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New Pulai land expected to fuel Scientex's future earnings growth

Scientex Bhd
(Dec 18, RM8.60)

Maintain buy call with an unchanged target price (TP) of RM9.84: Last week, Scientex Bhd announced that the group had entered into a sale and purchase agreement to acquire a piece of land measuring 335.6 acres (135.81ha) in Pulai, Johor for a total cash consideration of RM284.2 million (RM19.50 per sq ft).

We are positive about this news as this will replenish Scientex's total land bank in Pulai to fuel future earnings growth. We make no change to our earnings forecast.

Scientex already has been developing housing projects in Pulai since June 2015. The flagship project namely, Taman Pulai Mutiara, has an estimated gross development value (GDV) of RM2.5 billion.

Currently, the group is undertaking projects worth RM449 million with a balance undeveloped GDV of RM2.1 billion within the existing Pulai land.

The proposed land acquisition in Pulai is located adjacent to the existing integrated township developments, which are within the Iskandar Malaysia region.

Additionally, the land is in close proximity to Singapore, which is 25km away from the Second Link customs checkpoint and 5km away from the new Pulai Jaya Interchange exit to the Second Link Expressway. The land is also 33km

away from the Johor Baru city centre.

According to management, Scientex will continue to focus on affordable landed housing project on the new Pulai land.

For the time being, there is no GDV given by management as the acquisition is still at a preliminary stage.

However, we believe that the GDV will be similar to its existing Pulai developments. This will increase Scientex's Pulai development projects to a total of RM5 billion in GDV.

In comparison, the acquisition price for the new Pulai land is at a 21.9% premium to its previous Pulai lands bought in June 2015. However, according to online sources, plantation lands in Pulai are currently selling at an average price of RM25.25 per sq ft. As such, we believe the acquisition price, which is at a discount to market price, is fair given the huge land size.

We make no change to our earnings forecast. In average, Scientex's net profit is expected to grow at 20% per year between financial year ending July 31, 2018 (FY18) and FY20. As such, the net gearing is expected to increase slightly to 0.4 times (from 0.3 times previously) for FY19, if we assume the land purchase is financed via 80% of borrowings. — *TA Securities, Dec 18*

Scientex Bhd

FYE JULY (RM MIL)	2016	2017	2018E	2019F	2020F
Revenue	2,201.0	2,403.2	2,791.8	3,029.9	3,342.6
Gross profit	440.2	493.2	599.9	646.8	747.5
Ebitda	367.1	388.3	520.9	564.3	661.0
D&A	54.5	63.2	84.6	88.0	91.1
Ebit	312.6	325.1	436.3	476.3	569.9
Taxation	(59.8)	(58.0)	(73.6)	(80.8)	(97.8)
Reported net profit	240.9	255.9	329.8	362.1	438.3
Adj net profit	230.6	252.8	329.8	362.1	438.3
Basic EPS (sen)	106.0	54.8	68.2	74.9	90.6
Adj EPS (sen)	47.7	52.3	68.2	74.9	90.6
GDPS (sen)	16.1	16.0	21.0	26.0	34.0

Source: TA Securities