

Scientex Berhad

TP: RM11.03 (+20.05%)

New Property Projects in Early Stages

Last Traded: RM9.15

Buy

Damia Othman

Tel: +603-2167-9602

damia@ta.com.my

www.taonline.com.my

Review

- Scientex Berhad's IQFY19 earnings of RM53.7mn (-25.9% YoY) came in at 15% and 16% of ours and consensus' full-year estimates respectively. However, we deem this as within expectations as earnings are expected to be back-end loaded due to timing of progress billing from the Property segment.
- Manufacturing.** IQFY19 revenue improved by 22.7% YoY to RM575.8mn on the back of maiden contributions from i) new stretch film operation in Phoenix, Arizona; and ii) newly-acquired subsidiary namely Klang Hock Plastic Industries (KHPI). Operating profit, however, increased slightly by 3.2% YoY to RM35.8mn due to lower product margins and new product mix. QoQ, revenue increased by 9.3% and operating profit increased by 36.0% due to the new contributions.
- Property.** IQFY19 revenue declined by 25.9% YoY to RM137.8mn attributable to little progress billing from various development projects (i.e. Taman Pulau Mutiara), which have not reached the advanced billing stages. Accordingly, operating profit declined by 32.1% YoY to RM39.8mn. QoQ, revenue and operating profit decreased by 33.1% and 51.4% respectively due to the same reasons above. Management guided that Scientex new launches in Taman Senai Utama and Taman Pulau Mutiara have received promising response. However, given that these projects are in the early stage of construction, major revenue and profit contributions are expected to be back-end loaded.
- No dividend was declared during the quarter under review.

Impact

- No change to our earnings forecasts.

Outlook

- Manufacturing.** Management guided that the group aims to increase the average utilisation rate from 52% in FY18 to 70% in FY19. This is expected to come from: i) first full-year KHPI's contribution of estimated RM100.0mn sales quarterly; and ii) continuous efforts in acquiring clients as well as sustained favourable product mix.
- Property.** To date, Scientex has a total completed Gross Development Value (GDV) of RM17.8bn. The group has 16 ongoing and future projects with estimated GDV of RM11.3bn in Malaysia, which is expected to sustain the group's property earnings for the next eight to ten years. Management guided that the group will continue to focus on the affordable housing segment, which have been receiving good take-up rate. In FY19, the group aims to reach new launches of at least RM1.2bn which is similar to the FY18 level.
- Long term, the group aims to increase the annual production capacity of

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	489.2
Market Cap (RMmn)	4,476.2
Par value (RM)	0.50
52-wk Hi/Lo (RM)	9.48/6.51
12-mth Avg Daily Vol ('000 shrs)	247.5
Estimated Free Float (%)	31.5
Beta	0.88

Major Shareholders (%)

Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	9.6
Scientex Infinity Sdn Bhd	8.4
LIM Teck Meng Sdn Bhd	7.9

Forecast Revision

	FY19	FY20
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	368.8	406.7
Consensus	346.0	388.3
TA's / Consensus (%)	106.6	104.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY19	FY20
Net debt/ equity (%)	51.1	39.1
ROE (%)	18.1	17.8
ROA (%)	9.8	10.3
NTA/Share (RM)	3.9	4.3
Price/ NTA (x)	2.4	2.1

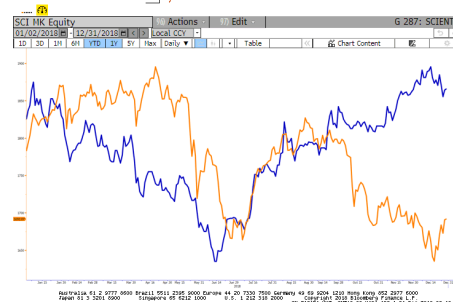
Scorecard

	% of FY19	
vs. TA	15	Within
vs. Consensus	16	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	0.1	(1.2)
3 mth	3.0	(6.1)
6 mth	26.9	(5.0)
12 mth	5.7	(1.7)

(12-Mth) **Share Price** relative to the **FBMKLCI**



Source: Bloomberg

the Manufacturing division to 1.0mn tonnes/year and to build 50,000 homes within its Property segment through aggressive expansion plans. Management guided that these targets are planned to be achieved through 70% regional mergers and acquisitions and the other 30% through organic growth. Consequently, Scientex aims to reach RM10.0bn in market capitalisation by 2028.

- We believe that potential risks to the group would include: i) higher-than-expected resin price from lower global inventory or high demand for the material; and ii) lower-than-expected take up rate due to softening of property market.

Valuation

- We adjust our SOP valuation to RM11.03/share (previously RM11.04/share) based on 20.0x CY20 EPS of Manufacturing segment and 6.0x CY20 EPS of Property segment (Table 3). Valuation is slightly diluted following recent sub-division of shares from Scientex Share Grant Plan for eligible employees. Also note that, the valuation is before taking into account the acquisition of Daibochi pending further guidance from management. However, assuming Scientex acquires 100% of Daibochi's shares then places out 25% shares to comply with the public spread requirement, we expect CY20 earnings diluting to 78.0sen/share from 85.0sen/share. **Maintain Buy.**

Table 1: Earnings Summary (RMmn)

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	2,403.2	2,626.8	3,092.3	3,486.3	3,672.8
Gross Profit	493.2	518.3	643.3	704.7	752.1
EBITDA	388.3	436.1	565.1	613.2	653.1
EBIT	325.1	364.4	473.1	516.5	544.1
Reported PBT	318.0	361.7	461.0	508.3	536.0
Adj. PBT	322.0	365.9	461.0	508.3	536.0
Reported Net Profit	255.9	289.8	368.8	406.7	428.8
Adj. Net profit	255.9	289.8	368.8	406.7	428.8
Basic/Diluted EPS	(sen) 55.0	60.0	75.4	83.1	87.6
Adj. EPS	(sen) 52.3	59.2	75.4	83.1	87.6
PER	(x) 16.6	15.3	12.1	11.0	10.4
Net Dividend	(sen) 17.0	20.0	21.0	22.0	23.0
Dividend Yield	(%) 1.9	2.2	2.3	2.4	2.5

Table 2: IQFY19 Results Analysis (RMmn)

FYE July (RMmn)	IQFY18*	4QFY18	IQFY19	QoQ (%)	YoY (%)
Revenue	655.0	733.2	713.6	(2.7)	9.0
~ Manufacturing	469.1	527.0	575.8	9.3	22.7
~ Property	185.9	206.2	137.8	(33.1)	(25.9)
Interest Expense	(2.3)	(4.0)	(3.8)	(5.7)	61.9
Interest Income	0.6	2.0	0.8	(61.1)	19.5
Depreciation	17.3	20.3	21.6	6.5	24.8
EBITDA	110.5	128.5	97.1	(24.4)	(12.1)
Operating Profit	93.2	108.2	75.5	(30.2)	(19.0)
~ Manufacturing	34.7	26.3	35.8	36.0	3.2
~ Property	58.6	81.9	39.8	(51.4)	(32.1)
Reported PBT	92.6	106.9	72.5	(32.1)	(21.6)
Taxation	(19.2)	(17.7)	(17.2)	(2.6)	(10.3)
Minority Interest	(1.0)	(0.9)	(1.7)	77.2	68.8
Reported Profit	72.4	88.3	53.7	(39.2)	(25.9)
Adj. Net Profit	72.4	88.3	53.7	(39.2)	(25.9)
EPS (sen)	15.0	18.1	11.0	(39.2)	(26.7)
Adj EPS (sen)	15.0	18.1	11.0	(39.2)	(26.7)
DPS (sen)	-	10.0	-	nm	nm
				%-pts	%-pts
EBIT Margin (%)	14.2	14.8	10.6	(4.2)	(3.6)
~ Manufacturing	7.4	5.0	6.2	1.2	(1.2)
~ Property	31.5	39.7	28.9	(10.8)	(2.6)
PBT Margin (%)	14.1	14.6	10.2	(4.4)	(4.0)
Net Margin (%)	11.1	12.0	7.5	(4.5)	(3.5)
Tax rate (%)	20.7	16.5	23.7	7.2	3.0

*Restated

Table 3: Sum-of-Parts Valuation

Sum-of-Parts	PAT (RMmn)			Target PER (x)	Segment Value (RMmn)
	FY20	FY21	CY20		
Manufacturing	203.3	214.4	207.9	20	4,065.2
Property	203.3	214.4	207.9	6	1,330.8
					Equity value (RMmn)
					5,396.0
					Share cap (mn)
					489.2
					Target Price (RM)
					11.03

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 Monday, December 31, 2018, the analyst, Damia Othman, who prepared this report, has interest in the following securities covered in this report:
 (a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my