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## Broadly within expectations

Scientex reported a flat set of results - 6MFY19 core net profit grew by a mere 0.6% yoy to RM132m due to weaker contribution from the property segment in 1QFY19. The pick-up in property recognition in 2QFY19 reaffirms our belief that the property prospect in 2HFY19 remains unperturbed. As such, we deem the results to be broadly within expectations. Elsewhere, we think the recent weakness in share price performance was probably due to concerns of: (i) higher gearing or (ii) near-term earnings dilution from the ongoing proposed acquisition of Daibochi. These concerns are unwarranted, in our view, considering Scientex's excellent track record and solid execution. Reiterate BUY with an unchanged PT of RM10.10.

### Stronger sequentially, as expected

Scientex's 2QFY19 core earnings surged to RM75m (+22.0% yoy; +31.4% qoq) on the quarterly record high revenue (+7.4% qoq) and a higher EBITDA margin (+2.3 pts to 16.4% as the property segment commands better margins; Fig 2). Notably, **the property segment expanded to RM64.9m** (+21.6% yoy; +63.1% qoq) from the stronger progress billings recognised for its development projects, following the longer-than-expected approvals from the authorities in 1QFY19. Elsewhere, **the manufacturing segment increased to RM39m** (+23.4% yoy; +8.9% qoq), driven by continued demand from export and domestic markets.

### 6MFY19 core net profit broadly within expectation

Cumulatively, Scientex's 6MFY19 core net earnings grew by a mere 0.6% yoy to RM132m, dampened by the weaker 1QFY19 earnings mentioned above. Moving forward, we expect its property contribution to accelerate in 2HFY19, considering: (i) the approvals issue has been resolved in 2QFY19, (ii) the target GDV of RM600m (focusing on property development in Melaka, Ipoh, Senai and Pulau), and (iii) unbilled sales of RM600m. As such, we deem the results to be broadly within street (40%) and our (44%) full-year estimates.

### Scientex's offer for Daibochi becomes unconditional

To recap, the mandatory takeover offer (MGO) for Daibochi (DPP MK) has become unconditional as the acceptance condition has been fulfilled – Scientex holds a 52.5% stake in Daibochi. The consideration will be satisfied either by a cash option (offer price of RM1.59) or share exchange option (exchange ratio: 5.535). The offer will remain open for acceptance until 1 April 2019; the MGO is expected to be completed by end-April 19.

### Earnings & Valuation Summary

FYE 31 July	2017	2018	2019E	2020E	2021E
Revenue	2,403.2	2,626.8	2,990.2	3,260.6	3,614.7
EBITDA	385.1	436.9	479.1	526.8	591.9
Pretax profit	318.0	361.7	389.1	437.7	503.6
Net profit	255.9	289.8	300.7	338.1	388.7
EPS (sen)	52.3	59.3	61.5	69.1	79.5
PER (x)	16.2	14.3	13.8	12.2	10.6
Core net profit	252.7	290.6	300.7	338.1	388.7
Core EPS (sen)	51.7	59.4	61.5	69.1	79.5
Core EPS growth (%)	8.7	15.0	3.5	12.4	15.0
Core PER (x)	16.4	14.2	13.8	12.2	10.6
Net DPS (sen)	16.0	20.0	20.3	22.8	26.2
Dividend yield (%)	1.9	2.4	2.4	2.7	3.1
EV / EBITDA (x)	10.0	7.7	7.4	7.1	6.7
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecast

Affin Hwang Investment Bank Bhd (14389-U)

## Results Note

# Scientex

SCI MK

Sector: Plastic packaging

**RM8.46 @ 19 March 2019**

**BUY (maintain)**

Upside: 19.4%

**Price Target: RM10.10**

Previous Target: RM10.10



## Price Performance

	1M	3M	12M
Absolute	-4.0%	-8.8%	2.9%
Rel to KLCI	-2.9%	-10.6%	12.7%

## Stock Data

Issued shares (m)	514.4
Mkt cap (RMm)/(US\$m)	4351.5/1067.2
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	6.51-9.48
Est free float	43.1%
BV per share (RM)	3.73
P/BV (x)	2.27
Net cash/(debt) (RMm)	(747.41)
Derivatives	Yes
Shariah Compliant	Yes

## Key Shareholders

Scientex Holdings SB	20.4%
Scientex Leasing SB	9.2%
Scientex Infinity SB	8.0%
Lim Teck Meng	7.5%

Source: Affin Hwang, Company, Bloomberg

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### Big plans for Daibochi but not without cost

Management is guiding for ambitious plans to boost Daibochi's revenue to RM1bn (2018 revenue was RM430m) within five years, in line with the Group's Vision 2028 strategy. Based on information in the circular, assuming a 100% valid acceptance for the offer, a cash option may lead to a gearing level of 0.6x (from the current gearing of 0.4x and is above Scientex's internal target of 0.5x) whereas a share exchange option may potentially lead to dilution in near-term EPS. All in, we reckon the synergies from this marriage will take time to come through and the earnings impact on Scientex's FY20E EPS is neutral.

### Maintain BUY with unchanged 12-month TP of RM10.10

We keep our forecasts unchanged pending completion of the Daibochi MGO transaction. We maintain our BUY call with an unchanged TP of RM10.10 based on our SOTP valuation (17x FY20E PER for manufacturing; 40% discount to property RNAV). At a 12x FY20E PER, Scientex's valuation looks attractive. Key downside risks to our call include: (i) higher-than-expected resin costs (ii) weaker export sales, and (iii) weaker-than-expected property sales.

Fig 1: Results comparison

FYE 31 July (RMm)	2Q FY18	1Q FY19	2Q FY19	qoq % chg	yoy % chg	6M FY18	6M FY19	yoy % chg	Comment
Revenue	630.7	713.6	766.6	7.4	21.5	1,285.7	1,480.2	15.1	6MFY19 revenue grew by 15% yoy on higher contribution from manufacturing segment (+22% yoy).
Op costs	(535.2)	(613.1)	(640.9)	4.5	19.7	(1,082.3)	(1,254.0)	15.9	
<b>EBITDA</b>	<b>95.4</b>	<b>100.5</b>	<b>125.7</b>	25.0	31.7	<b>203.4</b>	<b>226.2</b>	11.2	
<i>EBITDA margin (%)</i>	15.1	14.1	16.4	2.3ppt	1.3ppt	15.8	15.3	-0.5ppt	
Depn and amort	(17.1)	(21.6)	(21.5)	(0.5)	25.6	(34.4)	(43.0)	25.2	
<b>EBIT</b>	78.4	79.0	104.2	32.0	33.0	169.0	183.2	8.4	
Int expense	(2.3)	(3.8)	(3.4)	(9.9)	50.8	(4.6)	(7.2)	56.4	
Int and other inc	2.7	0.7	0.4	(42.0)	(84.3)	4.4	1.2	(73.6)	
EI	6.6	(3.4)	(1.2)	(64.0)	n.m.	9.2	(4.6)	n.m.	EIs largely comprise forex gain/loss from manufacturing operation
<b>Pretax profit</b>	<b>85.4</b>	<b>72.5</b>	<b>100.0</b>	37.9	17.2	<b>177.9</b>	<b>172.6</b>	(3.0)	
Tax	(16.5)	(17.2)	(24.3)	41.2	47.4	(35.6)	(41.5)	16.4	
<i>Tax rate (%)</i>	19.3	23.7	24.3	0.6ppt	5.0ppt	20.0	24.0	4.0ppt	Lower effective tax rate in 6MFY18 on reinvestment allowance.
MI	(0.9)	(1.7)	(2.0)	20.7	118.2	(1.9)	(3.7)	92.7	
<b>Net profit</b>	<b>68.0</b>	<b>53.7</b>	<b>73.7</b>	37.4	8.5	<b>140.4</b>	<b>127.4</b>	(9.2)	
<b>Core net profit</b>	<b>61.4</b>	<b>57.0</b>	<b>75.0</b>	31.4	22.0	<b>131.2</b>	<b>132.0</b>	0.6	Broadly within consensus and our expectations.

Source: Company, Affin Hwang estimates

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Fig 2: Segmental breakdown

FYE 31 July (RMm)	2Q FY18	1Q FY19	2Q FY19	qoq % chg	yoy % chg	6M FY18	6M FY19	yoy % chg
<b>Revenue</b>								
-Manufacturing	456.4	575.8	549.0	-4.7	20.3	925.5	1124.8	21.5
-Property	174.3	137.8	217.6	57.8	24.9	360.2	355.4	-1.3
<b>Total</b>	<b>630.7</b>	<b>713.6</b>	<b>766.6</b>	<b>7.4</b>	<b>21.5</b>	<b>1285.7</b>	<b>1480.2</b>	<b>15.1</b>
<b>EBIT</b>								
-Manufacturing	31.6	35.8	39.0	8.9	23.4	66.3	74.8	12.9
- Property	53.3	39.8	64.9	63.1	21.6	111.9	104.7	-6.5
<b>Total*</b>	<b>84.9</b>	<b>75.6</b>	<b>103.9</b>	<b>37.4</b>	<b>22.3</b>	<b>178.2</b>	<b>179.5</b>	<b>0.7</b>
<b>EBIT margins (%)</b>								
-Manufacturing	6.9	6.2	7.1	0.9ppt	0.2ppt	7.2	6.6	-0.5ppt
-Property	30.6	28.9	29.8	1.0ppt	-0.8ppt	31.1	29.5	-1.6ppt
<b>Overall</b>	<b>13.5</b>	<b>10.6</b>	<b>13.6</b>	<b>3.0ppt</b>	<b>0.1ppt</b>	<b>13.9</b>	<b>12.1</b>	<b>-1.7ppt</b>

Source: Company, Affin Hwang  
 \*not adjusted for EI

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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