

26 Sep 2019

Buy

Price
 RM8.89

Target Price
 RM10.15 (from RM9.99)

Market Data

Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,581.0
52-week high/low (RM)	9.48 / 8.11
Avg daily turnover (RMm)	1.7
KLCI (pts)	1,593.0

Source: Bloomberg, KAF

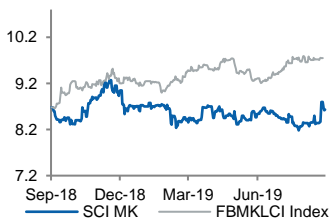
Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.1%)
Scientex Leasing Sdn Bhd	(9.2%)
Scientex Infinity Sdn Bhd	(8.0%)
Free Float	38.4

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	3.9	4.6	3.0
Rel Market (%)	9.2	8.3	16.3



Source: Bloomberg, KAF

Analyst

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Scientex

FY19: Results beat expectations

We maintain our Buy rating on Scientex with higher TP of RM10.15 (from RM9.99) after rolling forward our valuation to FY20. FY19 core earnings came in above our and consensus estimates on the back of higher-than-expected margins across all segments. Looking forward, Scientex plans to ramp up production within Manufacturing segment and enhance efficiencies. While Property segment is expected to launch RM1.3b GDV capturing the growing demand of affordable homes. At the current level, share price is trading along the five-year forward mean PE of 12x. Given the aggressive expansion plans in-store, we find the stock to be undervalued.

Financial Highlights

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue (RMm)	2,603	3,247	3,579	3,901	3,991
Core net profit (RMm)	285	353	386	425	441
Core EPS (Sen)	58.5	68.4	75.0	82.5	85.6
EPS growth (%)	(2.7)	17.0	9.5	10.0	3.8
DPS (Sen)	20.0	20.0	22.0	24.0	26.0
Core PE (x)	15.2	13.0	11.9	10.8	10.4
Div yield (%)	2.2	2.2	2.5	2.7	2.9
ROE (%)	17.3	16.8	16.3	16.0	14.8
Net Gearing (%)	43.6	32.2	26.7	20.6	13.9
PBV(x)	2.5	2.1	1.8	1.6	1.5

Source: Company, KAF

* From this year onwards year end is Jul

Maintain Buy rating with higher TP of RM10.15

Increase our TP to RM10.15 (from RM9.99) after rolling forward our SOP valuation to FY20F. Scientex FY19 core earnings of RM353m (+24 % YoY) came in above our and consensus estimates accounting for 118% and 116% of full year forecasts respectively. This is due to higher-than-expected sales and margins across Manufacturing and Property segments. The group declared a final dividend of 10sen/share accumulating GDPS of 20sen/share in FY19 (similar to FY18). Note that Scientex has a dividend payout policy of 30% of net earnings.

Stellar earnings growth

Contributions from both Manufacturing and Property segments recorded stellar growth annually and quarterly across the line. This is attributable to new contributions from newly acquired capacities (i.e. KHPI and Daibochi) coupled with lower raw material prices within the Manufacturing segment. While Property segment launched projects worth RM1.1b GDV in FY19 targeting the affordable homes segment and attained 90% take-up rate.

Management expects resilient performance outlook

Management guided that within the Manufacturing segment, the group plans to push sales across domestic and export markets by ramping up production to 75% average utilisation rate (vs current 70%) across its 19 plants and enhance efficiencies in Daibochi. While the Property segment is expected to launch RM1.3b in GDV given the rising demand for affordable homes across Peninsular Malaysia. Hence, we have increased our earnings forecasts by 15% and 8% for FY20-21F respectively after imputing the commendable FY19 results and tweaking our sales assumptions.

Attractive valuation

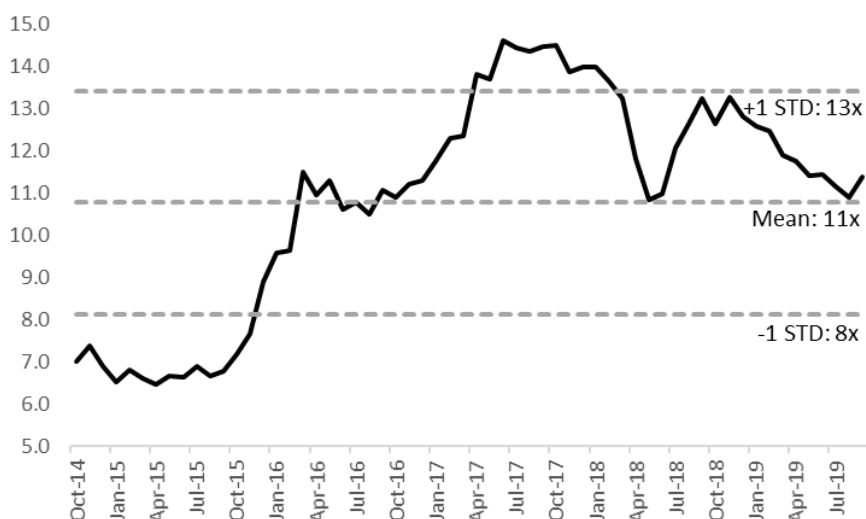
YTD, share price has increased slightly by 2% as investors are cautious of the Property Management segment contribution in light of the glut in property market especially within the affordable housing segment. Even that, Scientex has proven its resiliency by delivering earnings growth from both segments in FY19. At current level, share price is trading along the five-year forward mean PE of 11x. Given the aggressive expansion plans across the Manufacturing segment and higher-than-peers operating margin within the Property Management segment, we find the stock to be undervalued. Our TP implies a forward PE of 14x PE.

Exhibit 1: Quarterly earnings results analysis

FYE Jul RMm	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Change (%)		Cumulative		Chg (%)	KAF	
	Jul-18	Oct-18	Jan-19	Apr-19	Jul-19	QoQ	YoY	FY18	FY19	YoY	FY19	12M/F
Revenue	733	714	767	828	939	13	30	2,615	3,247	25	2,854.5	114%
~ Manufacturing	527	576	549	603	630	5	20	1,905	2,358	24	2,123.2	111%
~ Property	218	138	218	226	308	37	59	722	890	27	731.3	122%
Interest Expense	(4)	(4)	(3)	(4)	(5)	17	12	(11)	(16)	44		
Interest Income	2	1	0	2	2	(16)	(32)	7	4	(26)		
Depreciation	20	22	21	24	25	5	24	72	92	29		
EBITDA	128	97	125	127	204	61	68	437	554	28	488.3	114%
Operating Profit	108	76	103	103	179	74	77	365	462	28	402.0	115%
~ Manufacturing	26	36	39	33	67	>+100	>+100	127	175	38	175.6	100%
~ Property	82	40	65	70	112	61	50	237	287	24	226.4	127%
Reported PBT	107	73	100	101	177	74	77	362	451	27	399.0	113%
Taxation	(18)	(17)	(24)	(25)	(38)	50	>+100	(68)	(105)	59		
Minority Interest	(1)	(2)	(2)	(3)	(5)	58	>+100	(4)	(12)	189		
Exceptional items	(14)	(3)	(0)	(14)	(1)	(96)	(96)	0	(19)	nm		
Reported Profit	88	54	74	73	133	83	61	290	334	17	299.0	112%
Adj. Net Profit	103	57	74	87	134	54	38	290	353	24	299.0	118%
EPS (sen)	18	11	15	14	26	81	43	60	67	12		
Adj EPS (sen)	20	11	14	17	26	54	38	56	68	24		
DPS (sen)	10	0	0	10	10			20	20			
						%-pts	%-pts			%-pts		
Effective tax rate (%)	17	24	24	25	21	(3)	5	19	23	5		
EBITDA margin (%)	18	14	16	15	22	6	5	17	17	0		
Operating margin (%)	15	11	13	12	19	7	5	14	14	0		
~ Manufacturing (%)	5	6	7	6	11	5	6	7	7	1		
~ Property	38	29	30	31	57	26	19	33	32	(1)		
Pretax margin (%)	15	10	13	12	19	7	5	14	14	0		
Net margin (%)	14	8	10	10	14	4	1	11	11	0		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 3: Sum-of-Parts valuation

Segment	Based on FY20	Valuation
Manufacturing	25x PE	3,602
Property	1.0x PB	1,630
	Equity value (RMm)	5,232
	Outstanding shares (m)	515
	Target Price (RM)	10.15

Source: KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Revenue	2,603	3,247	3,579	3,901	3,991
EBITDA	429	554	624	697	734
Depreciation/Amortisation	(72)	(92)	(100)	(115)	(129)
Operating income (EBIT)	357	462	524	582	604
Other income & associates	0	0	10	11	12
Net interest	(3)	(11)	(13)	(14)	(16)
Exceptional items	0	(19)	0	0	0
Pretax profit	355	432	521	578	600
Taxation	(66)	(105)	(121)	(139)	(144)
Minorities/pref dividends	(4)	(12)	(13)	(15)	(15)
Net profit	285	334	386	425	441
Core net profit	285	353	386	425	441

Balance Sheet

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	1,151	1,248	1,439	1,614	1,776
Intangible assets	59	294	294	294	294
Other long-term assets	902	784	784	784	784
Total non-current assets	2,173	2,409	2,600	2,775	2,937
Cash & equivalent	172	258	303	294	287
Stock	264	321	354	386	395
Trade debtors	543	735	810	883	903
Other current assets	233	385	385	385	385
Total current assets	1,212	1,698	1,852	1,947	1,970
Trade creditors	526	597	658	717	734
Short-term borrowings	610	704	604	504	354
Other current liabilities	24	29	29	29	29
Total current liabilities	1,160	1,330	1,291	1,250	1,116
Long-term borrowings	324	270	370	370	370
Other long-term liabilities	82	109	109	109	109
Total long-term liabilities	406	379	479	479	479
Shareholders' funds	1,750	2,225	2,508	2,820	3,137
Minority interests	70	174	174	174	174

Cash flow Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	355	432	521	578	600
Depreciation/Amortisation	72	92	100	115	129
Net change in working capital	38	86	(47)	(45)	(13)
Others	(72)	(53)	(104)	(120)	(123)
Cash flow from operations	392	557	470	528	594
Capital expenditure	(65)	(48)	(48)	(48)	(48)
Net investments & sale of fixed assets	(146)	(89)	(93)	(93)	(93)
Others	(492)	(161)	(163)	(165)	(165)
Cash flow from investing	(703)	(299)	(304)	(306)	(306)
Debt raised/(repaid)	365	15	0	(100)	(150)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(56)	(100)	(103)	(113)	(124)
Others	(18)	(88)	(17)	(19)	(21)
Cash flow from financing	291	(173)	(120)	(232)	(294)
Net cash flow	(20)	85	46	(9)	(7)
Net cash/(debt) b/f	192	172	258	303	294
Net cash/(debt) c/f	172	258	303	294	287

Key Ratios

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue growth (%)	8.3	24.8	10.2	9.0	2.3
EBITDA growth (%)	7.5	29.1	12.6	11.8	5.2
Pretax margins (%)	13.6	13.3	14.6	14.8	15.0
Net profit margins (%)	10.9	10.3	10.8	10.9	11.1
Interest cover (x)	132.3	41.3	41.8	41.5	38.6
Effective tax rate (%)	18.6	24.3	23.2	24.0	24.0
Net dividend payout (%)	34.2	30.9	29.3	29.1	30.4
Debtors turnover (days)	63	65	69	76	78
Stock turnover (days)	30	33	34	35	36
Creditors turnover (days)	66	63	64	64	66

Source: Bloomberg, KAF

* From this year onwards year end is Jul

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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