

14 May 2019

Buy

Price
RM8.60

Target Price
RM9.99

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

Acquiring lands in Gombak for RM123m

Financial Highlights

FYE Jul	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,403	2,627	2,854	3,063	3,281
Core net profit (RMm)	267	290	299	337	394
Core EPS (Sen)	57.2	59.6	58.0	65.4	76.5
EPS growth (%)	(46.9)	4.2	(2.6)	12.6	17.0
DPS (Sen)	16.0	20.0	20.0	21.0	22.0
Core PE (x)	15.0	14.4	14.8	13.2	11.2
Div yield (%)	1.9	2.3	2.3	2.4	2.6
ROE (%)	18.9	17.6	16.1	16.2	16.9
Net Gearing (%)	18.0	43.2	38.6	32.4	24.4
PBV(x)	2.6	2.4	2.3	2.0	1.8

Source: Company, KAF

- Maintain our Buy rating on Scientex with TP of RM9.99 pegged to our CY19 earnings. We like Scientex due to its sustainable earnings contributions from the Property segment as well as higher-than-peers operating margin within the Property segment.
- Scientex has proposed to acquire three parcels of freehold land in Rawang (land 1) and two parcels of freehold land in Bandar Kundang (land 2) both within the district of Gombak, Selangor for a total purchase consideration of RM123m covering an area of approximately 166 acres.
- This comes as no surprise as management has guided that it will continue to expand its landbank in order to meet its goal of building 50,000 affordable homes by 2028.
- The lands are adjoining and strategically located between Kundang Town and Gamuda Gardens as well as adjacent to Kundang Industrial area. It is connected to three major highways i.e. LATAR Highway, GUTHRIE Highway and North-South Highway via Rawang South Interchange. Moreover, the Kuang KTM Komuter station is about five minutes' drive away.
- The lands are expected to be developed into mixed-property development however management guided that it is too early to ascertain the total gross development value (GDV) of the lands and its future contributions.
- Note that Scientex has an existing landbank nearby in Rawang, Selangor with a total projected (GDV) of RM1bn over 66 acres. So far it has completed a total GDV of RM120m after launching its maiden Rawang project in 1HCY19.
- Based on our back of the envelope calculation, the purchase consideration is expected to value land 1 and land 2 at RM17/sq ft. Note that there is no land title endorsed for land 1 and land 2 has a title of of 'Bangunan' whereby both of them are freehold.
- To recap, Scientex bought its first Rawang land (nearby Kundang) in 2017 valued at RM23/sq ft while based on our check with online sources, freehold greenfield lands in Kundang and Rawang are asking for an average of RM30/sq ft. Therefore, we find the purchase consideration to be at a discount of at least 35% to market price.
- The acquisition is expected to be completed by 1HCY20 and is expected to be funded by internally generated funds, bank borrowings and/or issuance of Sukuk Murabahah under its existing Sukuk Murabahah Programme.
- With a net gearing of 0.4x as of FY18 we find that Scientex has the capability to fund this purchase. Furthermore, Scientex has approximately used up only 20% of the existing Sukuk Murabahah Programme of RM500m proceeds.
- We make no change in earnings forecasts pending GDV guidance from management.

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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