

27 June 2019

# Scientex Berhad

## 9M19 Below Our Expectations

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**9M19 core earnings of RM198.8m came in below our (64%) and consensus (64%) estimates on weaker-than-expected property margins as our assumptions may have been too bullish. All in, we lower our earnings marginally by 10-6% to RM280-331m on lower property margins closer to current levels. Maintain MARKET PERFORM but on a lower TP of RM8.15 (from RM8.50).**

**9M19 core net profit of RM198.8m came in below our (64%) and consensus (64%) estimates mainly on weaker-than-expected property segment EBIT margins of 30% (vs. our expectations of 33%), while we also expected stronger recognitions in 2H19 to bolster earnings. Top-line came in at 72% of our estimates driven by the plastics segment, but EBIT only came in at 68%, as our initial property EBIT margin assumptions may have been too bullish. We believe the deviation from consensus estimates were likely due to expectations of stronger billings in 2H19. A single tier interim dividend of 10.0 sen was announced, which was also below (41%) our FY19E dividend of 24.2 sen.**

**Results highlight. YoY-Ytd**, top-line was up by 23% from contribution in the plastic manufacturing segment (+25%), driven by contribution from the acquisition of Klang Hock Plastic, operations in the United States and better utilization rates, while the property segment revenue (+15%) was up on ongoing projects as well as new launches such as Taman Scientex Utama in Senai, Taman Pulai Mutiara in Pulai, Scientex Durian Tunggal in Melaka and Taman Scientex in Rawang. However, Group EBIT margin declined by 1.4ppt on weaker margins from the plastic segment likely on a less than favorable product mix, while property margins declined slightly by 0.8ppt. This coupled with higher effective tax rate of 24% (from 20%), caused CNP to decline by 1%. **QoQ**, topline is up by 8% on due to similar reasons mentioned above. EBIT margins declined slightly (-1.2ppt) likely due to a less than favorable mix for the plastic segment, and on the back of higher financing cost (+13%) and higher tax (+4%), which caused CNP to decline slightly by 2%.

**Outlook.** SCIENTEX is focused on ramping up utilisation, targeting c.75% over the next few years (vs. c.70% 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 improvement in utilisation rate for the manufacturing segment, and (ii) full-year contribution from KHPI in FY19.

**We lower FY19-20E CNP by 10-5% to RM280-331m** as we lower our property segment margin assumptions to 30-32% closer to current levels (from 33-35%). We are expecting launches of RM1.1-1.3b in FY19-20, and manufacturing utilisation rates of 70-75% in FY19-20. Unbilled sales of RM750m provides <1 year of visibility.

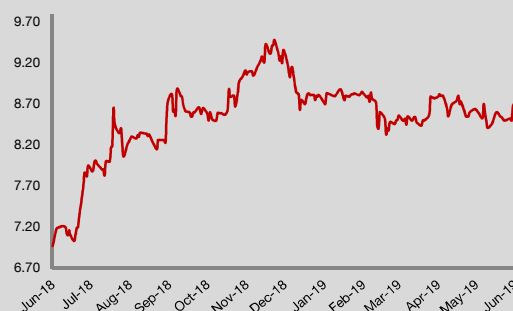
**Maintain MARKET PERFORM but on a lower TP to RM8.15 (from RM8.50)** on FY20E valuations post lowering our FY20E earnings. Our TP is based on our FY20E SoP valuation with; (i) unchanged PER of 10.0x for the Property segment, which is at a 18% discount to small-mid-cap property players and Johor-exposed peers' PER due to SCIENTEX'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 as well as downsides for now.

**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.

## MARKET PERFORM ↔

Price : **RM8.56**  
Target Price : **RM8.15** ↓

### Share Price Performance



KLCI	1,674.49
YTD KLCI chg	-1.0%
YTD stock price chg	-3.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,410.6
Shares Outstanding	515.3
52-week range (H)	9.48
52-week range (L)	6.99
3-mth avg daily vol:	186,545
Free Float	62%
Beta	0.8

### Major Shareholders

Scientex Holdings Sdn Bhd	20.8%
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	3308.8	3795.5
EBIT	364.4	376.2	426.2
PBT	361.7	372.5	439.7
<b>Net Profit (NP)</b>	<b>289.8</b>	<b>279.5</b>	<b>330.9</b>
<b>Core NP*</b>	<b>291.7</b>	<b>279.5</b>	<b>330.9</b>
Consensus (NP)	n.a.	309.7	357.5
Earnings Revision	n.a.	-10%	-5%
Core EPS (sen)	57.2	54.8	61.8
Core EPS growth (%)	14.3	-4.2	12.8
NDPS (sen)	19.1	21.9	24.7
BVPS (RM)	3.46	4.45	5.09
Core PER	15.0	15.6	13.8
PBV (x)	2.5	1.9	1.7
Net Gearing (x)	0.43	0.41	0.37
Net Div. Yield (%)	2.2	2.6	2.9

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**OTHER POINTS**

\*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 DAIBOCI.

**Results Highlights**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	828.5	766.6	8%	596.4	39%	2308.7	1882.1	23%
EBIT	103.1	103.9	-1%	78.0	32%	282.5	256.2	10%
Interest income	2.2	(0.4)	-617%	1.0	126%	2.5	5.3	-53%
Finance costs	(3.8)	(3.4)	13%	(2.1)	79%	(11.0)	(6.7)	64%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>101.4</b>	<b>100.0</b>	<b>1%</b>	<b>76.8</b>	<b>32%</b>	<b>274.0</b>	<b>254.8</b>	<b>8%</b>
Taxation	(25.3)	(24.3)	4%	(14.3)	76%	(66.7)	(50.0)	34%
Profit after tax	76.2	75.8	1%	62.5	22%	207.3	204.8	1%
Minority interest	(3.3)	(2.0)	63%	(1.4)	142%	(7.0)	(3.3)	113%
<b>Net profit</b>	<b>72.9</b>	<b>73.7</b>	<b>-1%</b>	<b>61.1</b>	<b>19%</b>	<b>200.3</b>	<b>201.5</b>	<b>-1%</b>
<b>Core net profit</b>	<b>72.6</b>	<b>73.7</b>	<b>-2%</b>	<b>61.1</b>	<b>19%</b>	<b>198.8</b>	<b>201.3</b>	<b>-1%</b>
Core EPS (sen)	14.2	15.1	-5%	12.5	14%	40.1	41.5	-3%
NDPS (sen)	0.0	0.0	n.a.	10.0	-100%	0.0	10.0	-100%
NTA/share (RM)	3.5	3.6	-4%	3.4	3%	3.5	3.4	3%
EBIT margin	12.4%	13.6%		13.1%		12%	14%	
Pretax margin	12.2%	13.1%		12.9%		12%	14%	
Core net profit margin	8.8%	9.6%		10.2%		8.6%	11%	
Effective tax rate	24.9%	24.3%		18.6%		24%	20%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Turnover</b>								
Manufacturing	602.8	549.0	10%	452.1	33%	1727.5	1377.6	25%
Property	225.7	217.6	4%	144.3	56%	581.1	504.5	15%
<b>Group Turnover</b>	<b>828.5</b>	<b>766.6</b>	<b>8%</b>	<b>596.4</b>	<b>39%</b>	<b>2308.7</b>	<b>1882.1</b>	<b>23%</b>
<b>Segment Results</b>								
Manufacturing	33.4	39.0	-14%	34.3	-3%	108.1	100.6	8%
Property	69.7	64.9	7%	43.7	60%	174.4	155.6	12%
<b>Group EBIT</b>	<b>103.1</b>	<b>103.9</b>	<b>-1%</b>	<b>78.0</b>	<b>32%</b>	<b>282.5</b>	<b>256.2</b>	<b>10%</b>
<b>EBIT Margin</b>								
Manufacturing	5.5%	7.1%		7.6%		6.3%	7.3%	
Property	30.9%	29.8%		30.3%		30.0%	30.8%	
<b>Group EBIT Margin</b>	<b>12.4%</b>	<b>13.6%</b>		<b>13.1%</b>		<b>12.2%</b>	<b>13.6%</b>	

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.		
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	0.915	176.4	Y	04/2019	9.3%	13.8%	-85.7%	95.5%	12.7	91.5	45.8	1.2	0.9	1.0%	1.4%	0.850	UP
SCIENTEX BHD	8.56	4,410.6	Y	07/2019	26.0%	14.7%	-4.2%	18.4%	15.0	15.6	13.8	2.5	1.9	13.8%	2.6%	8.15	MP
SLP RESOURCES BHD	1.27	402.5	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	15.9	16.9	16.1	2.1	2.1	13.5%	3.0%	1.35	MP
THONG GUAN INDUSTRIES BHD	2.51	398.4	Y	12/2019	3.4%	2.9%	0.8%	2.6%	9.5	9.5	9.2	0.9	0.9	9.5%	3.4%	2.40	MP
TOMYPAK HOLDINGS	0.510	213.7	Y	12/2019	5.7%	7.7%	-6.1%	-197.2%	N.A.	N.A.	N.A.	1.5	1.1	-3.3%	0.0%	0.430	UP
<b>Simple Average</b>					<b>11.4%</b>	<b>8.9%</b>	<b>-20.4%</b>	<b>-15.1%</b>	<b>13.3</b>	<b>33.4</b>	<b>21.2</b>	<b>1.6</b>	<b>1.4</b>	<b>6.9%</b>	<b>2.1%</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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