

Scientex Berhad

TP: RM9.80 (+14.5%)

Strong Property Earnings in 3QFY19

Last Traded: RM8.46

Buy

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Review

- Scientex Berhad's recorded 9MFY19 core earnings of RM220.1mn (+17.6% YoY). This represent 68% and 71% of our and consensus' full-year estimates, respectively. We deem the result largely within expectation as we expect lumpy contribution from Property Segment in 4QFY19.
- The group declared a first single-tier interim dividend of 10.0sen/share, similar to the amount declared in 3QFY18.
- Manufacturing.** 9MFY19 revenue improved by 25.4% YoY to RM1.73bn driven by: i) newly-acquired subsidiary, Daibochi Berhad and Klang Hock Plastic Industries; and ii) increasing production of stretch film in Phoenix. The reported operating profit, however, improved by a lesser quantum of 7.5% YoY to RM108.1mn mainly due to foreign exchange loss of RM19.8mn against a foreign exchange gain of RM14.4mn in the 9MFY18 period.
- Property.** 9MFY19 revenue recorded growth of 15.2% YoY to RM581.1mn driven by on-going projects and new launches in Johor, Melaka, Ipoh and Selangor. Meanwhile, 9MFY19 operating profit improved to RM174.4mn (+12.1% YoY). EBIT margin remained steady at 30% (-0.8% YoY), in line with management guidance of 28-31%.

Impact

- We make no changes to our earnings forecast.

Outlook

- Manufacturing.** Looking forward, management will focus on ramping up production of stretch film in Arizona via installing a third production line, and KHPI's plants alongside extracting synergetic value from Daibochi. Note that the Arizona plant had turned PBT positive. In longer-term, Scientex aims to achieve annual sales of RM8bn from its manufacturing segment by 2028.
- Property.** Management guided that the group will continue to focus on the affordable housing segment, which has been receiving good take-up rate. It remains committed to achieving RM1.1bn worth of new property launches in FY19, with a significant amount of launches taking place in 4QFY19 (entail c.2.0k units across 9 launches). Meanwhile, management also raised its FY20 targeted GDV of new launches to RM1.3bn (c.4.9k units) from RM1.2bn (c.4.6k units), to capture the pent-up demand for affordable homes.

Valuation

- Maintain Buy call on Scientex with unchanged target price of RM9.80/share based on SOP valuation.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.2
Market Cap (RMmn)	4,410.3
52-wk Hi/Lo (RM)	9.48/6.99
12-mth Avg Daily Vol ('000 shrs)	282.3
Estimated Free Float (%)	42.8
Beta	0.7
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	20.8
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 (%)	-	-
Net profit (RMm)	322.3	389.8
Consensus	309.7	357.5
TA's / Consensus (%)	104.1	109.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY19	FY20
Net debt/ equity (%)	43.3	40.0
ROE (%)	15.0	17.2
ROA (%)	9.6	9.0
NTA/Share (RM)	3.7	4.1
Price/ NTA (x)	2.3	2.1

Scorecard

	% of FY19	
vs TA	68	Within
vs Consensus	71	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	0.4	4.6
3 mth	0.5	1.9
6 mth	(6.2)	(1.0)
12 mth	18.9	0.5

(12-Mth) Share Price relative to the FBMKLCI

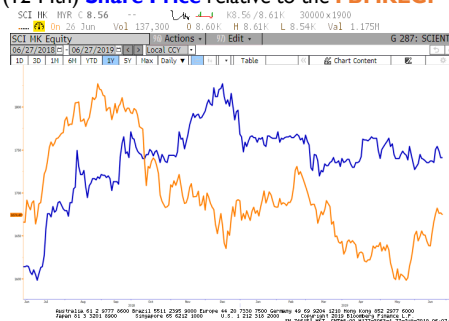


Table 1: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY20 EPS PER 20x	3,763.5
Property	CY20 EPS PER 6x	1,292.5
Total Equity value (RMmn)		5,056.0
Share cap (mn)		515.2
Target Price (RM)		9.80

Table 2: Earnings Summary (RMmn)

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	2,403.2	2,626.8	3,193.3	4,005.5	4,274.1
Gross Profit	493.2	518.3	593.5	728.6	789.8
EBITDA	388.3	436.1	496.6	609.9	664.1
EBIT	325.1	364.4	411.7	512.1	554.6
Reported PBT	318.0	361.7	404.0	503.8	546.4
Adj. PBT	329.0	359.3	405.6	503.8	546.4
Reported Net Profit	255.9	289.8	320.6	389.8	422.6
Adj. Net profit	266.9	287.5	322.3	389.8	422.6
Basic/Diluted EPS	(sen) 49.7	56.2	62.2	75.651	82.0
Adj. EPS	(sen) 51.8	55.8	62.5	75.7	82.0
PER	(x) 17.2	15.2	13.8	11.3	10.4
Net Dividend	(sen) 16.0	20.0	21.0	23.0	25.0
Dividend Yield	(%) 1.9	2.3	2.5	2.7	2.9

Table 3: 3QFY19 Results Analysis (RMmn)

FYE July (RMmn)	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	9MFY18	9MFY19	YoY (%)
Revenue	596.4	766.6	828.5	8.1	38.9	1,882.1	2,308.7	22.7
~ Manufacturing	452.1	549.0	602.8	9.8	33.3	1,377.6	1,727.5	25.4
~ Property	144.3	217.6	225.7	3.7	56.4	504.5	581.1	15.2
Interest Expense	(2.1)	(3.4)	(3.8)	12.8	79.0	(6.7)	(11.0)	63.6
Interest Income	1.0	(0.4)	2.2	nm	>100	5.3	2.5	(53.2)
Depreciation	(17.1)	(21.5)	(24.0)	12.0	40.6	(51.5)	(67.1)	30.3
EBITDA	95.1	125.3	127.1	1.4	33.7	307.6	349.6	13.7
Operating Profit	78.0	103.9	103.1	(0.8)	32.2	256.2	282.5	10.3
~ Manufacturing	34.3	39.0	33.4	(14.4)	(2.7)	100.6	108.1	7.5
~ Property	43.7	64.9	69.7	7.4	59.6	155.6	174.4	12.1
EI	5.3	(1.3)	(14.2)	>100	nm	14.4	(19.8)	nm
Reported PBT	76.8	100.0	101.4	1.4	32.0	254.8	274.0	7.6
Taxation	(14.3)	(24.3)	(25.3)	4.0	76.3	(50.0)	(66.7)	33.6
Minority Interest	(1.4)	(2.0)	(3.3)	63.0	>100	(3.3)	(7.0)	>100
Reported Profit	61.1	73.7	72.9	(1.2)	19.2	201.5	200.3	(0.6)
Adj. Net Profit	55.9	75.0	87.1	16.1	55.8	187.1	220.1	17.6
EPS (sen)	12.5	15.1	14.3	(5.1)	14.5	41.5	40.4	(2.7)
Adj EPS (sen)	11.4	15.3	17.1	11.4	49.6	38.6	44.4	15.2
DPS (sen)	10.0	0.0	10.0	nm	0.0	10.0	10.0	0.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.1	13.6	12.4	(1.1)	(0.6)	13.6	12.2	(1.4)
~ Manufacturing	7.6	7.1	5.5	(1.6)	(2.1)	7.3	6.3	(1.0)
~ Property	30.3	29.8	30.9	1.1	0.6	30.8	30.0	(0.8)
PBT Margin (%)	12.9	13.1	12.2	(0.8)	(0.6)	13.5	11.9	(1.7)
Net Margin (%)	9.4	9.8	10.5	0.7	1.1	9.9	9.5	(0.4)
Tax rate (%)	18.6	24.3	24.9	0.6	6.3	19.6	24.4	4.7

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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 Thursday, June 27, 2019, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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