

Scientex Berhad

Acquiring Land in Kundang

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SCIENTX is acquiring 166.5ac of freehold land in Kundang, Rawang for a total consideration of RM123.3m. Project details are minimal with development plans pending finalisation, but we estimate a GDV of RM1.2b (assuming land cost to GDV ratio of 11%). We are neutral in the near term on the minimal impact to earnings, but mildly positive over the longer run. Maintain FY19-20E CNP of RM309-349m. Maintain MP and TP of RM8.50.

Acquiring lands in Kundang, Rawang for RM123.3m. SCIENTX via Scientex Park (M) Sdn Bhd (a wholly-owned subsidiary) has entered into two SPAs with; (i) Swan Lake City Sdn Bhd (Land 1) for 3 parcels of freehold land in Kundang of 150ac for RM111.2m, and (ii) Fair City Sdn Bhd (Land 2) for 2 parcels of freehold land in Kundang of 16ac for RM12.1m, both implying a price of RM17.0psf. The land is slated for mixed property development, but further details such as total GDV, development cost, commencement and completion dates are too preliminary to ascertain. Both lands are adjoining and strategically located with access to three major highways, namely LATAR Highway, Guthrie Highway and North-South Highway via the Rawang South Interchange. The acquisition will be funded by internally generated funds or bank borrowings, and is expected to be completed in 1HFY20.

Neutral for now, mildly positive in the longer run. We were not overly surprised by SCIENTX's land banking as the Group does from time to time pursue land acquisitions. Furthermore, we believe it may have been opportunistic as pricing is decent at RM17.0psf vs. SCIENTX's previous acquisition in nearby Rawang for RM30.0psf (in 2017). That said, we are neutral on the acquisition and do not expect significant impact to earnings in the near term. Based on our assumptions of affordable residential units and a mixed development township, price per unit of RM500k on 14 units per acre, we derive a potential GDV of RM1.2b, with land cost to GDV percentage of 11% which we deem as decent. However, note that land cost could increase on conversion premiums and re-zoning. As project details are still pending finalisation, land cost to GDV may change subject to the residential to commercial mix and pricing strategies.

Outlook. SCIENTX's plastic manufacturing arm 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. SCIENTX's growth is premised on gradual improvement in utilisation rate for the manufacturing segment, and full-year contribution from KHPI in FY19-20, whilst backed by its stable property segment.

Maintain FY19-20E CNP of RM309-349m, on launches of RM1.1-1.2b in FY19-20, and manufacturing utilisation rates of 65-70% in FY19-20. Post this land acquisition, net gearing in FY20 is expected to increase to 0.29x (from 0.25x). We do not expect any near-term launches from these two parcels of land.

Maintain MARKET PERFORM and Target Price of RM8.50. Our TP is based on FY20E SoP valuation with; (i) an unchanged PER of 10.0x for the Property segment, which is at a 13% 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 applied PER of 15.5x for the manufacturing segment (at 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 : RM8.60
Target Price : RM8.50 ↔

Share Price Performance



KLCI	1,601.09
YTD KLCI chg	-5.3%
YTD stock price chg	-2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,431.2
Shares Outstanding	515.3
52-week range (H)	9.48
52-week range (L)	6.51
3-mth avg daily vol:	256,179
Free Float	62%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	20.7%
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.	309.7	357.5
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	5.21
Core PER	15.0	14.4	13.3
PBV (x)	2.5	1.9	1.7
Net Gearing (x)	0.43	0.39	0.29
Net Div. Yield (%)	2.2	2.8	3.0



OTHER POINTS

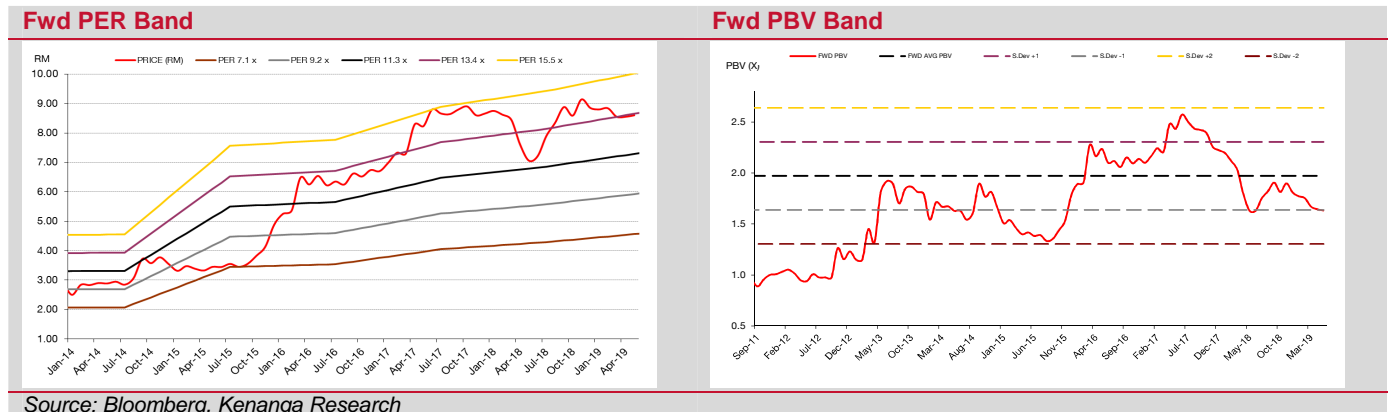
Risks to our call include; (i) higher/lower-than-expected resin cost, (ii) stronger/weaker product demand from overseas, (iii) stronger/weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E	FY Jul (RMm)	2016A	2017A	2018A	2019E	2020E
Revenue	2201.0	2403.2	2626.8	3213.5	3350.3	Growth (%)					
EBITDA	367.1	388.3	436.1	584.4	660.6	Turnover	22.2	9.2	9.3	22.3	4.3
Depreciation	-54.5	-63.2	-71.7	-169.1	-210.6	EBITDA	36.6	5.8	12.3	34.0	13.0
Operating Profit	312.6	325.1	364.4	415.3	450.0	Operating	38.9	4.0	12.1	14.0	8.4
Interest Exp	-13.7	-14.0	-10.8	-15.4	-15.2	PBT	38.6	3.8	13.7	13.8	12.6
Associate	7.4	6.9	8.0	11.7	28.7	Net Profit	52.3	6.2	13.2	6.6	12.9
Exceptionals	-7.1	0.7	0.0	0.0	0.0	Core Net	66.2	2.9	14.3	5.9	12.9
PBT	306.3	318.0	361.7	411.6	463.5						
Taxation	-59.8	-58.0	-67.6	-96.0	-107.8	Profitability					
Minority Interest	-5.7	-4.1	-4.2	-6.8	-6.9	EBITDA	16.7	16.2	16.6	18.2	19.7
Net Profit	240.9	255.9	289.8	308.8	348.8	Operating	14.2	13.5	13.9	12.9	13.4
Core Net Profit	248.0	255.2	291.7	308.8	348.8	PBT Margin	13.9	13.2	13.8	12.8	13.8
						Net Margin	10.9	10.6	11.0	9.6	10.4
						Core Net	11.3	10.6	11.1	9.6	10.4
						Eff. Tax Rate	19.5	18.2	18.7	23.3	23.3
						ROA	10.5	10.2	8.2	8.8	8.6
						ROE	22.8	18.9	17.6	16.0	15.2
						DuPont					
						Net Margin	11.3	10.6	11.1	9.6	10.4
						Assets T/O (x)	1.0	0.8	0.8	0.8	0.8
						Leverage Fac	2.1	1.9	2.0	2.0	1.8
						ROE (%)	23.4	18.9	17.6	16.0	15.2
						Leverage					
						Debt/Asset (x)	0.2	0.2	0.3	0.3	0.2
						Debt/Equity	0.4	0.4	0.5	0.5	0.3
						N.Debt/(Cash)	371.0	275.8	762.0	819.6	722.2
						Net Debt/Eq	0.32	0.16	0.43	0.39	0.29
						Valuations					
						EPS (sen)	48.6	50.0	57.2	60.6	65.2
						NDPS (sen)	16.0	15.2	19.1	24.2	26.1
						BV (RM)	2.55	3.01	3.46	4.51	5.21
						PER	17.9	17.4	15.2	14.4	13.3
						Net Div.Yield	1.8	1.7	2.2	2.8	3.0
						PBV	3.4	2.9	2.5	1.9	1.7
						EV/EBITDA	13.8	10.3	11.1	8.6	7.6

Source: Kenanga Research

*Note that our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.3m from the proposed Share Swap for 62% stake of DAIBOCI

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)				Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	
STOCKS UNDER COVERAGE																	
SCGM BHD	0.950	183.1	Y	04/2019	9.3%	13.8%	-85.7%	95.5%	13.2	95.0	47.5	1.2	1.0	1.0%	1.4%	0.850	UP
SCIENTEX BHD	8.60	4,431.2	Y	07/2019	22.3%	4.3%	5.9%	12.9%	15.0	14.4	13.3	2.5	1.9	16.0%	2.8%	8.50	MP
SLP RESOURCES BHD	1.19	377.2	N	12/2019	12.5%	5.4%	-6.7%	5.5%	14.9	15.9	15.1	2.0	2.0	13.5%	3.2%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.60	356.6	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.9	9.8	9.5	0.9	0.9	9.5%	3.3%	2.40	MP
TOMYPAK HOLDINGS	0.475	199.0	Y	12/2019	23.4%	12.9%	37.3%	273.2%	N.A.	211.5	56.7	1.4	1.0	0.5%	0.3%	0.495	MP
Simple Average					14.2%	7.8%	-9.7%	77.9%	13.2	69.3	28.4	1.6	1.3	8.0%	2.2%		

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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