	297.4	504.0

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

10 August 2017

Peer Comparison

NAME	Price (9/8/17)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY16/17	FY17/18	FY18/19				FY15/16	FY16/17	FY17/18				
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.56	4,139.3	17.6	16.4	12.6	1.8%	23.9	2.5	248.0	265.8	347.3	7.2%	30.7%	8.50	MARKET PERFORM
SLP RESOURCES BHD	2.41	607.5	21.7	22.0	16.4	1.8%	19.4	4.0	29.3	28.9	38.7	-1.3%	34.0%	3.00	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.16	551.1	14.3	12.8	11.2	3.4%	12.4	1.8	53.6	60.0	68.2	11.9%	13.7%	5.41	OUTPERFORM
SCGM BHD	3.03	586.6	28.6	20.9	16.9	2.4%	13.7	2.3	22.6	32.7	38.0	44.3%	16.5%	3.35	MARKET PERFORM
TOMYPAK HOLDINGS	1.00	419.3	29.3	23.5	18.9	2.9%	11.7	2.5	19.0	23.8	29.4	25.1%	23.8%	1.00	MARKET PERFORM
Simple Average			22.3	19.1	15.2										
Weighted Average			19.5	17.5	13.7										

Source: Kenanga Research

*Note that SLP Ex-All TP is RM2.63 (post dilution from Placement and Bonus Issue)

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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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