

Record FY19 performance; reaffirm BUY

Scientex reported a surprisingly strong set of results: FY19 core net profit expanded by 24% to RM353m on better performance from both its property and manufacturing segments. Overall, Scientex's FY19 results were ahead of street and our expectations. We believe the increased plant utilisation rates and resilient demand for affordable housing will boost FY20-22E earnings. In view of the better-than-expected results, we raise our FY20-21E core EPS by 7-10%. We revise our TP higher to RM10.50 (from RM9.90) based on our SOTP valuation. Reaffirm BUY.

FY19 core net profit at RM352.7m (+24% yoy); above expectations

Scientex's FY19 core earnings increased by 24% yoy to RM352.7m, on the back of stronger performances from both the manufacturing and property divisions. Manufacturing revenue rose 23.8% to RM2.36bn, mainly driven by expansion in stretch film, custom film and the newly acquired converting business. Meanwhile, property sales surged 27.4% to RM889.6m, as affordable residential property launches in all its development projects continued to be well-received. Its blended EBITDA margin improved by 1.2ppt yoy to 17.6%, partly attributed to favourable sales mix and better product margins from the manufacturing segment. Overall, the results were ahead of expectations, accounting for 115% of both our and consensus earnings forecasts. The variance to our forecast was largely due to a better-than-expected contribution from the property segment, which also performed better than the overall Malaysian property market. To note, current unbilled sales of RM780m should last the group for the next 3-4 years.

Record quarter earnings of RM134m for 4QFY19

Scientex's 4QFY19 core net profit rose by 54% qoq to RM134m on higher revenue (+13% qoq) and a boost in EBITDA margin (+4.8ppts to 21.8% as both segments saw improvement in margins - Fig 2). Notably, property segment EBIT rose to RM112m (+37% yoy; +60.8% qoq) from strong take-up rates from its property development projects in Johor, Melaka, Rawang and Ipoh. Elsewhere, the manufacturing segment earnings contribution doubled to RM67m on favourable sales mix and higher plant utilisation rates, which is likely sustainable on global demand for plastic packaging needs. Meanwhile, management declared a dividend of 10 sen for the quarter, bringing full-year FY19 dividend to 20 sen, unchanged from FY18.

Earnings & Valuation Summary

FYE 31 July	2018	2019	2020E	2021E	2022E
Revenue	2,602.8	3,247.4	3,696.5	4,031.9	4,057.1
EBITDA	429.1	573.1	617.5	677.4	684.3
Pretax profit	354.7	450.6	504.6	563.5	570.0
Net profit	284.5	333.7	381.1	425.8	430.7
EPS (sen)	55.9	64.8	74.8	83.6	84.6
PER (x)	15.4	13.3	11.5	10.3	10.2
Core net profit	284.5	352.7	381.1	425.8	430.7
Core EPS (sen)	55.9	68.5	74.8	83.6	84.6
Core EPS growth (%)	12.6	22.5	9.3	11.7	1.1
Core PER (x)	15.4	12.6	11.5	10.3	10.2
Net DPS (sen)	20.0	20.0	24.7	27.6	27.9
Dividend yield (%)	2.3	2.3	2.9	3.2	3.2
EV / EBITDA (x)	8.5	6.5	6.5	6.3	6.8
Chg in EPS (%)			10.3	6.9	New
Affin/Consensus (x)			1.1	1.0	-

Source: Company, Bloomberg, Affin Hwang forecast

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Scientex

SCI MK

Sector: Plastic packaging

RM8.89 @ 26 September 2019

BUY (maintain)

Upside: 18%

Price Target: RM10.50

Previous Target: RM9.90



Price Performance

	1M	3M	12M
Absolute	7.2%	3.9%	3.0%
Rel to KLCI	7.7%	9.2%	16.3%

Stock Data

Issued shares (m)	515.3
Mkt cap (RMm)/(US\$m)	4580.7/1092.4
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	8.11-9.48
Est free float	38.4%
BV per share (RM)	4.17
P/BV (x)	2.13
Net cash/(debt) (RMm)	(716.2)
Derivatives	Yes
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.1%
Scientex Leasing SB	9.2%
Scientex Infinity SB	8.0%
Lim Teck Meng	7.5%

Source: Affin Hwang, Company, Bloomberg

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Outthink. Outperform.

Reiterate BUY with a higher TP of RM10.50

Given the better-than-expected FY19 results, we raise our FY20-21E earnings by 7-10%, whilst introducing FY22E forecasts. In tandem, our TP is revised higher to RM10.50 based on our SOTP valuation (17x FY20E PER for manufacturing; 40% discount to property RNAV). At 11.5x FY20E PER, Scientex's valuation looks appealing. Maintain BUY. Moving forward, we believe increasing utilisation rates for the manufacturing segment, coupled with resilient demand for its affordable housing projects would continue to boost the group's earnings performance. 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)	4Q FY18	3Q FY19	4Q FY19	qoq % chg	yoy % chg	FY18	FY19	yoy % chg	Comment
Revenue	720.7	828.5	938.8	13.3	30.3	2,602.8	3,247.4	24.8	FY19 revenue grew by 25% yoy on higher contributions from both manufacturing (+24%) and property (+27%) segments.
Op costs	(585.0)	(687.5)	(733.8)	6.7	25.4	(2,173.7)	(2,674.4)	23.0	
EBITDA	135.7	141.0	205.0	45.4	51.1	429.1	573.1	33.5	
<i>EBITDA margin (%)</i>	<i>18.8</i>	<i>17.0</i>	<i>21.8</i>	<i>4.8ppt</i>	<i>3.0ppt</i>	<i>16.5</i>	<i>17.6</i>	<i>1.2ppt</i>	4QFY19 up 3ppt yoy largely on better sales mix & product margins for manufacturing
Depn and amort	(20.3)	(24.0)	(25.2)	4.9	24.5	(71.7)	(92.3)	28.7	
EBIT	115.4	117.0	179.8	53.7	55.7	357.4	480.8	34.5	
Int expense	(4.0)	(3.8)	(4.5)	17.2	12.3	(10.8)	(15.5)	44.5	
Int and other inc	2.7	2.2	1.8	(15.7)	(31.8)	8.0	4.3	(46.0)	
EI	(14.2)	(13.9)	(0.5)	(96.0)	(96.1)	(0.03)	(19.0)	>100	EI largely comprised of forex loss, disposal gain on property and fair-value gain on investments.
Pretax profit	99.9	101.4	176.6	74.1	76.7	354.7	450.6	27.0	
Tax	(16.0)	(25.3)	(38.0)	50.3	137.4	(66.0)	(104.7)	58.7	
<i>Tax rate (%)</i>	<i>16.0</i>	<i>24.9</i>	<i>21.5</i>	<i>-3.4ppt</i>	<i>5.5ppt</i>	<i>18.6</i>	<i>23.2</i>	<i>4.6ppt</i>	
MI	(0.9)	(3.3)	(5.2)	58.2	>100	(4.2)	(12.2)	>100	
Net profit	83.0	72.9	133.4	83.0	60.8	284.5	333.7	17.3	
Core net profit	97.2	86.8	134.0	54.4	37.8	284.5	352.7	24.0	Above expectations.

Source: Company, Affin Hwang estimates

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Fig 2: Segmental breakdown

FYE 31 July (RMm)	4Q FY18	3Q FY19	4Q FY19	qoq % chg	yoy % chg	FY18	FY19	yoy % chg
Revenue								
-Manufacturing	527.0	602.8	630.3	4.6	19.6	1904.6	2357.8	23.8
-Property	193.8	225.7	308.5	36.7	59.2	698.2	889.6	27.4
Total	720.7	828.5	938.8	13.3	30.3	2602.8	3247.4	24.8
EBIT								
-Manufacturing	26.3	33.4	67.1	101.1	154.9	126.9	175.2	38.1
- Property	74.9	69.7	112.1	60.8	49.7	230.5	286.5	24.3
Total*	101.2	103.1	179.2	73.9	77.1	357.4	461.8	29.2
EBIT margins (%)								
-Manufacturing	5.0	5.5	10.6	5.1ppt	5.7ppt	6.7	7.4	0.8ppt
-Property	38.7	30.9	36.3	5.5ppt	-2.3ppt	33.0	32.2	-0.8ppt
Overall	14.0	12.4	19.1	6.6ppt	5.0ppt	13.7	14.2	0.5ppt

Source: Company, Affin Hwang
 *not adjusted for EI

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

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