Scientex declares 10 sen dividend, 9MFY18 results within expectation

▶ Recommendation: Hold

FAIR Value: RM7
by TA Securities Holdings Bhd (June 21)

Review

SCIENTEX Bhd's 9MFY18 earnings came in within our estimates at 75% but below consensus at 64% of full-year forecasts.

For this quarter, the company declared a single-tier interim dividend of 10 sen/share, which was four sen higher than the previous year.

Manufacturing. 9MFY18 operating profit increased by 27.1% YoY to RM100.6m due to better export sales performance.

Note that export sales accounted for 77% of the manufacturing division. QoQ, 3QFY18 operating profit improved by 8.6% to RM34.3mn despite revenue reduced slightly by less than 1% to RM452.1m. This was due to better product mix. Note that Scientex has an utilisation rate of close to 65%. It aims to reach 70% by FY20 out of the total capacity of 455,000 tonnes/year.

Property. 9MFY18 operating profit declined by 3% YoY to RM155.6m as revenue declined by 1.3% to RM516m. The decline was mainly due to slower progress billing as those new projects were in early stages of construction progress. QoQ, operating profit declined by 18.1% to RM43.7m as revenue reduced by 17% QoQ to RM148.1m due to the same reasons above. Note that projects launched in Taman Scientex Durian Tunggal, Melaka and Scientex Meru were all in early stages of construction progress.

Outlook. To recap, we believe that over 50% of Scientex's production costs come from fossil fuel resin for the Manufacturing division.

Within the property division, Scientex recorded property sales of RM413.8m as of 9MFY18. The group has launched project worth gross development value of RM222.5mn in 3QFY18. Management has guided that the group will continue to look for opportunities to acquire land and hope to expand to new areas while still focusing on the affordable housing segment.

With the newly elected government, the zero-rated Goods and Services Tax is expected to reduce the costs of operations for the group. While the increase in minimum wage is expected to have minimal impact on the group's staff costs, which account for approximately 6.5% of cost of sales within the manufacturing division.

Valuation. We roll forward our valuation base year to CY19. Using a lower PE of 17x (19x previously) for the manufacturing division, we arrive at a SOP valuation of RM7/share. We believe that the stock is fairly valued after considering increase in demand for flexible packaging products, rising cost pressure and slowdown in progress billing. Maintain 'Hold'.