

Scientex Berhad

FY18 Above Expectations

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FY18 core earnings of RM291.7m came in above our (114%) and consensus (107%) estimates on stronger-than-expected margins, mainly from the property segment. Dividends were also above (132%). As a result, we increase FY19E CNP by 6% to RM309m on better property margins, and introduce FY20 numbers. All in, we up our TP to RM7.80 (from RM7.40) on increased earnings but maintain our UNDERPERFORM call as most foreseeable upsides have been priced in.

FY18 core net profit of RM291.7m came in above our and consensus estimates at 114% and 107%, respectively. Top-line came in within, at 103%, but we believe the deviation from our estimates were due to better-than-expected CNP margins in FY18 of 11.1% (vs. our estimate of 10.0%), mainly because of better-than-expected property margins in 4Q18 (at 40% EBIT margin vs. 30% in 3Q18) on the back of cost savings from better operational efficiency and improved product mix. A single-tier interim dividend of 10.0 sen was announced, which brings FY18 dividend to 20.0 sen, which is also above our estimates (132%).

Results highlight. QoQ, top-line increased by 22% contributed mainly by the property (+39%) as well as manufacturing (+17%) segments. This was also on the back of significantly better property EBIT margin of 40% (vs. 30%) contributed from projects in Johor, Melaka and Ipoh on better operating efficiency and product mix. This coupled with lower effective tax rates of 16.5% (vs. 18.6%), caused CNP to increase by 48%. **YoY-Ytd**, top-line was up by 9% mostly on contributions from the manufacturing segment (+14%) on improved sales as well as contributions from Klang Hock Plastic Industries Sdn Bhd (KHPI), while the property segment's revenue declined marginally by 2%. EBIT margin improved marginally to 13.9% (from 13.5%) from contributions from both segments. This, coupled with lower financing cost (-23%) caused CNP to increase by 14%.

Outlook. SCIENTX's is focused on ramping up utilisation, targeting 70% over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. We do not expect additional capacity in FY19-20 for now, but growth is premised on gradual improvements in utilisation rates for the manufacturing segment, and (ii) full-year contributions from KHPI in FY19.

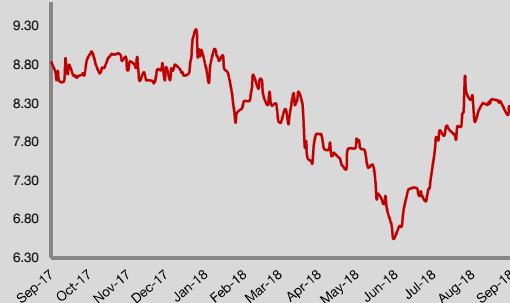
Increase FY19E CNP by 6% and introduce FY20E numbers. We are expecting launches of RM800-850m in FY19-20, as we increase our property EBIT margin slightly to 35% (from 32% previously) on the segment's strong margin improvements this quarter (EBIT margin of 40%), and maintain manufacturing sector utilisation rates of 65-70% in FY19-20 on capacity of 450k MT p.a. All in, we increase FY19E CNP by 6% to RM309m, and introduce FY20E CNP of RM333m, with dividend yields of 2.8-3.0% in FY19-20.

Maintain UNDERPERFORM but increase TP to RM7.80 (from RM7.40) on increased earnings. Our TP is based on our Sum-of-Parts (SoP) FY19E valuations with an unchanged PER of 10.0x for the Property segment and an unchanged 14.0x applied PER for the Manufacturing segment. Results have been weak in previous two quarters, missing expectations, while earnings improvements this quarter were mostly driven by the property sector of which we are not overly bullish on. As such, we are comfortable with our UNDERPERFORM call as our in-house property analyst has reservations on the sustainability of the strong margins and maintains a neutral outlook on the sector in light of macro uncertainties and margin pressures.

UNDERPERFORM ↔

Price : RM8.57
Target Price : RM7.80 ↑

Share Price Performance



KLCI	1,803.70
YTD KLCI chg	0.4%
YTD stock price chg	-1.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,190.1
Shares Outstanding	488.9
52-week range (H)	9.30
52-week range (L)	6.51
3-mth avg daily vol:	190,779
Free Float	61%
Beta	0.9

Major Shareholders

Scientex Holdings Sdn Bhd	21.4%
Scientex Leasing Sdn Bhd	9.7%
Scientex Infinity Sdn Bhd	8.4%

Summary Earnings Table

FYE Jul (RM m)	2018A	2019E	2020E
Turnover	2626.8	3216.1	3353.7
EBIT	364.4	398.1	429.4
PBT	361.7	395.2	425.9
Net Profit (NP)	289.8	308.7	332.6
Core NP*	291.7	308.7	332.6
Consensus (NP)	n.a.	318.3	364.3
Earnings Revision	n.a.	+6%	0%
Core EPS (sen)	57.2	60.5	65.2
Core EPS growth (%)	14.3	5.8	7.8
NDPS (sen)	20.0	24.2	26.1
BVPS (RM)	3.46	4.75	5.49
Core PER	15.0	14.2	13.1
PBV (x)	2.5	1.8	1.6
Net Gearing (x)	0.4	0.2	0.1
Net Div. Yield (%)	1.8	2.8	3.0

*Our share base of 509m includes Share Grant Plan shares and shares pursuant to the DRP

21 September 2018

OTHER POINTS

Risks to our call include; (i) lower-than-expected resin cost, (ii) stronger product demand from overseas, (iii) stronger-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

Results Highlights								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	733.2	600.2	22%	646.1	13%	2626.8	2403.2	9%
EBIT	108.2	78.0	39%	85.5	27%	364.4	325.1	12%
Interest income	2.7	1.0	180%	1.9	40%	8.0	6.9	16%
Finance costs	(4.0)	(2.1)	87%	(3.2)	27%	(10.8)	(14.0)	-23%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	106.9	76.8	39%	84.3	27%	361.7	318.0	14%
Taxation	(17.7)	(14.3)	23%	(11.1)	60%	(67.6)	(58.0)	17%
Profit after tax	89.2	62.5	43%	73.2	22%	294.0	259.9	13%
Minority interest	(0.9)	(1.4)	-31%	(1.1)	-13%	(4.2)	(4.1)	4%
Net profit	88.3	61.1	44%	72.1	22%	289.8	255.9	13%
Core net profit	90.3	61.1	48%	71.9	26%	291.7	255.1	14%
Core EPS (sen)	18.5	12.5	48%	15.0	23%	60.0	54.7	10%
NDPS (sen)	10.0	10.0	0%	10.0	0%	20.0	10.0	100%
NTA/share (RM)	3.5	3.4	4%	3.0	17%	3.5	3.0	17%
EBIT margin	14.8%	13.0%		13.2%		13.9%	13.5%	
Pretax margin	14.6%	12.8%		13.0%		13.8%	13.2%	
Core net profit margin	12.3%	10.2%		11.1%		11.1%	10.6%	
Effective tax rate	16.5%	18.6%		13.1%		18.7%	18.2%	

Source: Company, Kenanga Research

*based on current share base of 488m shares

Segmental Breakdown								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover								
Manufacturing	527.0	452.1	17%	435.3	21%	1904.6	1669.6	14%
Property	206.2	148.1	39%	210.8	-2%	722.2	733.5	-2%
Group Turnover	733.2	600.2	22%	646.1	13%	2626.8	2403.2	9%
Segment Results								
Manufacturing	26.3	34.3	-23%	18.8	40%	126.9	98.0	29%
Property	81.9	43.7	87%	66.7	23%	237.5	227.1	5%
Group EBIT	108.2	78.0	39%	85.5	27%	364.4	325.1	12%
EBIT Margin								
Manufacturing	5%	8%		4%		7%	6%	
Property	40%	30%		32%		33%	31%	
Group EBIT Margin	15%	13%		13%		14%	14%	

Source: Company, Kenanga Research

21 September 2018

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.		
STOCKS UNDER COVERAGE																	
SCGM BHD	1.42	273.7	Y	04/2019	9.3%	13.8%	-29.6%	39.9%	19.7	28.0	20.0	1.8	1.2	5.1%	1.8%	1.30	UP
SCIENTEX BHD	8.57	4,190.1	Y	07/2019	22.4%	4.3%	5.8%	7.8%	15.0	14.2	13.1	2.5	1.8	17.2%	2.8%	7.80	UP
SLP RESOURCES BHD	1.09	345.5	Y	12/2018	16.5%	8.6%	16.2%	8.8%	18.7	16.1	14.8	2.1	1.9	12.3%	2.5%	1.20	MP
THONG GUAN INDUSTRIES BHD	2.56	348.7	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	9.8	12.3	12.0	1.0	1.1	8.7%	2.8%	1.95	UP
TOMYPAK HOLDINGS	0.695	291.4	N	12/2018	-9.2%	25.1%	-79.9%	21.4%	33.4	166.5	137.2	2.0	1.6	1.1%	0.4%	0.495	UP
Simple Average					7.9%	10.9%	-21.7%	16.2%	19.3	47.4	39.4	1.9	1.5	8.9%	2.1%		

Source: Bloomberg, Kenanga Research

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21 September 2018

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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