

Scientex Berhad

Landbanking for Future Selangor Township

TP: RM9.80 (+14.0%)
Last Traded: RM8.60
Buy

Jeff Lye Zhen Xiong

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

Yesterday, Scientex Berhad announced a proposed acquisition of two pieces of freehold lands in Rawang, Selangor and Bandar Kundang, Selangor, with a total area of 166 acres for a total cash consideration of RM123.3mn (RM17.00/sqf.). We are positive on the long-term prospect as this is expected to strengthen its existing market presence as a property developer in Selangor. We make no change to earnings forecasts. Maintain Buy on Scientex with unchanged target price of RM9.80/share.

Projects in Rawang

To recap, Scientex has an existing property development project in Rawang, Selangor with total area of 66 acres. Since its maiden township launch in FY19, we understand Scientex has successfully launched 140 units of landed terrace houses and 70 units of landed semi-detached houses (combined GDV of RM140mn). The estimated Gross Development Value (GDV) of the existing Rawang township is RM1.0bn with a balance of over RM800mn available for future developments.

The proposed land acquisitions in Rawang and Bandar Kundang are located between Kundang Town and Gamuda Gardens and adjacent to Kundang Industrial area. Furthermore, the lands are near existing Scientex's Rawang township and in close proximity to major highways namely, LATAR Expressway, Guthrie Corridor Expressway and North-South Expressway.

Plans for Mixed Development

Scientex plans to build mixed development projects in the new lands, in which the proposed acquisition is expected to be completed by 1HCY20. Given that the acquisition is still at preliminary stage, there is no GDV guidance from the management. However, we believe the potential GDV to be fetched is RM2.0bn, based on average GDV per acre of land of the surrounding projects. Hence, the acquisition is expected to increase Scientex's development projects in Selangor to a total of RM3.0bn in GDV.

Price is Fairly Valued

According to our channel check, we understand that the average transacted land cost near the proposed land is RM21.96/sf. (refer to Table 1). Hence, we find Scientex's acquisition price of RM17.00/sf., represents a 22.6% discount from transacted land cost to be cheap. Moreover, the land cost of RM123.3mn makes up c.6% of potential GDV which is reasonable.

Impact

We make no change to earnings forecasts, pending more clarity from management on cash-borrowings ratio. Assuming the acquisition will be financed via internally-generated funds and 80% from borrowings. FY20 net gearing would increase to 0.45x from current estimation of 0.40x, we believe that Scientex will be able to bear the costs to finance the land.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.2
Market Cap (RMmn)	4,430.9
52-wk Hi/Lo (RM)	9.48/6.51
12-mth Avg Daily Vol ('000 shrs)	297.7
Estimated Free Float (%)	42.9
Beta	0.7

Major Shareholders (%)

Scientex Holdings Sdn Bhd	20.5
Scientex Leasing Sdn Bhd	9.2
Scientex Infinity Sdn Bhd	8.0
LIM Teck Meng Sdn Bhd	7.5

Forecast Revision

	FY19	FY20
Forecast Revision (%)	-	-
Net profit (RMm)	322.3	389.8
Consensus	309.7	357.5
TA's / Consensus (%)	104.1	109.0
Previous Rating	Buy (Maintained)	

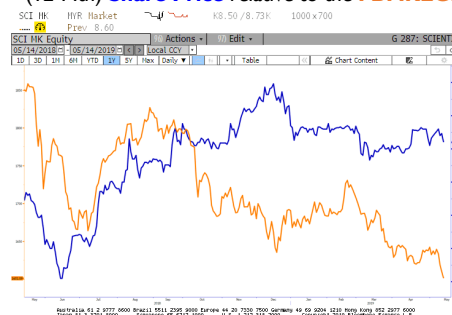
Financial Indicators

	FY19	FY20
Net debt/ equity (%)	43.3	40.0
ROE (%)	15.0	17.2
ROA (%)	9.6	9.0
NTA/Share (RM)	3.9	4.4
Price/ NTA (x)	2.1	1.9

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	1.1	(1.8)
3 mth	(2.5)	(5.2)
6 mth	(0.8)	(5.2)
12 mth	11.4	(13.5)

(12-Mth) Share Price relative to the FBMKLCI



Recommendation

Maintain Buy call on Scientex with unchanged target price of RM9.80/share based on SOP valuation.

Table 1 : Project Development Comparison

Project	Area (acres)	GDV (RM'mn)	Year of Land Purchase	Land Cost (RM/sqf.)
Scientex Rawang (Existing)	66	1,000	2017	30.00
Gamuda Garden	810	10,000	2013	19.57
Mahsing M Aruna	97	520	2013	16.31
Proposed Acquisition*	166	1,966	2019	17.00

*GDV is based on estimation

Table 2: Valuation Method

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY20 EPS PER 20x	3,763.5
Property	CY20 EPS PER 6x	1,292.5
Total Equity value (RMmn)		5,056.0
Share cap (mn)		515.2
Target Price (RM)		9.80

Earnings Summary

PROFIT & LOSS

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
Revenue	2,403.2	2,626.8	3,193.3	4,005.5	4,274.1
Gross Profit	493.2	518.3	593.5	728.6	789.8
EBITDA	388.3	436.1	496.6	609.9	664.1
EBIT	325.1	364.4	411.7	512.1	554.6
Reported PBT	318.0	361.7	404.0	503.8	546.4
Reported net profit	255.9	289.8	320.6	389.8	422.6
Adj. net profit	266.9	287.5	322.3	389.8	422.6
Basic EPS (sen)	55.0	60.0	62.2	75.7	82.0
Adj. EPS (sen)	51.8	55.8	62.5	75.7	82.0
GDPS (sen)	17.0	20.0	21.0	23.0	25.0

CASH FLOW

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
PBT	318.0	361.7	404.0	503.8	546.4
Adjustments for:					
Depreciation of PPE	63.2	71.7	85.0	97.8	109.5
Finance costs	14.0	10.8	16.9	19.2	20.3
Others	2.2	(2.5)	(9.2)	(11.0)	(12.1)
Op profit before WC	397.4	441.6	496.6	609.9	664.1
(+/-) in inventories	(31.5)	(41.0)	(40.8)	(58.2)	(34.3)
(+/-) in receivables	(68.9)	(25.2)	(81.4)	(96.4)	(52.1)
+ /(-) in payables	16.5	(4.5)	75.9	87.8	46.9
Income Tax Paid	(69.6)	(80.2)	(79.1)	(99.4)	(107.4)
CFO	322.8	392.4	371.3	443.7	517.2
Purchase of PPE	(127.2)	(64.6)	(58.2)	(64.0)	(64.0)
Others	(126.2)	(638.3)	(291.0)	(205.7)	(206.7)
CFI	(253.4)	(702.8)	(349.2)	(269.8)	(270.7)
Net term loans	(7.8)	364.9	110.0	(37.9)	57.1
Dividend paid	(103.0)	(56.5)	(159.7)	(170.0)	(180.3)
Finance costs paid	(18.6)	(15.4)	(16.9)	(19.2)	(20.3)
Others	151.2	(2.2)	-	-	-
CFF	21.8	290.8	(66.6)	(227.1)	(143.5)
Net Cash Flow	91.3	(19.6)	(44.5)	(53.2)	103.0

BALANCE SHEET

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
PPE	1,012.6	1,150.6	1,355.9	1,522.2	1,676.8
Deferred tax assets	18.9	28.9	29.0	29.0	29.0
Goodwill	12.1	59.0	270.8	270.8	270.8
Others	581.1	930.1	1,056.6	1,065.4	1,075.3
Non-current assets	1,624.7	2,168.6	2,712.4	2,887.4	3,051.9
Property dev. costs	165.1	233.0	233.0	233.0	233.0
Inventories	168.8	263.6	405.2	463.4	497.7
Trade & Other receivables	426.4	526.6	691.7	788.1	840.2
Tax recoverable	0.9	-	1.4	1.4	1.4
Cash and equivalents	191.9	172.3	127.8	74.7	177.6
Current Assets	953.1	1,195.4	1,459.1	1,560.5	1,749.8
Assets	2,577.8	3,364.1	4,171.5	4,447.9	4,801.8
Borrowings	166.5	323.9	447.7	399.8	451.0
Retirement benefits	27.8	31.1	31.1	31.1	31.1
Deferred tax liabilities	35.9	50.6	64.3	64.3	64.3
Non Current Liabilities	230.2	405.7	543.1	495.2	546.4
Borrowings	301.2	610.4	675.1	685.1	690.9
Trade & other payables	419.4	490.7	632.6	720.4	767.2
Others	23.0	23.8	23.9	23.9	23.9
Current liabilities	743.7	1,124.8	1,331.6	1,429.4	1,482.1
Share capital	411.8	453.9	682.9	682.9	682.9
Reserves	1,123.6	1,309.7	1,470.7	1,690.4	1,932.7
Shareholders' Funds	1,535.5	1,763.6	2,153.5	2,373.3	2,615.6
MI	68.4	70.0	143.3	150.1	157.7
Equity	1,603.9	1,833.6	2,296.8	2,523.4	2,773.3
Equity & Liabilities	2,577.8	3,364.1	4,171.5	4,447.9	4,801.8

FINANCIAL RATIOS

FYE July (RMmn)	FY17	FY18	FY19E	FY20F	FY21F
P/E (x)	16.6	15.4	13.7	11.4	10.5
P/BV (x)	2.7	2.4	2.1	1.9	1.7
Dividend yield (%)	2.0	2.3	2.4	2.7	2.9
ROE (%)	19.7	17.4	15.0	17.2	16.9
ROA (%)	11.1	9.7	9.6	9.0	9.1
EBIT margin (%)	13.5	13.9	12.9	12.8	13.0
Net margin (%)	11.1	10.9	10.1	9.7	9.9
Gearing (x)	0.2	0.4	0.4	0.4	0.3

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Tuesday, May 14, 2019, the analyst Jeff Lye Zhen Xiong, 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