

7 December 2017

Consumer Non-cyclical | Packaging

Scientex

Neutral (Maintained)

Positives Priced In

Target Price: MYR8.91
 Price: MYR8.58
 Market Cap: USD1,021m
 Bloomberg Ticker: SCI MK

We believe Scientex's earnings growth outlook would be underpinned by both operating divisions. Its manufacturing division is expected to be supported by capacity expansion and a ramp-up in utilisation rate, and the resulting economies of scale should see profit margins expand. Meanwhile, we also expect the solid performance of its property division to continue, thanks to its strategy to focus on affordable housing. The longer-term prospects are underpinned by a sizeable pipeline GDV of MYR8bn. 1QFY18 results were below our expectations, which prompted us to cut FY18F-19F earnings by 12% and 6% respectively. However, our SOP-based TP is tweaked higher to MYR8.91 (from MYR8.40, 4% upside) after rolling over our valuation base year. Although we continue to like the company for its capacity expansion plans and sound strategy in property development, valuations appear to have priced in the positives. Maintain NEUTRAL.

Results below our expectations. Scientex's 1QFY18 (Jul) net profit of MYR73.4m (+37% YoY) was below our expectations at 19% of our full-year forecast but within consensus estimates (22% of street's). The negative deviation could be attributable to our overly optimistic assumption of its manufacturing margin. YoY, 1QFY18 revenue jumped 23% to MYR659m, driven by commendable growth in both operating divisions, namely manufacturing (+24% to MYR469m) and property development (+22% to MYR190m). 1QFY18's operating profit contribution from the manufacturing pillar surged 46% to MYR34.7m, thanks to the higher sales on the back of capacity expansion. Meanwhile, its property development wing also generated an operating profit growth of 30% to MYR58.6m, driven by strong progress billing and encouraging take-up of new launches.

Fine-tuning forecasts. Our FY18F-19F earnings were trimmed by 12% and 6% respectively after assuming more realistic margins into our earnings model. We also take the opportunity to introduce our FY20 forecast, which implies an EPS growth of 12%.

Outlook. Earnings growth moving forward is expected to be supported by both operating divisions. The capacity expansion and ramp-up in utilisation rate should support the manufacturing sales, and the resulting economies of scale should help to expand profit margin. Meanwhile, the property development business is expected to stay solid, given its strategy to focus on affordable housing. The group is targeting to launch new property projects worth MYR800m-1bn in FY18 vis-à-vis MYR617m in FY17, while the pipeline GDV of MYR8bn should ensure the sustainability of its long-term earnings. Risks to our recommendation include a sharp slowdown in property markets and better-than-expected operating efficiency.

Figure 1 : Results review

FYE Jul (MYRm)	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenue	534.7	646.1	658.7	2.0	23.2	Driven by both operating divisions, thanks to capacity expansion and solid property sales
EBIT	69.8	85.5	93.2	9.0	33.6	Higher contribution from both operating divisions, thanks to better economies of scale and higher property sales
EBIT margin (%)	13.0	13.2	14.2			
Interest expense	(3.5)	(3.2)	(2.3)	(25.9)	(32.7)	
Interest income	1.0	1.9	1.7	(13.9)	59.0	
Associates	0.0	0.0	0.0	nm	nm	
Pretax profit	67.3	84.3	92.6	9.8	37.5	
Pretax margin (%)	12.6	13.0	14.1			
Tax	(13.4)	(11.1)	(19.2)	73.2	42.8	
Effective tax rate (%)	19.9	13.1	20.7			
Net profit	53.0	72.1	72.4	0.4	36.6	Below our expectations (19% of FY forecast) but within consensus estimates (22%)
Net margin (%)	9.9	11.2	11.0			

Source: Company data, RHB

Forecasts and Valuations	Jul-16	Jul-17	Jul-18F	Jul-19F	Jul-20F
Total turnover (MYRm)	2,201	2,403	3,138	3,968	4,305
Reported net profit (MYRm)	241	256	333	396	444
Recurring net profit (MYRm)	241	256	333	396	444
Recurring net profit growth (%)	55.4	6.2	30.0	19.1	12.0
Recurring EPS (MYR)	0.52	0.55	0.69	0.82	0.92
DPS (MYR)	0.16	0.16	0.21	0.25	0.28
Recurring P/E (x)	16.4	15.6	12.5	10.5	9.3
P/B (x)	3.36	2.61	2.35	2.03	1.76
P/CF (x)	10.6	19.1	10.6	11.1	8.0
Dividend Yield (%)	1.9	1.9	2.4	2.9	3.2
EV/EBITDA (x)	11.7	10.9	8.1	6.7	5.6
Return on average equity (%)	22.8	18.9	20.1	20.8	20.2
Net debt to equity (%)	29.9	17.2	8.3	net cash	net cash
Our vs consensus EPS (adjusted) (%)			3.2	14.3	0.0

Source: Company data, RHB

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