

Scientex Berhad

TP: RM9.50 (+12.3%)

2QFY19 Property Improved But Still a Miss

Last Traded: RM8.46

Buy

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Review

- Scientex Berhad's IHFY19 core earnings of RM133.1mn (+1.4% YoY) came in below our and consensus' full-year estimates at 36% and 40% respectively. The variance was due to lower-than-estimated revenue from the Property Segment along with smaller-than-expected segment margins.
- Manufacturing.** IHFY19 revenue improved by 21.5% YoY to RM1.12bn on the back of contributions from: i) new stretch film operations in Phoenix, Arizona; and ii) newly-acquired subsidiary namely Klang Hock Plastic Industries (KHPI). Operating profit, however, improved by a lesser quantum of 12.9% YoY to RM74.8mn, of which we attributed it to higher operational costs to integrate KHPI.
- Property.** IHFY19 revenue declined by 1.3% YoY to RM355.4mn owing to little progress billing from various development projects in IQFY19. However, this has seemingly improved in 2QFY19. Revenue accelerated to RM217.6mn (+24.9% YoY; +57.8% QoQ) as Scientex garnered higher progress billing from Taman Pulau Mutiara development and an increase in launches. Meanwhile, IHFY19 operating profit declined to RM104.78mn (-6.5% YoY) due to softer revenues. Management guided that segment's EBIT margin should remain within the range of 28% and 31%, in line with the decline in IHFY19 Property's EBIT margin to 29.5% (-1.6 pts YoY) due to mix of portfolio.
- No dividend was declared during the quarter under review.

Impact

- We incorporate more realistic revenue assumptions for the property segment and reduce the segment's EBIT margin to 28-30%. Meanwhile, FY19/20/21 DPS assumptions are adjusted to 21.0/23.0/25.0sen to maintain dividend payout of >30% (in tandem with Scientex's dividend payout policy)

Outlook

- Manufacturing.** Management guided that the group aims to increase the average utilisation rate to 70% in FY19. We believe the group's focus may involve ramping up production of its stretch film plant in Arizona along with KHPI's plants. Note that the Arizona plant had recently turned EBITDA positive. In terms of longer-term targets, Scientex aims to generate annual sales of RM8bn from its manufacturing segment by 2028. Such target is planned to be achieved through 70% regional mergers and acquisitions and the other 30% through organic growth.
- Property.** The group has ongoing and future projects with estimated GDV of RM11.1bn in Malaysia. This is expected to sustain the group's property earnings for the next eight to ten years. Management guided that the group will continue to focus on the affordable housing segment, which has been receiving good take-up rate. The group aims to launch

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	489.2
Market Cap (RMmn)	4,138.6
52-wk Hi/Lo (RM)	9.48/6.51
12-mth Avg Daily Vol ('000 shrs)	307.0
Estimated Free Float (%)	43.1
Beta	0.8
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	20.4
Scientex Leasing Sdn Bhd	9.2
Scientex Infinity Sdn Bhd	8.0
LIM Teck Meng Sdn Bhd	7.5

Forecast Revision

	FY19	FY20
Forecast Revision (%)	(14.3)	(9.1)
Net profit (RMm)	316.0	369.8
Consensus	331.0	371.5
TA's / Consensus (%)	95.5	99.5
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY19	FY20
Net debt/ equity (%)	41.3	37.7
ROE (%)	15.9	16.8
ROA (%)	8.5	9.6
NTA/Share (RM)	3.8	4.2
Price/ NTA (x)	2.3	2.0

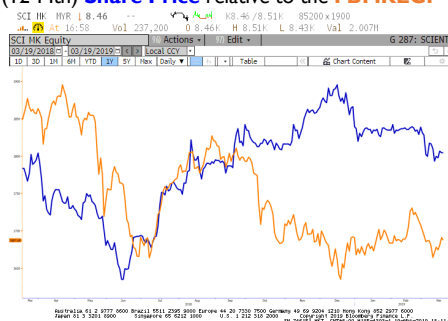
Scorecard

	% of FY19	
vs TA	36	Below
vs Consensus	40	Below

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(4.2)	(2.2)
3 mth	(8.0)	2.2
6 mth	(1.3)	(6.4)
12 mth	2.9	(9.1)

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



Source: Bloomberg

RM600mn worth of developments in 2HFY19, bringing FY19 GDV of new launches to RM1.1bn. The FY19 launches are expected to entail 3.5k units and will bring Scientex closer to its 2028 target of building 50,000 homes.

- **Daibochi Updates.** The MGO has become unconditional, with Scientex holding a total of 52.5% stake in Daibochi (as at 18 March 2019). The takeover-offer would remain open till 1st April 2019, of which entire exercise is expected to be completed by April 2019. We like the acquisition as it would enhance Scientex's manufacturing capacity and capability, in addition to providing Scientex with new market opportunities such as the converting business.

Valuation

- Based on our SOP valuation, we arrive at a TP of RM9.50/share (previously RM11.03/share). We continue to ascribe 20.0x CY20 EPS to Manufacturing segment and 6.0x CY20 EPS to Property segment. **Maintain Buy.**
- Note that, the valuation is before taking into account the acquisition of Daibochi, pending finalisation of exercise as information on amount of valid acceptances and option of settlement are incomplete, at this juncture. Recap in our earlier report - Shareholders Said "Yes", we estimated the acquisition may result up to 2% EPS dilution after new issuance of share, assuming Scientex control 75% of Daibochi.

Table 1: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY20 EPS PER 20x	3,341.2
Property	CY20 EPS PER 6x	1,292.6
Total Equity value (RMmn)		4,633.8
Share cap (mn)		489.2
Target Price (RM)		9.50

Table 2: Earnings Summary (RMmn)

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	2,403.2	2,626.8	3,033.0	3,443.3	3,645.0
Gross Profit	493.2	518.3	572.5	652.2	704.3
EBITDA	388.3	436.1	479.9	547.0	595.5
EBIT	325.1	364.4	399.3	461.6	498.5
Reported PBT	318.0	361.7	392.5	458.0	495.1
Adj. PBT	329.0	359.3	392.5	458.0	495.1
Reported Net Profit	255.9	289.8	316.0	369.8	400.2
Adj. Net profit	266.9	287.5	316.0	369.8	400.2
Basic/Diluted EPS	(sen) 55.0	60.0	64.6	75.6	81.8
Adj. EPS	(sen) 54.6	58.8	64.6	75.6	81.8
PER	(x) 15.4	14.1	13.1	11.2	10.3
Net Dividend	(sen) 17.0	20.0	21.0	23.0	25.0
Dividend Yield	(%) 2.0	2.4	2.5	2.7	3.0

Table 3: 2QFY19 Results Analysis (RMmn)

FYE July (RMmn)	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	1HFY18	1HFY19	YoY (%)
Revenue	630.7	713.6	766.6	7.4	21.5	1,285.7	1,480.2	15.1
~ Manufacturing	456.4	575.8	549.0	(4.7)	20.3	925.5	1,124.8	21.5
~ Property	174.3	137.8	217.6	57.8	24.9	360.2	355.4	(1.3)
Interest Expense	(2.3)	(3.8)	(3.4)	(9.9)	50.8	(4.6)	(7.2)	56.4
Interest Income	2.7	0.8	(0.4)	nm	nm	4.4	0.3	(93.0)
Depreciation	(17.1)	(21.6)	(21.5)	(0.5)	25.6	(34.4)	(43.0)	25.2
EBITDA	102.0	97.1	125.3	29.1	22.9	212.5	222.5	4.7
Operating Profit	84.9	75.5	103.9	37.5	22.3	178.2	179.5	0.7
~ Manufacturing	31.6	35.8	39.0	8.9	23.4	66.3	74.8	12.9
~ Property	53.3	39.8	64.9	63.1	21.6	111.9	104.7	(6.5)
EI	6.7	(4.4)	(1.3)	(70.5)	nm	9.2	(5.6)	nm
Reported PBT	85.4	72.5	100.0	37.9	17.2	177.9	172.6	(3.0)
Taxation	(16.5)	(17.2)	(24.3)	41.2	47.4	(35.6)	(41.5)	16.4
Minority Interest	(0.9)	(1.7)	(2.0)	20.7	>100%	(1.9)	(3.7)	92.7
Reported Profit	68.0	53.7	73.7	37.4	8.5	140.4	127.4	(9.2)
Adj. Net Profit	61.3	58.0	75.0	29.3	22.3	131.2	133.1	1.4
EPS (sen)	14.1	11.0	15.1	37.3	7.3	29.0	26.1	(10.2)
Adj EPS (sen)	12.7	11.9	15.3	29.2	21.0	27.1	27.2	0.3
DPS (sen)	0.0	0.0	0.0	nm	nm	0	0	nm
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.5	10.6	13.6	3.0	0.1	13.9	12.1	(1.7)
~ Manufacturing	6.9	6.2	7.1	0.9	0.2	7.2	6.6	(0.5)
~ Property	30.6	28.9	29.8	1.0	(0.8)	31.1	29.5	(1.6)
PBT Margin (%)	13.5	10.2	13.1	2.9	(0.5)	13.8	11.7	(2.2)
Net Margin (%)	9.7	8.1	9.8	1.7	0.1	10.2	9.0	(1.2)
Tax rate (%)	19.3	23.7	24.3	0.6	5.0	20.0	24.0	4.0

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 Wednesday, March 20, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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