

# Scientex Berhad

## 1Q19 Broadly Within

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**1Q19 core earnings of RM52.7m came in broadly within our (17%) and consensus (15%) estimates on lumpy progress billings from the property segment which we expect to pick up in coming quarters. The acquisition of DAIBOCI is still ongoing, with the CSSA expected to be completed by 2Q19, and accrete fully by FY20. Maintain FY19-20E CNP of RM309-349m. Maintain MARKET PERFORM and TP of RM8.50.**

**1Q19 core net profit of RM52.7m came in broadly within ours (17%) and consensus (15%) estimates due to lumpy progress billings from the property segment. Topline came in within at 22%, but the deviations vs. our estimates were mainly due to weaker property recognitions this quarter, which resulted lower than expected Group EBIT margins of 10.6% (vs. our expectation of 12.4%). This is because the property segment commands stronger EBIT margins (of c.30% vs. the manufacturing segment of 5% to 7%). However, we expect property recognitions and to pick up in coming quarters, aided by recent launches. No dividends, as expected.**

**Results highlight. YoY**, topline was up by 9% from; (i) contributions in the manufacturing segment (+23%), aided by contributions from the acquisition of Klang Hock Plastic as well as the Groups operations in the United States, but, (ii) was partially offset by lower contributions from the property segment (-26%) due to timing differences of revenue recognition. As such, Group EBIT margins declined by 3.6ppt due to; (i) unfavorable product mix from the manufacturing segment, but mostly due to (ii) lower property contributions as the property segment commands stronger EBIT margins. As a result, CNP declined by 27% on the back of a higher effective tax rate (+3.0ppt).

**QoQ**, opline was down by 3% due to lower recognitions from the property segment. This, coupled with a less favourable product mix from the manufacturing segment resulted in weaker EBIT margins (-4.2ppt), lowering PBT by 32%. All in, CNP declined by 42% on higher effective tax rates of 23.7% (vs. 16.5%) this quarter.

**Outlook.** SCIENTX is focused on ramping up utilisation, 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. Growth is premised on gradual improvements in utilisation rates for the manufacturing segment, and (ii) full-year contributions from KHPI in FY19. The acquisition of DAIBOCI is still ongoing, with the conditional share sale agreement (CSSA) expected to be completed by 2Q19, and accrete fully in FY20, though we believe the impact to SCIENTX EPS is neutral due to the dilution.

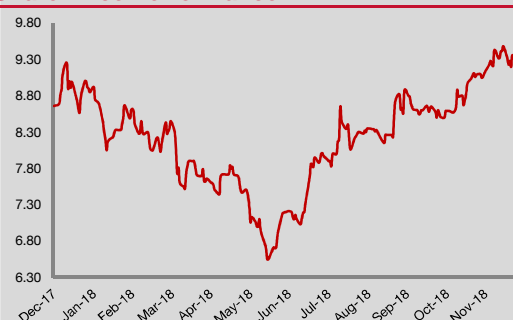
**Maintain FY19-20E CNP of RM309-349m** as we expect property recognitions to pick up in coming quarters. We are expecting launches of RM800-850m in FY19-20E, and manufacturing sector utilisation rates of 65-70% in FY19-20.

**Maintain MARKET PERFORM and TP of RM8.50** on FY20 valuations to better encapsulate full year impact to increased earnings, as well as dilution from the acquisition of DAIBOCI. Our TP is based on our Sum-of-Parts (SoP) FY20E valuations with; (i) unchanged PER of 10.0x for the Property segment, which is at a 15% discount to small-mid-cap property players and Johor exposed peers under our coverage PER due to SCIENTX's exposure in the challenging Johor market, and (ii) an unchanged 15.5x applied PER for the manufacturing segment. We maintain our MARKET PERFORM call as we believe we have priced in most foreseeable positives, which include 42.4% acquisition of DAIBOCI.

# MARKET PERFORM ↔

**Price :** RM9.15  
**Target Price :** RM8.50 ↔

## Share Price Performance



KLCI	1,692.07
YTD KLCI chg	-5.8%
YTD stock price chg	5.7%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,476.5
Shares Outstanding	489.2
52-week range (H)	9.48
52-week range (L)	6.51
3-mth avg daily vol:	264,724
Free Float	61%
Beta	0.9

## Major Shareholders

Scientex Holdings Sdn Bhd	21.4%
Scientex Leasing Sdn Bhd	9.6%
Scientex Infinity Sdn Bhd	8.4%

## Summary Earnings Table

FYE Jul (RM m)	2018A	2019E	2020E
Turnover	2626.8	3216.1	3353.7
EBIT	364.4	398.1	429.4
PBT	361.7	394.4	442.9
<b>Net Profit (NP)</b>	<b>289.8</b>	<b>308.8</b>	<b>348.8</b>
<b>Core NP*</b>	<b>291.7</b>	<b>308.8</b>	<b>348.8</b>
Consensus (NP)	n.a.	346.0	388.3
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	57.2	60.6	65.2
Core EPS growth (%)	14.3	5.9	7.6
NDPS (sen)	19.1	24.2	26.1
BVPS (RM)	3.46	4.51	5.43
Core PER	16.0	15.1	14.0
PBV (x)	2.6	2.0	1.7
Net Gearing (x)	0.43	0.27	0.10
Net Div. Yield (%)	2.1	2.6	2.8

31 December 2018

**OTHER POINTS**

**Risks to our call include:** (i) higher / lower-than-expected resin cost, (ii) stronger/weaker product demand from overseas, (iii) stronger/weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

*Note that we have yet to factor in the remaining acquisition of DAIBOCI as acquisition details of the remainder portion are still scarce pending DAIBOCI shareholders option to accept the MGO. As such, our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.2m from the proposed Share Swap for 42.2% stake of DAIBOCI.*

<b>Results Highlights</b>					
	<b>1Q</b>	<b>4Q</b>	<b>Q-o-Q</b>	<b>1Q</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>
Turnover	713.6	733.2	-3%	655.0	9%
EBIT	75.6	108.2	-30%	93.2	-19%
Interest income	0.7	2.7	-73%	1.7	-56%
Finance costs	(3.8)	(4.0)	-6%	(2.3)	62%
Associates	0.0	0.0	n.a.	0.0	n.a.
<b>Pretax profit</b>	<b>72.5</b>	<b>106.9</b>	<b>-32%</b>	<b>92.6</b>	<b>-22%</b>
Taxation	(17.2)	(17.7)	-3%	(19.2)	-10%
Profit after tax	55.3	89.2	-38%	73.4	-25%
Minority interest	(1.7)	(0.9)	77%	(1.0)	69%
<b>Net profit</b>	<b>53.7</b>	<b>88.3</b>	<b>-39%</b>	<b>72.4</b>	<b>-26%</b>
<b>Core net profit</b>	<b>52.7</b>	<b>90.3</b>	<b>-42%</b>	<b>72.3</b>	<b>-27%</b>
Core EPS (sen)	10.8	18.5	-42%	15.0	-28%
NDPS (sen)	0.0	10.0	n.m.	0.0	n.a.
NTA/share (RM)	3.6	3.5	3%	3.3	9%
EBIT margin	10.6%	14.8%		14.2%	
Pretax margin	10.2%	14.6%		14.1%	
Core net profit margin	7.4%	12.3%		11.0%	
Effective tax rate	23.7%	16.5%		20.7%	

Source: Company, Kenanga Research

\*based on current share base of 488m shares

<b>Segmental Breakdown</b>					
	<b>1Q</b>	<b>4Q</b>	<b>Q-o-Q</b>	<b>1Q</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY19</b>	<b>FY18</b>	<b>Chg</b>	<b>FY18</b>	<b>Chg</b>
<b>Turnover</b>					
Manufacturing	575.8	527.0	9%	469.1	23%
Property	137.8	206.2	-33%	185.9	-26%
<b>Group Turnover</b>	<b>713.6</b>	<b>733.2</b>	<b>-3%</b>	<b>655.0</b>	<b>9%</b>
<b>Segment Results</b>					
Manufacturing	35.8	26.3	36%	34.7	3%
Property	39.8	81.9	-51%	58.6	-32%
<b>Group EBIT</b>	<b>75.6</b>	<b>108.2</b>	<b>-30%</b>	<b>93.2</b>	<b>-19%</b>
<b>EBIT Margin</b>					
Manufacturing	6.2%	5.0%		7.4%	
Property	28.9%	39.7%		31.5%	
<b>Group EBIT Margin</b>	<b>10.6%</b>	<b>14.8%</b>		<b>14.2%</b>	

Source: Company, Kenanga Research

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	1.12	215.9	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	15.6	43.1	28.0	1.4	0.9	2.6%	1.7%	1.15	UP
SCIENTEX BHD	9.15	4,476.5	Y	07/2019	22.4%	4.3%	5.9%	13.0%	16.0	15.1	14.0	2.6	2.0	15.2%	2.6%	8.50	MP
SLP RESOURCES BHD	1.15	364.5	N	12/2018	7.0%	9.8%	36.6%	-4.9%	19.9	14.6	15.3	2.2	2.0	14.2%	2.7%	1.35	OP
THONG GUAN INDUSTRIES BHD	2.27	309.3	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	8.7	10.9	10.6	0.9	0.9	8.7%	3.1%	1.95	UP
TOMYPAK HOLDINGS	0.575	240.9	Y	12/2018	-9.2%	25.1%	-67.3%	-25.2%	27.7	84.5	113.0	1.6	1.3	1.7%	0.8%	0.495	UP
<b>Simple Average</b>					<b>6.0%</b>	<b>11.2%</b>	<b>-21.9%</b>	<b>8.1%</b>	<b>17.6</b>	<b>33.6</b>	<b>36.2</b>	<b>1.8</b>	<b>1.4</b>	<b>8.5%</b>	<b>2.2%</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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