A decent set of results

Scientex reported a decent set of results: 9MFY19 core net profit grew 17% yoy to RM219m on better performance from both the manufacturing and property segments. Overall, Scientex's 9MFY19 results was within market and our expectations. We believe the usual stronger second half will prevail on the back of higher demand for its packaging products and new property launches moving forward. We lower our TP to RM9.90 (from RM10.10) as we cut our FY19-21E core EPS forecasts by 2% after incorporating the acquisition of Daibochi. Reiterate BUY.

9MFY19 core net profit at RM219m, within expectations

Scientex's 9MFY19 core net profit rose by 17% yoy to RM219m, driven by higher contribution from the manufacturing and property divisions. **The property's EBIT grew by 12% yoy to RM174.4m** from the steady progress billings for its existing and new development projects in Senai, Pulai, Melaka and Rawang. **The manufacturing's EBIT also expanded to RM108m** (+8% yoy), driven by higher revenue from the export (+62% yoy) and domestic markets (+15% yoy). Overall, the results are within market and our expectations – 9MFY19 core net profit accounts for 71-72% of street's and our full-year profit forecasts. Elsewhere, management has declared an interim dividend of 10 sen for 3QFY19 (3QFY18:10 sen).

Sequentially higher by 16%

Excluding a forex loss of RM14m, Scientex's 3QFY19 core earnings rose by 16% qoq to RM87m on higher revenue (+8% qoq) and an uptick in EBITDA margins (+0.6ppts to 17% as the property segment saw higher margins). However, this was partly offset by the weaker contribution from manufacturing segment (-14% qoq) on weaker margins due to unfavourable sales mix this quarter.

Cut FY19-21E EPS forecasts by 2%; maintain BUY

We have cut our FY19-21E EPS forecasts by 2% after incorporating (i) the consolidated figures from the acquisition of 61.9%-stake in Daibochi and (ii) the higher share base. As such, we cut our TP to RM9.90 (from RM10.10) based on our SOTP valuation (17x FY20E PER for manufacturing; 40% discount to property RNAV). At 13x FY20E PER, Scientex's valuations look appealing. Key downside risks to our call include: (i) higher-than-expected resin costs, (ii) weaker export sales and (iii) weaker-than-expected property sales.

Earnings & Valuation Summary

FYE 31 July	2017	2018	2019E	2020E	2021E
Revenue	2,403.2	2,626.8	3,196.6	3,805.5	4,186.8
EBITDA	385.1	436.9	497.8	557.9	627.0
Pretax profit	318.0	361.7	378.1	454.5	523.8
Net profit	255.9	289.8	288.5	345.5	398.4
EPS (sen)	50.2	56.9	56.6	67.8	78.2
PER (x)	17.0	15.0	15.1	12.6	10.9
Core net profit	252.7	290.6	306.9	345.5	398.4
Core EPS (sen)	49.6	57.1	60.3	67.8	78.2
Core EPS growth (%)	4.3	15.0	5.6	12.6	15.3
Core PER (x)	17.3	15.0	14.2	12.6	10.9
Net DPS (sen)	16.0	20.0	18.7	22.4	25.8
Dividend yield (%)	1.9	2.3	2.2	2.6	3.0
EV / EBITDA (x)	10.6	8.3	7.6	7.1	6.7
Chg in EPS (%)			(2.0)	(1.9)	(1.6)
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

Scientex

SCI MK
Sector: Plastic packaging

RM8.56 @ 26 June 2019

BUY (maintain)

Upside: 15.7%

Price Target: RM9.90

Previous Target: RM10.10

Price Performance

	1M	3M	12M
Absolute	-0.3%	0.7%	19.1%
Rel to KLCI	-4.9%	-0.8%	19.2%

Stock Data

Issued shares (m)	515.3
Mkt cap (RMm)/(US$m)	4410.6/1064.1
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	6.99-9.48
Est free float	42.8%
BV per share (RM)	3.77
P/BV (x)	2.27
Net cash/(debt) (RMm)	(703.9)
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	20.8%
Scientex Leasing SB	9.2%
Scientex Infinity SB	8.0%
Lim Teck Meng	7.5%

Source: Affin Hwang, Company, Bloomberg

Brian Yeoh
(603) 2146 7658
brian.yeoh@affinhwang.com

Fig 1: Results comparison

FYE 31 July (RMm)	3Q FY18	2Q FY19	3Q FY19	qoq % chg	yoy % chg	9M FY18	9M FY19	yoy % chg	Comment
Revenue	596.4	766.6	828.5	8.1	38.9	1,882.1	2,308.7	22.7	9MFY19 revenue grew by 23% yoy on higher contribution from manufacturing (+25% yoy) and property (+15% yoy) segments.
Op costs	(506.7)	(640.9)	(687.5)	7.3	35.7	(1,589.0)	(1,941.5)	22.2	
EBITDA	89.8	125.7	141.0	12.2	57.1	293.1	367.2	25.3	
EBITDA margin (%)	*15.0*	*16.4*	*17.0*	*0.6ppt*	*1.3ppt*	*15.6*	*15.9*	*0.3ppt*	
Depn and amort	(17.1)	(21.5)	(24.0)	12.0	40.6	(51.5)	(67.1)	30.3	
EBIT	72.7	104.2	117.0	12.2	61.0	241.7	300.2	24.2	
Int expense	(2.1)	(3.4)	(3.8)	12.8	79.0	(6.7)	(11.0)	63.6	
Int and other inc	1.0	0.4	2.2	>100	>100	5.3	3.3	(37.4)	
EI	5.3	(1.2)	(13.9)	>100	n.m.	14.5	(18.5)	n.m.	EIs largely comprise forex loss from manufacturing operations
Pretax profit	**76.8**	**100.0**	**101.4**	1.4	32.0	**254.8**	**274.0**	7.6	
Tax	(14.3)	(24.3)	(25.3)	4.0	76.3	(50.0)	(66.7)	33.6	
Tax rate (%)	*18.6*	*24.3*	*24.9*	*0.6ppt*	*5.0ppt*	*19.6*	*24.4*	*4.7ppt*	Lower effective tax rate in 9MFY18 due to reinvestment allowance.
MI	(1.4)	(2.0)	(3.3)	63.0	>100	(3.3)	(7.0)	>100	
Net profit	**61.1**	**73.7**	**72.9**	(1.2)	19.2	**201.5**	**200.3**	(0.6)	
Core net profit	**55.8**	**75.0**	**86.8**	15.7	55.5	**187.0**	**218.7**	17.0	Within consensus and our expectations.

Source: Company, Affin Hwang estimates

Fig 2: Segmental breakdown

FYE 31 July (RMm)	3Q FY18	2Q FY19	3Q FY19	qoq % chg	yoy % chg	9M FY18	9M FY19	yoy % chg
Revenue								
-Manufacturing	452.1	549.0	602.8	9.8	33.3	1377.6	1727.5	25.4
-Property	144.3	217.6	225.7	3.7	56.4	504.5	581.1	15.2
Total	**596.4**	**766.6**	**828.5**	**8.1**	**38.9**	**1882.1**	**2308.7**	**22.7**
EBIT								
-Manufacturing	34.3	39.0	33.4	-14.4	-2.7	100.6	108.1	7.5
- Property	43.7	64.9	69.7	7.4	59.6	155.6	174.4	12.1
Total*	**78.0**	**103.9**	**103.1**	**-0.8**	**32.2**	**256.2**	**282.5**	**10.3**
EBIT margins (%)								
-Manufacturing	7.6	7.1	5.5	*-1.6ppt*	*-2.1ppt*	7.3	6.3	*-1.0ppt*
-Property	30.3	29.8	30.9	*1.1ppt*	*0.6ppt*	30.8	30.0	*-0.8ppt*
Overall	13.1	13.6	12.4	*-1.1ppt*	*-0.6ppt*	13.6	12.2	*-1.4ppt*

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

Outthink. Outperform.

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	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.

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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com