

# Scientex Berhad

Resilient Demand Across Segments

**TP: RM9.16** (+6.9%)

Last Traded: RM8.57

**Hold**

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### Review

- Scientex Berhad's FY18 earnings came in above ours and consensus full-year forecasts at 108% and 106% respectively due to higher-than-expected sales and product margin from the Manufacturing division. For this quarter, the company proposed a final dividend of 10sen/share, bringing the total FY18 dividend to 20sen/share.
- Manufacturing.** FY18 operating profit increased by 29.5% YoY to RM126.9mn due to: i) higher revenue (+14.1% YoY) from both exports and domestic sales; ii) maiden contribution from the newly-acquired Klang Hock Plastic Industries (KHPI); iii) higher production output (+20.8% YoY to 236,000 tonnes in FY18; and iv) higher product margin from favourable product mix. 4QFY18 operating profit increased by 40.3% QoQ to RM108.9mn due to similar reasons above.
- Property.** FY18 operating profit increased by 4.6% YoY to RM237.5mn despite revenue declining slightly by 1.6% YoY to RM722.2mn on the back of steady construction progress and cost savings from implementation of the efficient industrialised building system. QoQ, operating profit more than tripled in 4QFY18 to RM193.8mn as revenue increased by 22.2% QoQ to RM733.2mn, after picking-up from slower progress billings in the previous quarter.

### Impact

- We increase our earnings forecasts by 21.0% and 26.3% for FY19 and FY20 respectively considering management's guidance on: i) increase in utilisation rate to 70% in FY19 from 52% in FY18 within the Manufacturing division; and ii) increase in new launches assumption within the Property segment in FY19 to RM1.2bn from RM1.0bn previously. We also introduce our FY21 earnings forecast, with net profit expected to accelerate to RM392.6mn.

### Outlook

- Within the Manufacturing segment, management guided that the group aims to reach an utilisation rate of 70% for FY19 from total capacity of 450,000 tonne/year in FY18. Currently, the utilisation rate is 52% in FY18. This is expected to come from: i) first full-year KHPI's contribution of estimated RM100.0mn sales quarterly; and ii) continuous efforts in acquiring clients as well as sustained favourable product mix.
- To date, Scientex has a total completed Gross Development Value (GDV) of RM17.8bn. The group has ongoing and future projects with GDV of RM13.5bn via 16 property developments located in Malaysia. This will help sustain the group's property division in the next eight to ten years. Management guided that the group will continue to focus on the affordable housing segment, which have been receiving good take-up rate. In FY19, the group aims to reach new launches of RM1.2bn similar to the

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	488.9
Market Cap (RMmn)	4,190.1
Par value (RM)	0.50
52-wk Hi/Lo (RM)	9.30/6.51
12-mth Avg Daily Vol ('000 shrs)	210.1
Estimated Free Float (%)	31.6
Beta	0.87
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	9.7
Scientex Infinity Sdn Bhd	8.4
LIM Teck Meng Sdn Bhd	7.9

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	21.0	26.3
Net profit (RMmn)	340.1	382.1
Consensus	318.3	364.3
TA's / Consensus (%)	106.9	104.9
Previous Rating	Sell (Upgraded)	

### Financial Indicators

	FY19	FY20
Net debt/ equity (%)	51.6	39.8
ROE (%)	16.8	17.0
ROA (%)	9.1	9.9
NTA/Share (RM)	4.0	4.5
Price/ NTA (x)	2.1	1.9

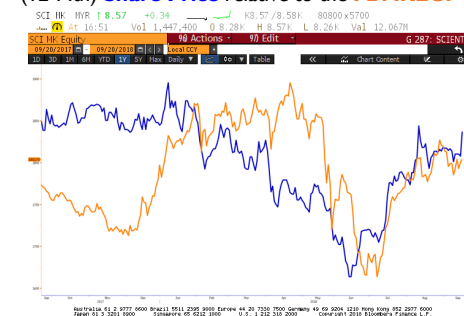
### Scorecard

	% of FY18	
vs. TA	108	Above
vs. Consensus	106	Above

### Share Performance (%)

Price Change	SCIENTEX	FBMKLCI
1 mth	4.0	0.3
3 mth	24.7	6.6
6 mth	5.5	(3.3)
12 mth	(0.2)	1.7

### (12-Mth) Share Price relative to the FBMKLCI



FY18 level.

- Further into the future - by 2028, the group aims to increase the annual production capacity of the Manufacturing division to 1mn tonnes/year and aims to build 50,000 homes within its Property segment through aggressive expansion plans. Management guided that the targets are planned to be achieved through 70% regional mergers and acquisitions and the other 30% through organic growth.
- We believe that potential risks to the group would include: i) increasing crude oil price which will increase costs of sales; ii) Ringgit strengthening therefore reducing export competitiveness; and iii) softening of the property market in Malaysia.

### Valuation

- Increase our target price to RM9.16/share (previously RM7.00/share) based on SOP valuation of CY19 EPS. Considering Scientex leading market position within the Manufacturing division, we also raise our PE assumption for the segment to 19x from 17x. Maintain our PE assumption for the Property segment at 6x. Upgrade our call from Sell to **Hold**.

**Table 1: Earnings Summary (RMmn)**

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	2,403.2	2,626.8	2,991.8	3,370.7	3,526.9
Gross Profit	493.2	512.8	599.8	654.6	675.0
EBITDA	388.3	436.1	510.8	563.3	587.8
EBIT	325.1	364.4	429.3	476.9	489.9
Reported PBT	318.0	361.7	417.3	468.8	481.7
Adj. PBT	322.0	365.9	417.3	468.8	481.7
Reported Net Profit	255.9	289.8	340.1	382.1	392.6
Adj. Net profit	255.9	289.8	340.1	382.1	392.6
Basic/Diluted EPS (sen)	54.8	59.3	69.6	78.1	80.3
Adj. EPS (sen)	52.3	59.3	69.6	78.1	80.3
PER (x)	15.6	14.5	12.3	11.0	10.7
Net Dividend (sen)	17.0	20.0	21.0	22.0	23.0
Dividend Yield (%)	2.0	2.3	2.5	2.6	2.7

**Table 2: FY18 Results Analysis (RMmn)**

FYE July (RM'mn)	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	FY17	FY18	YoY (%)
Revenue	646.1	600.2	733.2	22.2	13.5	2,403.2	2,626.8	9.3
~ Manufacturing	435.3	452.1	527.0	16.6	21.1	1,669.6	1,904.6	14.1
~ Property	210.8	148.1	206.2	39.3	(2.2)	733.5	722.2	(1.6)
Interest Expense	(3.2)	(2.1)	(4.0)	86.9	27.3	(14.0)	(10.8)	(23.4)
Interest Income	1.7	1.3	2.0	47.7	14.3	6.7	7.7	14.4
Depreciation	16.9	17.1	20.3	18.5	20.2	63.2	71.7	13.4
EBITDA	102.6	94.7	129.2	36.4	26.0	388.5	436.1	12.2
Operating Profit	85.7	77.6	108.9	40.3	27.1	325.1	364.4	12.1
~ Manufacturing	18.8	34.3	92.6	>+100	>+100	98.0	126.9	29.5
~ Property	66.7	43.7	193.8	>+100	>+100	227.1	237.5	4.6
Reported PBT	84.3	76.8	106.9	39.2	26.8	318.0	361.7	13.7
Taxation	(11.1)	(14.3)	(17.7)	23.4	59.6	(58.0)	(67.6)	16.5
MI	(1.1)	(1.4)	(0.9)	(30.5)	(13.0)	(4.1)	(4.2)	3.9
Reported Profit	73.2	62.5	89.2	42.8	21.9	259.9	294.0	13.1
Adj. Net Profit	72.1	61.1	88.3	44.4	22.4	255.9	289.8	13.3
EPS (sen)	15.0	12.5	18.1	44.5	20.2	54.5	59.6	9.2
Adj EPS (sen)	14.8	12.2	17.9	46.1	20.8	53.9	58.7	8.9
DPS (sen)	10.0	10.0	10.0	-	-	16.0	20.0	25.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.3	12.9	14.9	1.9	1.6	13.5	13.8	0.3
~ Manufacturing	4.3	7.6	17.6	10.0	13.2	5.9	6.7	0.8
~ Property	31.6	29.5	94.0	64.5	62.3	31.0	32.9	1.9
PBT Margin (%)	13.0	12.8	14.6	1.8	1.5	13.2	13.8	0.5
Net Margin (%)	11.2	10.2	12.0	1.9	0.9	13.3	11.0	0.4
Tax rate (%)	13.1	18.6	16.5	(2.1)	3.4	18.2	18.7	0.4

**Table 3: Sum-of-Parts Valuation**

Sum-of-Parts	PAT (RMmn)			Target PER (x)	Segment Value (RMmn)
	FY19	FY20	CY19		
Manufacturing	170.1	191.0	178.8	19	3,343.5
Property	170.1	191.0	178.8	6	1,137.1
			Equity value (RMmn)		4,480.6
			Share cap (mn)		488.9
			<b>Target Price (RM)</b>		<b>9.16</b>

### 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. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**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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As of Friday, September 21, 2018, the analyst, Damia Othman, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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