

20 March 2019

Scientex Berhad

1H19 Broadly In Line

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1H19 core earnings of RM126.2m is broadly within our (41%) and consensus (38%) expectations on weaker-than-expected property margins which are expected to pick up in 2H19 alongside stronger recognitions. The acquisition for the remaining 57.5% of DAIBOCI is pending completion by end FY19. Maintain FY19-20E CNP of RM309-349m. Maintain MP and TP of RM8.50.

1H19 core net profit of RM126.2m came in broadly within our (41%) and consensus (38%) estimates on weaker-than-expected property segment margins due to product mix which we expect will normalize in coming quarters, as well as stronger recognitions in 2H19 aided by recent launches. Top-line came in at 46%, but EBIT was dragged down by weaker-than-expected property segment EBIT margin of 29.8% (vs. our expectation of 33.0%, in line with FY18). No dividends, as expected.

Results highlight. YoY-Ytd, top-line was up by 15% from contribution in the manufacturing segment (+22%), aided by contribution from the acquisition of Klang Hock Plastic and the operation in the United States, while the property segment revenue declined marginally by 1% due to timing differences of recognition. Group EBIT margins declined by 2.0ppt mainly due to lower property segment contributions as the property segment commands high EBIT margins vis-à-vis the manufacturing segment, while the manufacturing segment margins also declined marginally (-0.5ppt) likely due to a less than favorable product mix. As a result, CNP declined by 10% on the back of a higher effective tax rate (+4.0ppt). **QoQ**, top-line was up by 7% solely due to the property segment (+58%) which saw higher recognition. As a result, Group EBIT improved by 37% on higher contribution from the property segment which commands superior margins vs. the manufacturing segment. All in, CNP increased by 40% on slightly lower financing cost (-10%).

Outlook. SCIENTX is focused on ramping up utilisation, targeting above 70% over the next few years, mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. Growth is premised on gradual improvement in utilisation rate for the manufacturing segment, and (ii) full-year contribution from KHPI in FY19. The acquisition for the remaining 57.5% of DAIBOCI is proceeding and we expect the exercise to be completed by end FY19, and to accrete earnings fully in FY20. Note that we have yet to price in the MGO for the remaining 57.5% acquisition of DAIBOCI pending the outcome of DAIBOCI's shareholders' decision that may opt to keep their shares or sell it for either cash or in exchange of SCIENTX shares. However, we believe the impact to SCIENTX's EPS (<5%) will be fairly neutral either post the dilution of shares or increased financing cost to fund the acquisition.

Maintain FY19-20E CNP of RM309-349m as we expect property recognitions and margins to pick up in coming quarters. We are expecting launches of RM1.1-1.2b in FY19-20, and manufacturing utilisation rates of 65-70% in FY19-20.

Maintain MARKET PERFORM and TP of RM8.50 on FY20E valuation to account for the full-year impact to earnings, as well as dilution from the acquisition of 42.5% of DAIBOCI. Our TP is based on our FY20E SoP valuation with; (i) unchanged PER of 10.0x for the Property segment, which is at a 18% discount to small-mid-cap property players and Johor-exposed peers' PER due to SCIENTX's exposure in the challenging Johor market, and (ii) an unchanged 15.5x applied PER for the manufacturing segment (a 14% discount compared to SLP's applied PER given its lower margins of 6-7% vs. 15%, but above TGUAN (9.0x PER) given its earnings stability. Maintain MARKET PERFORM as we believe we have priced in most foreseeable positives.

MARKET PERFORM ↔

Price : **RM8.46**
Target Price : **RM8.50** ↔

Share Price Performance



KLCI	1,687.68
YTD KLCI chg	-0.2%
YTD stock price chg	-4.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,351.5
Shares Outstanding	514.4
52-week range (H)	9.48
52-week range (L)	6.51
3-mth avg daily vol:	433,297
Free Float	62%
Beta	0.9

Major Shareholders

Scientex Holdings Sdn Bhd	20.4%
Scientex Leasing Sdn Bhd	9.2%
Scientex Infinity Sdn Bhd	8.0%

Summary Earnings Table

FYE Jul (RM m)	2018A	2019E	2020E
Turnover	2626.8	3213.5	3350.3
EBIT	364.4	415.3	450.0
PBT	361.7	411.6	463.5
Net Profit (NP)	289.8	308.8	348.8
Core NP*	291.7	308.8	348.8
Consensus (NP)	n.a.	331.0	371.5
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	14.8	14.0	13.0
PBV (x)	2.4	1.9	1.6
Net Gearing (x)	0.43	0.27	0.10
Net Div. Yield (%)	2.3	2.9	3.1

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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.

**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.*

Results Highlights								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	766.6	713.6	7%	630.7	22%	1480.2	1285.7	15%
EBIT	103.9	75.6	37%	84.9	22%	179.5	178.2	1%
Interest income	(0.4)	0.7	-158%	2.7	-116%	0.3	4.4	-93%
Finance costs	(3.4)	(3.8)	-10%	(2.3)	51%	(7.2)	(4.6)	56%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	100.0	72.5	38%	85.4	17%	172.6	177.9	-3%
Taxation	(24.3)	(17.2)	41%	(16.5)	47%	(41.5)	(35.6)	16%
Profit after tax	75.8	55.3	37%	68.9	10%	131.1	142.3	-8%
Minority interest	(2.0)	(1.7)	21%	(0.9)	118%	(3.7)	(1.9)	93%
Net profit	73.7	53.7	37%	68.0	8%	127.4	140.4	-9%
Core net profit	73.7	52.6	40%	67.9	8%	126.2	140.2	-10%
Core EPS (sen)	15.1	10.7	40%	14.0	7%	25.8	29.0	-11%
NDPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
NTA/share (RM)	3.6	3.6	0%	3.4	6%	3.6	3.4	6%
EBIT margin	13.6%	10.6%		13.5%		12%	14%	
Pretax margin	13.1%	10.2%		13.5%		12%	14%	
Core net profit margin	9.6%	7.4%		10.8%		9%	11%	
Effective tax rate	24.3%	23.7%		19.3%		24%	20%	

Source: Company, Kenanga Research

*based on current share base of 489m shares

Segmental Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover								
Manufacturing	549.0	575.8	-5%	456.4	20%	1124.8	925.5	22%
Property	217.6	137.8	58%	174.3	25%	355.4	360.2	-1%
Group Turnover	766.6	713.6	7%	630.7	22%	1480.2	1285.7	15%
Segment Results								
Manufacturing	39.0	35.8	9%	31.6	23%	74.8	66.3	13%
Property	64.9	39.8	63%	53.3	22%	104.7	111.9	-6%
Group EBIT	103.9	75.6	37%	84.9	22%	179.5	178.2	1%
EBIT Margin								
Manufacturing	7.1%	6.2%		6.9%		6.6%	7.2%	
Property	29.8%	28.9%		30.6%		29.5%	31.1%	
Group EBIT Margin	13.6%	10.6%		13.5%		12.1%	13.9%	

Source: Company, Kenanga Research

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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.		
STOCKS UNDER COVERAGE																	
SCGM BHD	1.16	223.6	Y	04/2019	9.3%	13.8%	-64.3%	54.5%	16.1	44.6	29.0	1.5	1.0	2.6%	1.6%	1.15	MP
SCIENTEX BHD	8.46	4,351.5	Y	07/2019	22.4%	4.3%	5.9%	13.0%	14.8	14.0	13.0	2.4	1.9	15.2%	2.9%	8.50	MP
SLP RESOURCES BHD	1.22	386.7	N	12/2019	12.5%	5.4%	-6.7%	5.5%	15.3	16.3	15.4	2.0	2.0	13.5%	3.1%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.53	345.6	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.6	9.5	9.3	0.9	0.9	9.5%	3.4%	2.40	MP
TOMYPAK HOLDINGS	0.505	211.6	Y	12/2019	23.4%	12.9%	37.3%	273.2%	N.A.	224.9	60.3	1.5	1.0	0.5%	0.3%	0.495	UP
Simple Average					14.2%	7.8%	-5.4%	69.7%	13.9	61.8	25.4	1.7	1.4	8.3%	2.3%		

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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