

COMPANY RESULTS

Scientex (SCI MK)

3QFY19: Results Within Expectations; Stronger 4QFY19 Ahead

Scientex's 3QFY19 results were within our expectations. Stripping out a forex loss of RM14.2m, core net profit was RM87.1m (+16% qoq, +56% yoy), mainly on improved contributions from both the manufacturing and property segments. Positively, we expect a stronger 4QFY19 ahead, buoyed by organic and inorganic growth. Maintain BUY with an unchanged target price of RM9.74.

3QFY19 RESULTS

Year to 31 Jul (RMm)	3QFY19	qoq % chg	yoy % chg	9MFY19	yoy % chg
Turnover	828.5	8.1	38.0	2,308.6	22.2
Manufacturing	602.8	9.8	33.3	1,727.6	25.4
Property	225.7	3.7	52.4	581.1	12.6
Core EBIT	103.1	(0.8)	32.2	282.5	10.3
Manufacturing	33.4	(14.4)	(2.6)	108.2	7.6
Property	69.7	7.4	59.5	174.4	12.1
Finance costs	(3.8)	12.8	79.0	(11.0)	63.6
Core PBT	115.6	14.1	61.7	293.8	22.2
Core net profit	87.1	16.1	55.8	220.1	17.6
Margins	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	12.4	(1.1)	(0.6)	12.2	(1.3)
-Manufacturing	5.5	(1.6)	(2.0)	6.3	(1.0)
-Property	30.9	1.1	1.4	30.0	(0.1)
PBT	14.0	0.7	2.0	12.7	0.0
Core net profit	10.5	0.7	1.2	9.5	(0.4)

Source: Scientex, UOB Kay Hian

RESULTS

- **Results within expectations.** Excluding RM14.2m of unrealised forex loss arising from a weakening ringgit which negatively impacted part of Scientex's US dollar borrowings, 3QFY19 core net profit came in at RM87.1m (+16.1% qoq, +55.8% yoy). Although 9MFY19 core net profit of RM220.1m (+17.6% yoy) accounts for only 67% of our full-year numbers, we deem the results to be in-line as we expect a relatively stronger 4QFY19 mainly due to: a) increased utilisation rate at existing manufacturing plants, b) full integration of newly-acquired Daiboichi and Mega Printing & Packaging (MPP), and c) higher progress billings from its property segment (supported by unbilled sales of RM750m as of 3QFY19)

KEY FINANCIALS

Year to 31 Jul (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,043	2,627	3,013	3,725	4,238
EBITDA	388	436	503	585	651
Operating profit	325	364	429	513	579
Net profit (rep./act.)	256	290	326	393	446
Net profit (adj.)	267	287	326	393	446
EPS (sen)	55.2	59.5	67.5	81.2	92.2
PE (x)	15.5	14.4	12.7	10.5	9.3
P/B (x)	2.7	2.3	2.1	1.8	1.6
EV/EBITDA (x)	12.3	11.0	9.5	8.2	7.4
Dividend yield (%)	1.9	2.1	2.4	2.8	3.2
Net margin (%)	12.5	11.0	10.8	10.5	10.5
Net debt/(cash) to equity (%)	18.0	43.2	15.3	11.0	(2.2)
Interest cover (x)	27.7	40.6	17.8	20.5	22.8
ROE (%)	18.9	17.6	17.4	18.4	18.4
Consensus net profit	-	-	310	358	408
UOBKH/Consensus (x)	-	-	1.05	1.10	1.09

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM8.56
Target Price	RM9.74
Upside	+13.8%

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	515.3
Market cap (RMm):	4,410.6
Market cap (US\$m):	1,063.3
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

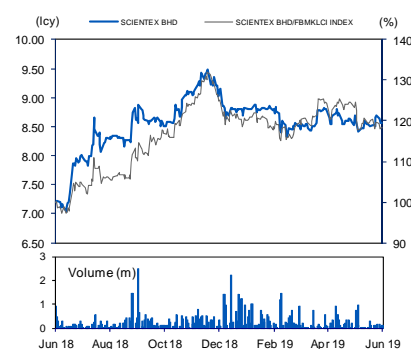
52-week high/low	RM9.48/RM7.03			
1mth	3mth	6mth	1yr	YTD
(0.3)	0.7	(5.2)	19.1	(3.3)

Major Shareholders

Scientex Holdings Sdn Bhd	20.82
Scientex Leasing Sdn Bhd	9.15
Scientex Infinity Sdn Bhd	7.96

FY19 NAV/Share (RM)	4.12
FY19 Net Debt/Share (RM)	0.63

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Organic and inorganic growth buoyed 3QFY19 manufacturing contribution.** 3QFY19 manufacturing revenue rose 38% to RM828.5 due to: a) higher organic revenue contribution from existing manufacturing plants, as well as b) increased contribution from newly-acquired subsidiaries – Klang Hock Plastic Industries (KHPI) and Daibochi. However, EBIT dropped 2.6% yoy to RM33.4 mainly due to a forex loss of RM14.2m. Stripping out the forex loss, core manufacturing EBIT rose 64.1% yoy, which translates into a core EBIT margin of 7.9% (+1.5ppt yoy). Note that overall utilisation stood at about 60% as of 3QFY19. Management also concurred that the US plant has recently turned EBITDA positive and it is looking to install a third production line next month.

- Property segment's regulatory red tape alleviated.** Property EBIT rose 59.5% yoy to RM69.7m on the back of steady progress billings from on-going projects as Scientex recovered from a low base in 3QFY18 owing to the longer-than-expected timeframe in attaining regulatory approvals for some property projects (no thanks to distractions during GE14). Consequently, property EBIT margin rose 1.4ppt yoy to 30.9%. Meanwhile, Scientex has launched new properties worth RM548m in GDV in 9MFY19 with unbilled sales standing at RM750m (3QFY18: RM500m). It intends to launch another ~RM500m worth of properties within FY19.

STOCK IMPACT

- Resin prices benefitted from protracted trade war.** While oil prices have surged to a ytd high on the back of the US' decision on Iran sanctions, we see little correlation between oil and resin prices. Historical trends have shown resin prices trending sideways in a narrow range even when oil prices surged to as high as US\$85/bbl in late-18. This is on the back of global increase in petrochemical refinery capacity which has capped any potential rise in resin costs due to a supply surplus. More importantly, resin prices have come off recently as the US-China trade war has prevented the former from exporting the raw material to the latter, resulting in a diversion to Southeast Asia.

- Ramp-up of utilisation rates on track, but we foresee a flat ASP trend.** Scientex is on track to achieve a utilisation rate of approximately 65% in FY19 (from 60% in FY18) primarily driven by: a) maiden full-year contributions from KHPI and the new stretch film plant in Arizona, b) full quarter contribution from Daibochi, and c) smooth ramp-up at the biaxially-oriented polypropylene (BOPP) plant. That said, we reckon that ASP trend should be relatively flat amid the capacity fill-up and integration of the newly-acquired KHPI and Daibochi.

- To remain acquisitive under Vision 2028 strategy.** Scientex intends to increase its manufacturing capacity to 1m MT p.a. (currently 450,000MT) and build 50,000 homes (currently 17,000) by FY28. Management alluded that the group will look further into other M&As for 70% of its manufacturing arm's expansion with the remaining 30% to be based on organic growth. As a result of its dominant position in the Malaysia packaging market, we are not ruling out the possibility of Scientex acquiring a foreign company moving forward. The few acquisitions in the past have been synergistic, allowing Scientex to access new product segments and clientele.

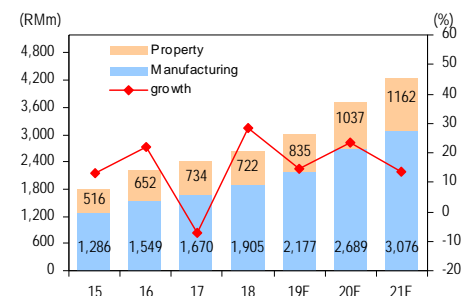
EARNINGS REVISION/RISK

- No change to earnings forecasts.** We expect a stronger 4QFY19 ahead driven by full integration of the: a) newly-acquired Daibochi and MPP, and b) higher progress billings from the property segment (supported by unbilled sales of RM750m as of 3QFY19).

VALUATION/RECOMMENDATION

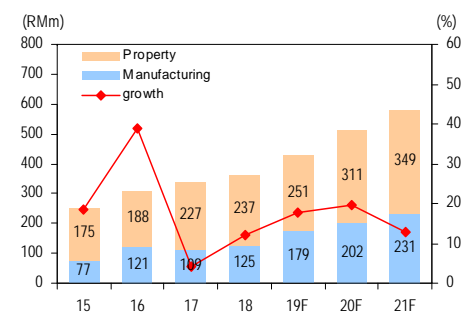
- Maintain BUY and unchanged target price of RM9.74,** implying 12x FY20F PE. We still like the stock for its big discount to companies that have good earnings growth visibility and strong track records, and are trading at well above +1SD of their respective PE means.

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Net turnover	2,627	3,013	3,725	4,238
EBITDA	436	503	585	651
Deprec. & amort.	72	73	73	72
EBIT	364	429	513	579
Associate contributions	8	8	8	8
Net interest income/(expense)	(11)	(28)	(29)	(29)
Pre-tax profit	362	409	492	559
Tax	(68)	(78)	(94)	(106)
Minorities	(4)	(5)	(6)	(7)
Net profit	290	326	393	446
Net profit (adj.)	287	326	393	446

CASH FLOW

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Operating	392	557	232	504
Pre-tax profit	362	409	492	559
Tax	(80)	(78)	(94)	(106)
Deprec. & amort.	72	73	73	72
Working capital changes	31	152	(239)	(21)
Other operating cashflows	8	0	0	1
Investing	(703)	(80)	(60)	(60)
Capex (growth)	(65)	(80)	(60)	(60)
Investments	(147)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(491)	0	0	0
Financing	291	(3)	(119)	(137)
Dividend payments	(58)	(98)	(118)	(134)
Issue of shares	0	0	0	1
Proceeds from borrowings	365	0	0	1
Loan repayment	0	16	0	0
Others/interest paid	(16)	79	(1)	(5)
Net cash inflow (outflow)	(20)	474	54	308
Beginning cash & cash equivalent	192	172	646	700
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	172	646	700	1,007

BALANCE SHEET

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,151	1,150	1,137	1,126
Other LT assets	1,018	1,015	1,016	1,017
Cash/ST investment	172	646	700	1,007
Other current assets	1,023	855	1,120	1,220
Total assets	3,364	3,666	3,973	4,369
ST debt	610	650	650	650
Other current liabilities	514	568	593	672
LT debt	324	300	300	300
Other LT liabilities	82	82	82	82
Shareholders' equity	1,764	1,992	2,267	2,579
Minority interest	70	75	81	88
Total liabilities & equity	3,364	3,666	3,973	4,370

KEY METRICS

Year to 31 Jul (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	16.6	16.7	15.7	15.4
Pre-tax margin	13.8	13.6	13.2	13.2
Net margin	11.0	10.8	10.5	10.5
ROA	9.8	9.3	10.3	10.7
ROE	17.6	17.4	18.4	18.4
Growth				
Turnover	28.6	14.7	23.7	13.8
EBITDA	12.3	15.2	16.5	11.3
Pre-tax profit	13.7	13.1	20.4	13.6
Net profit	13.3	12.6	20.4	13.6
Net profit (adj.)	7.7	13.5	20.4	13.6
EPS	7.7	13.5	20.4	13.6
Leverage				
Debt to total capital	33.8	31.5	28.8	26.3
Debt to equity	53.0	47.7	41.9	36.8
Net debt/(cash) to equity	43.2	15.3	11.0	(2.2)
Interest cover (x)	40.6	17.8	20.5	22.8

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