

26 Jun 2019

Buy

Price
RM8.56

Target Price
RM9.99

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

Analyst

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Scientex

All around earnings improvement

Financial Highlights

FYE Jul	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,403	2,627	2,854	3,063	3,281
Core net profit (RMm)	267	290	299	337	394
Core EPS (Sen)	57.2	59.6	58.0	65.4	76.5
EPS growth (%)	(46.9)	4.2	(2.6)	12.6	17.0
DPS (Sen)	16.0	20.0	20.0	21.0	22.0
Core PE (x)	15.0	14.4	14.8	13.1	11.2
Div yield (%)	1.9	2.3	2.3	2.5	2.6
ROE (%)	18.9	17.6	16.1	16.2	16.9
Net Gearing (%)	18.0	43.2	38.6	32.4	24.4
PBV(x)	2.6	2.4	2.3	2.0	1.8

Source: Company, KAF

- Maintain Buy rating with unchanged TP of RM9.99 pegged to CY19 earnings SOP valuation.
- We continue to like Scientex for its market leading Manufacturing division post capacity expansions through organic and M&A activities as well as sustainable earnings contributions from its Property segment.
- After excluding exceptional items, Scientex's 9MFY19 core earnings of RM219m (+17% YoY) came in within our (73%) and consensus (71%) full-year forecasts.
- Within the Manufacturing division, operating profit increased to RM108m (+8% YoY) as revenue increased to another record level of RM2b (+25% YoY) post improved utilization rate within existing operations and contributions from newly acquired subsidiaries. This was partially offset by higher import costs due to weaker Ringgit to US Dollar rate.
- Coupled with Property division, operating profit increased to RM174m (+12% YoY) also due to revenue increased to RM581m (+15% YoY). This was due to resilient demand for affordable homes which led to stronger progress billing and new sales. Scientex launched eight projects within Pulai, Senai, Durian Tunggal and Rawang within this period with total GDV of RM548m for 1,175 units of houses.
- The group declared a single tier interim dividend of 10sen/share (similar level to 9MFY18) which is as expected.
- Scientex's revenue growth is expected to grow at three-year CAGR of 8% in FY19-21F.
- Growth from the Manufacturing segment is expected to come from ramping up its Manufacturing segment utilisation rate up to 75% in FY20 (vs 70% as of 9MFY19) at its PE, BOPP and CPP plants which were expanded in 2016-17.
- Moreover, based on our back of the envelope calculation, its acquisitions of Klang Hock Plastics Industries (KHPI) and Daibochi are expected to contribute up to 20% to the group's revenue within the same period.
- Contributions from Property segment is expected to be resilient as the group plans to launch RM1b in GDV of affordable housing annually.
- Note that the group has acquired lands in Durian Tunggal, Kundang and Seberang Perai within FY19 with a combined area of 555 acres.
- These are expected to cost Scientex RM300m and paid for by internally generated funds and borrowings and projected completion is in 2020.

- This is expected to increase the group's total GDV to RM22b from RM18b currently hence providing sustainable earnings contributions to the group in the next ten years.
- We like Scientex for its growing Manufacturing division coupled with projected higher product margin post acquiring KHPI and Daibochi as these companies used to be downstream clients to Scientex.
- Property segment contribution is expected to be sustainable with higher-than-peers operating margin of around 30% level.
- At current price, Scientex is trading at 12x PE which is slightly above is five-year forward mean PE of 11x.
- Even that, we find the current level to be undervalued considering the group's aggressive expansion plans in place and resilient three-year projected earnings CAGR of 11% in FY20-21F.

Exhibit 1: Quarterly financial results

FYE Jul RMmn	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	Change (%)		Cumulative		Chg (%)	KAF	
	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	QoQ	YoY	9MFY18	9MFY19	YoY	FY19	9M/F
Revenue	596	733	714	767	828	8	39	1,882	2,309	23	2,854.5	81%
~ Manufacturing	452	527	576	549	603	10	33	1,378	1,728	25	2,123.2	81%
~ Property	144	206	138	218	226	4	56	504	581	15	731.3	79%
Interest Expense	(2)	(4)	(4)	(3)	(4)	13	79	(7)	(11)	64		
Interest Income	1	2	1	0	2	>+100	>+100	5	2	(53)		
Depreciation	17	20	22	21	24	12	41	51	67	30		
EBITDA	95	128	97	125	127	2	34	308	350	14		
Operating Profit	78	108	76	103	103	0	32	256	283	10	402.0	70%
~ Manufacturing	34	26	36	39	33	(14)	(3)	101	108	8	175.6	62%
~ Property	44	82	40	65	70	7	60	156	174	12	226.4	77%
Reported PBT	77	107	73	100	101	1	32	255	274	8	399.0	69%
Taxation	(14)	(18)	(17)	(24)	(25)	4	76	(50)	(67)	34		
Minority Interest	(1)	(1)	(2)	(2)	(3)	63	>+100	(3)	(7)	113		
Exceptional items	(5)	(14)	(3)	0	(14)	nm	>+100	14	(18)	(230)		
Reported Profit	61	88	54	74	73	(1)	19	202	200	(1)	299.0	67%
Adj. Net Profit	66	103	57	74	87	17	31	187	219	17	299.0	73%
EPS (sen)	13	18	11	15	14	(5)	14	42	40	(3)		
Adj EPS (sen)	13	20	11	14	17	17	31	36	42	17		
DPS (sen)	10	10	0	0	10			10	10			
						%-pts	%-pts			%-pts		
Effective tax rate (%)	19	17	24	24	25	1	6	20	24	5		
EBITDA margin (%)	16	18	14	16	15	(1)	(1)	16	15	(1)		
Operating margin (%)	13	15	11	13	12	(1)	(1)	14	12	(1)		
~ Manufacturing (%)	8	5	6	7	6	(2)	(2)	7	6	(1)		
~ Property	30	40	29	30	31	1	1	31	30	(1)		
Pretax margin (%)	13	15	10	13	12	(1)	(1)	14	12	(2)		
Net margin (%)	11	14	8	10	10	1	(1)	10	9	0		

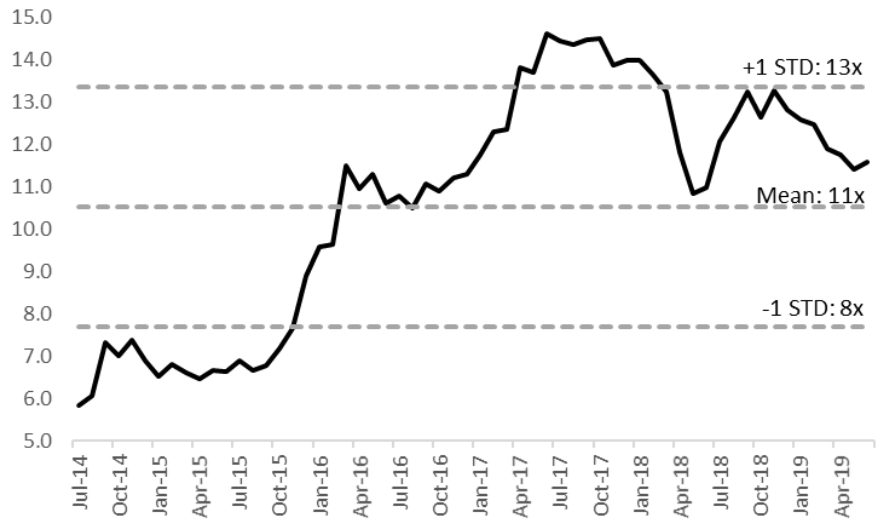
Source: Company, KAF

Exhibit 2: Sum-of-Parts valuation

Segment	Based on CY19		Valuation
	25x PE	1.2x PB	
Manufacturing			3,546
Property			1,603
	Equity value (RMmn)		5,149
	WAC (mn)		515
	Target Price (RM)		9.99

Source: KAF

Exhibit 3: Five-year forward PE band



Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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