

9MFY18 results announced on 20 Jun were below expectations.

21 June 2018

Consumer Non-cyclical | Packaging

## Scientex

**Neutral** (Maintained)

Fairly Valued

Target Price: MYR7.40  
 Price: MYR6.71  
 Market Cap: USD819m  
 Bloomberg Ticker: SCI MK

**Maintain NEUTRAL with lower DCF-derived TP of MYR7.40 from MYR8.69, 10% upside. We believe prospective earnings growth will be supported by both operating divisions. The manufacturing division should continue to grow on ramp-up in utilisation, while the resulting economies of scale would help expand profit margins. The property development business is expected to stay solid given its strategy to focus on affordable housing. Scientex's 9MFY18 net profit of MYR201.5m (+9.7% YoY) was below expectations, due to slower-than-expected ramp-up in manufacturing production utilisation and slower progress billing at its newly launched property projects. Post results, we cut our FY18-20 earnings forecasts by 11-13%. We reckon the company is fairly valued at this juncture, as we do not see immediate catalysts for a recommendation upgrade.**

**Results below expectations.** Scientex's 9MFY18 net profit of MYR201.5m (+9.7% YoY) was below expectations, accounting for 64% and 68% of our and consensus forecasts respectively. The negative deviation was due to slower-than-expected ramp-up in manufacturing production utilisation and slower progress billing at its newly launched property projects. YoY, 9MFY18 revenue grew 7.8% YoY to MYR1.9bn, driven primarily by the manufacturing division (+12%) on higher export sales, while the property division reported flatish revenue (-1%) on slower progress billings from recent project launches. 9MFY18 EBIT grew 6.9% to MYR256m due to higher contribution from the manufacturing division (+27%) in light of the higher sales.

**Outlook.** Scientex's prospective earnings growth should be supported by both operating divisions. Capacity expansion and ramp-up in utilisation should support manufacturing sales, and the resulting economies of scale should help expand profit margins. The recent acquisition of Klang Hock Plastic Industries (KHPI) for cash consideration of MYR190m would expand Scientex's capacity by c.30% and provide synergistic benefits in terms of operational efficiencies and a larger customer base. The property development business is expected to stay solid, given its strategy to focus on affordable housing.

**Maintain NEUTRAL.** Post results, we cut our FY18-20 earnings forecast by 11-13% to reflect more realistic assumptions at both operating divisions. Correspondingly, our DCF-derived TP is reduced to MYR7.40 from MYR8.69. Our DCF valuation for its manufacturing division implies FY19F P/E of 20x, which represents a premium over the sector average of 16-17x, justified by Scientex's larger scale. We value its property division at a 50% discount to its RNAV. We believe the stock is fairly valued as we do not see immediate catalysts for a rating upgrade. Note that the implied trading P/Es for the stock appear modest due to significant contributions from property development earnings. Key risks include a sharp fall in input costs and a soft property market.

Figure 1: Results review

| FYE July (MYRm)               | 3QFY17       | 2QFY18       | 3QFY18       | QoQ (%)       | YoY (%)       | 9MFY17         | 9MFY18         | YoY (%)    | Comments                                      |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|----------------|----------------|------------|---|
| <b>Revenue</b>                | <b>636.2</b> | <b>634.8</b> | <b>600.2</b> | <b>(5.4)</b>  | <b>(5.7)</b>  | <b>1,757.1</b> | <b>1,893.6</b> | <b>7.8</b> | Driven by the manufacturing division          |
| <b>EBITDA</b>                 | <b>104.0</b> | <b>102.0</b> | <b>95.1</b>  | <b>(6.8)</b>  | <b>(8.5)</b>  | <b>285.9</b>   | <b>307.6</b>   | <b>7.6</b> |   |
| Depreciation                  | (15.8)       | (17.1)       | (17.1)       | 0.1           | 8.3           | (46.4)         | (51.5)         | 11.0       |   |
| <b>EBIT</b>                   | <b>88.2</b>  | <b>84.9</b>  | <b>78.0</b>  | <b>(8.2)</b>  | <b>(11.5)</b> | <b>239.6</b>   | <b>256.2</b>   | <b>6.9</b> | Supported by growth in manufacturing division |
| <i>EBIT Margin (%)</i>        | <i>13.9</i>  | <i>13.4</i>  | <i>13.0</i>  |               |               | <i>13.6</i>    | <i>13.5</i>    |            |   |
| Interest expense              | (3.8)        | (2.3)        | (2.1)        | (5.0)         | (43.1)        | (10.9)         | (6.7)          | (38.0)     |   |
| Interest income               | 1.0          | 2.7          | 1.0          | (64.3)        | (7.0)         | 5.0            | 5.3            | 6.9        |   |
| <b>Pretax profit</b>          | <b>85.4</b>  | <b>85.4</b>  | <b>76.8</b>  | <b>(10.0)</b> | <b>(10.1)</b> | <b>233.7</b>   | <b>254.8</b>   | <b>9.0</b> |   |
| <i>Pretax Margin (%)</i>      | <i>13.4</i>  | <i>13.5</i>  | <i>12.8</i>  |               |               | <i>13.3</i>    | <i>13.5</i>    |            |   |
| Tax                           | (18.0)       | (16.5)       | (14.3)       | (13.0)        | (20.5)        | (47.0)         | (50.0)         | 6.4        |   |
| <i>Effective tax rate (%)</i> | <i>21.1</i>  | <i>19.3</i>  | <i>18.6</i>  |               |               | <i>20.1</i>    | <i>19.6</i>    |            |   |
| <b>Net Profit</b>             | <b>66.5</b>  | <b>68.0</b>  | <b>61.1</b>  | <b>(10.1)</b> | <b>(8.1)</b>  | <b>183.7</b>   | <b>201.5</b>   | <b>9.7</b> | Below expectations at 64-68% of forecasts     |
| <i>Net Margin (%)</i>         | <i>10.5</i>  | <i>10.7</i>  | <i>10.2</i>  |               |               | <i>10.5</i>    | <i>10.6</i>    |            | 9MFY18 DPS: MYR0.10 vs 9MFY17: MYR0.06        |

Source: Company data, RHB

| Forecasts and Valuations            | Jul-16 | Jul-17 | Jul-18F | Jul-19F | Jul-20F |
|-------------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm)               | 2,201  | 2,403  | 2,628   | 3,433   | 3,933   |
| Reported net profit (MYRm)          | 241    | 256    | 280     | 336     | 377     |
| Recurring net profit (MYRm)         | 241    | 256    | 280     | 336     | 377     |
| Recurring net profit growth (%)     | 55.4   | 6.2    | 9.3     | 20.1    | 12.3    |
| Recurring EPS (MYR)                 | 0.52   | 0.55   | 0.57    | 0.69    | 0.77    |
| DPS (MYR)                           | 0.16   | 0.16   | 0.17    | 0.21    | 0.23    |
| Recurring P/E (x)                   | 12.8   | 12.2   | 11.7    | 9.7     | 8.7     |
| P/B (x)                             | 2.63   | 2.04   | 1.89    | 1.67    | 1.47    |
| P/CF (x)                            | 8.3    | 15.0   | 8.7     | 10.1    | 7.4     |
| Dividend Yield (%)                  | 2.4    | 2.5    | 2.6     | 3.1     | 3.5     |
| EV/EBITDA (x)                       | 9.36   | 8.66   | 7.37    | 6.11    | 5.11    |
| Return on average equity (%)        | 22.8   | 18.9   | 17.1    | 18.2    | 18.0    |
| Net debt to equity (%)              | 29.9   | 17.2   | 8.6     | 0.3     | netcash |
| Our vs consensus EPS (adjusted) (%) |        |        | (5.6)   | (0.9)   | (3.7)   |

Source: Company data, RHB

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