

21 June 2018

# Scientex Berhad

## 9M18 Below Expectations

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**9M18 core earnings of RM201.3m came below our (69%) and consensus (68%) estimates on weaker-than-expected recognition for the property segment. Dividends were also below (58%). We lower FY18-19E CNP by 13-8% on softer recognitions in FY18 and back-loaded launches in FY19. Even so, despite a lower TP of RM6.90 (from RM7.35), the steep share price decline YTD (23%) permits an upgrade to MARKET PERFORM (from UP).**

**9M18 core net profit of RM201.3m came in below our and consensus estimates at 69% and 68%, respectively. Top-line came in below, at 65%, which we believe was due to weaker-than-expected recognition for the property segment from latest projects such as Taman Scientex Durian Tunggal, Melaka and Scientex Meru, which are in the early stages of construction progress. Additionally, the segment was also impacted by longer-than-expected timeframe in attaining regulatory approval and permit for some of the projects due to uncertainty during the election period. A single tier interim dividend of 10.0 sen was announced, which was also below (58%) our FY18E dividend of 17.2 sen.**

**Results highlight. QoQ**, top-line declined by 5% mainly due to lower revenue recognized from the property segment (-17%), as recent launches are still in the early stages of progress billings, while the manufacturing segment declined marginally (-1%). As a result of lower contributions from the property segment, Group PBT margin also declined marginally by 0.7ppt. All in, CNP declined by 10% to RM61.1m. **YoY-Ytd**, CNP increased by 10% mainly driven by top-line growth (+8%) on better contributions from the manufacturing segment (+12%). This was on the back of flattish margin of 10.6% (vs. 10.4%).

**Outlook.** SCIENTX is focused on ramping up its plants utilization, targeting 70% over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. FY18 CNP growth will be driven by increased manufacturing capacity (+44% YoY) to 455k MT p.a. While we do not expect additional capacity in FY19, growth is premised on; (i) increased utilisation rate for the manufacturing segment in FY18-19 of 62-65%, and (ii) full-year contribution from KHPI in FY19.

**Lower FY18-19E CNP by 13-8% to RM256-293m** on lower revenue recognition in FY18, while we have also back-loaded some of FY19 launches on marginally lower recognitions. All in, we are expecting launches of RM700-800m in FY18-19 (vs. RM900-1,100m).

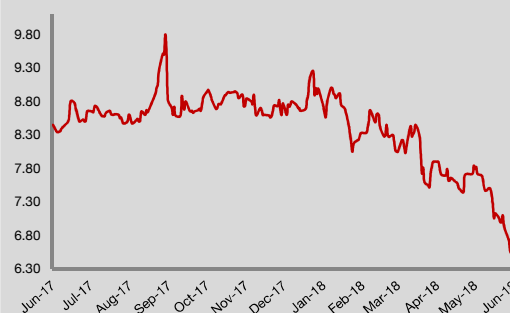
**Upgrade to MARKET PERFORM (from UP) but lower TP to RM6.90 (from RM7.35)** post lowering our earnings for FY19E valuations. Our TP is based on our Sum-of-Parts (SoP) FY19E valuations with; (i) an unchanged 6.8x PER for the property segment, which is at a 10% discount to small-mid-cap property players due to SCIENTX's exposure in the challenging Johor market, and (ii) 15.8x applied PER for the manufacturing segment. We are comfortable with our MARKET PERFORM as share price has seen a steep decline YTD (-23%) while we believe that we have accounted for foreseeable earnings risks going forward.

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

## MARKET PERFORM ↑

**Price :** RM6.71 ↑  
**Target Price :** RM6.90 ↓

### Share Price Performance



KLCI	1,709.75
YTD KLCI chg	-4.8%
YTD stock price chg	-22.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,280.7
Shares Outstanding	488.9
52-week range (H)	9.85
52-week range (L)	6.51
3-mth avg daily vol:	259,062
Free Float	61%
Beta	1.0

### Major Shareholders

Scientex Holdings Sdn Bhd	21.4%
Scientex Leasing Sdn Bhd	9.7%
Lim Teck Meng Sdn Bhd	7.9%

### Summary Earnings Table

FYE Jul (RM m)	2017A	2018E	2019E
Turnover	2403.2	2540.5	3216.1
EBIT	325.1	328.7	374.3
PBT	318.0	327.4	374.7
<b>Net Profit (NP)</b>	<b>255.9</b>	<b>255.7</b>	<b>292.7</b>
<b>Core NP*</b>	<b>255.2</b>	<b>255.7</b>	<b>292.7</b>
Consensus (NP)	n.a.	297.3	340.0
Earnings Revision	n.a.	-13%	-8%
Core EPS (sen)	50.0	50.1	57.4
Core EPS growth (%)	2.9	0.2	14.5
NDPS (sen)	15.2	15.0	17.2
BVPS (RM)	3.00	4.03	4.77
Core PER	13.4	13.4	11.7
PBV (x)	2.2	1.7	1.4
Net Gearing (x)	0.21	0.19	0.14
Net Div. Yield (%)	2.3	2.2	2.6

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**OTHER POINTS**

<b>Results Highlights</b>								
	<b>3Q</b>	<b>2Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>9M</b>	<b>9M</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY18</b>	<b>FY18</b>	<b>Chg</b>	<b>FY17</b>	<b>Chg</b>	<b>FY18</b>	<b>FY17</b>	<b>Chg</b>
Turnover	600.2	634.8	-5%	636.2	-6%	1893.6	1757.1	8%
EBIT	78.0	84.9	-8%	88.2	-12%	256.2	239.6	7%
Interest income	1.0	2.7	-64%	1.0	-7%	5.3	5.0	7%
Finance costs	(2.1)	(2.3)	-5%	(3.8)	-43%	(6.7)	(10.9)	-38%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>76.8</b>	<b>85.4</b>	<b>-10%</b>	<b>85.4</b>	<b>-10%</b>	<b>254.8</b>	<b>233.7</b>	<b>9%</b>
Taxation	(14.3)	(16.5)	-13%	(18.0)	-21%	(50.0)	(47.0)	6%
Profit after tax	62.5	68.9	-9%	67.4	-7%	204.8	186.7	10%
Minority interest	(1.4)	(0.9)	47%	(0.9)	47%	(3.3)	(3.0)	10%
<b>Net profit</b>	<b>61.1</b>	<b>68.0</b>	<b>-10%</b>	<b>66.5</b>	<b>-8%</b>	<b>201.5</b>	<b>183.7</b>	<b>10%</b>
<b>Core net profit</b>	<b>61.1</b>	<b>67.9</b>	<b>-10%</b>	<b>66.1</b>	<b>-8%</b>	<b>201.3</b>	<b>183.3</b>	<b>10%</b>
Core EPS (sen)	12.5	14.0	-11%	14.3	-12%	41.5	39.7	4%
NDPS (sen)	10.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
NTA/share (RM)	3.4	3.4	-1%	2.5	36%	3.4	2.5	36%
EBIT margin	13.0%	13.4%		13.9%		13.5%	13.6%	
Pretax margin	12.8%	13.5%		13.4%		13.5%	13.3%	
Core net profit margin	10.2%	10.7%		10.4%		10.6%	10.4%	
Effective tax rate	18.6%	19.3%		21.1%		19.6%	20.1%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>3Q</b>	<b>2Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>9M</b>	<b>9M</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY18</b>	<b>FY18</b>	<b>Chg</b>	<b>FY17</b>	<b>Chg</b>	<b>FY18</b>	<b>FY17</b>	<b>Chg</b>
<b>Turnover</b>								
Manufacturing	452.1	456.4	-1%	442.8	2%	1377.6	1234.4	12%
Property	148.1	178.3	-17%	193.4	-23%	516.0	522.7	-1%
<b>Group Turnover</b>	<b>600.2</b>	<b>634.8</b>	<b>-5%</b>	<b>636.2</b>	<b>-6%</b>	<b>1893.6</b>	<b>1757.1</b>	<b>8%</b>
<b>Segment Results</b>								
Manufacturing	34.3	31.6	9%	25.2	36%	100.6	79.1	27%
Property	43.7	53.3	-18%	63.0	-31%	155.6	160.4	-3%
<b>Group EBIT</b>	<b>78.0</b>	<b>84.9</b>	<b>-8%</b>	<b>88.2</b>	<b>-12%</b>	<b>256.2</b>	<b>239.6</b>	<b>7%</b>
<b>EBIT Margin</b>								
Manufacturing	8%	7%		6%		7%	6%	
Property	30%	30%		33%		30%	31%	
<b>Group EBIT Margin</b>	<b>13%</b>	<b>13%</b>		<b>14%</b>		<b>14%</b>	<b>14%</b>	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (20/6/18)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY18/19 NP Growth	FY19/20 NP Growth	Target Price	Rating
	(RM)		(RMm)	FY17/18	FY18/19				FY19/20	(%)	(%)				
<b>PLASTICS UNDER COVERAGE</b>															
SCIENTEX BHD	6.71	3,280.7	13.4	13.4	11.7	2.2%	18.9	1.7	255.2	255.7	292.7	0.2%	14.5%	6.90	MARKET PERFORM
SLP RESOURCES BHD	0.860	272.6	14.8	10.5	9.1	3.8%	10.2	1.3	18.3	26.0	30.0	42.1%	15.5%	1.30	OUTPERFORM
THONG GUAN INDUSTRIES BHD	2.55	347.3	9.8	12.3	11.9	2.8%	9.7	1.1	48.1	38.2	39.4	-20.6%	3.1%	2.25	UNDERPERFORM
SCGM BHD	1.85	356.6	17.4	20.6	18.7	2.4%	13.7	1.9	22.6	19.3	21.1	-14.6%	9.3%	1.45	MARKET PERFORM
TOMYPAK HOLDINGS	0.820	343.8	39.4	49.3	34.9	1.4%	7.1	2.3	11.6	9.3	13.1	-19.8%	40.9%	0.510	UNDERPERFORM
<b>Simple Average</b>			<b>19.0</b>	<b>21.2</b>	<b>17.2</b>										
<b>Weighted Average</b>			<b>15.5</b>	<b>16.4</b>	<b>13.8</b>										

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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