

Scientex Berhad

TP: RM10.30 (+15.9%)

Conclude FY19 with Stellar Quarterly Performance

Last Traded: RM8.89

Buy

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Review

- Scientex Berhad's FY19 core earnings of RM354.9mn (+25.8% YoY) came above ours and consensus estimates at 110% and 116% respectively. The positive surprise was largely due to better-than-expected revenue from Property and higher-than-expected Manufacturing's operating profit margin (due to favourable raw material prices and operational efficiencies).
- The group declared final dividend of 10.0sen/share, bringing YTD DPS to 20.0sen/share (similar to the amount declared in FY18).
- Manufacturing.** FY19 revenue improved by 23.8% YoY to RM2.36bn driven by: i) newly-acquired subsidiary, Daibochi Berhad and Klang Hock Plastic Industries; and ii) increasing production of stretch film in Phoenix. Meanwhile, FY19 operating profit improved by 38.1% YoY to RM175.2mn mainly due to better sales mix, favourable raw material price (specifically in 4QFY19) and higher utilisation of machinery.
- Property.** FY19 revenue recorded growth of 27.4% YoY to RM889.6mn driven by good take up rate recorded for new launches (mainly in 2HFY19) alongside improved progress billings. FY19 operating profit improved to RM286.5mn (+24.3% YoY). FY19 Property EBIT margin of 32.2% came in stronger than guidance of 28-31%.

Impact

- We raise our earnings by 4.2% and 6.3% for FY20 and FY21 whilst also introduce FY22 earnings estimate of RM486.2mn. Given the traction of Property's GDV launches, we raise our FY20/21 GDV launches assumption to RM1.30/1.35bn, and its corresponding new sales. Moreover, we reduce our cost of sales assumption for Manufacturing, in tandem with lower raw material prices. As for converting business, our FY20 net earnings assumption is reduced by 15% given that there may still be cost incurrence associated to integrate the business.

Outlook

- Manufacturing.** Management will focus on capturing US stretch film market through its plant in Arizona alongside growing its converting business through Daibochi and Mega Printing & Packaging. In longer-term, Scientex aims to achieve annual sales of RM8bn from its manufacturing segment by 2028.
- Property.** Management guided that the group will continue to focus on the affordable housing segment, which has been receiving good take-up rate. FY20 targeted GDV of new launches is RM1.3bn (c.4.9k units), c.18% higher than FY19 launched GDV of RM1.1b.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.2
Market Cap (RMmn)	4,580.3
52-wk Hi/Lo (RM)	9.48/8.11
12-mth Avg Daily Vol ('000 shrs)	281.6
Estimated Free Float (%)	38.4
Beta	0.7
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	21.1
Scientex Leasing Sdn Bhd	9.2
Scientex Infinity Sdn Bhd	8.0
LIM Teck Meng Sdn Bhd	7.5

Forecast Revision

	FY20	FY21
Forecast Revision (%)	4.2	6.3
Net profit (RMm)	406.1	449.2
Consensus	363.0	417.4
TA's / Consensus (%)	111.9	107.6
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net debt/ equity (%)	28.2	26.5
ROE (%)	17.1	16.7
ROA (%)	9.4	9.5
NTA/Share (RM)	4.3	5.0
Price/ NTA (x)	2.0	1.8

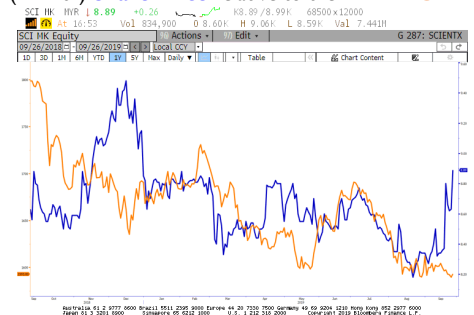
Scorecard

	% of FY19	
vs TA	110	Above
vs Consensus	116	Above

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	6.5	0.1
3 mth	3.0	(4.8)
6 mth	4.3	(3.0)
12 mth	3.9	(11.4)

(12-Mth) Share Price relative to the FBMKLCI



Valuation

- Reiterate Buy call on Scientex with higher target price of RM10.30/share (previously RM9.80/share) based on SOP valuation.

Table 1: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY20 EPS PER 20x	3,900.8
Property	CY20 EPS PER 6x	1,391.7
Total Equity value (RMmn)		5,292.5
Share cap (mn)		515.2
Target Price (RM)		10.30

Table 2: Earnings Summary (RMmn)

FYE July (RMmn)		FY18	FY19	FY20E	FY21F	FY22F
Revenue		2,602.8	3,247.4	4,076.1	4,477.8	4,790.3
EBITDA		429.1	554.1	654.4	737.8	806.7
EBIT		357.4	461.8	541.7	601.5	651.8
Reported PBT		354.7	450.6	529.1	587.4	638.5
Adj. PBT		352.4	471.8	529.1	587.4	638.5
Reported Net Profit		284.5	333.7	406.1	449.2	486.2
Adj. Net profit		282.2	354.9	406.1	449.2	486.2
Basic/Diluted EPS	(sen)	55.2	64.8	78.8	87.2	94.4
Adj. EPS	(sen)	54.8	68.9	78.8	87.2	94.4
PER	(x)	16.1	13.7	11.3	10.2	9.4
Net Dividend	(sen)	20.0	20.0	23.0	27.0	30.0
Dividend Yield	(%)	2.2	2.2	2.6	3.0	3.4

Table 3: 4QFY19 Results Analysis (RMmn)

FYE July (RMmn)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	720.7	828.5	938.8	13.3	30.3	2,602.8	3,247.4	24.8
~ Manufacturing	527.0	602.8	630.3	4.6	19.6	1,904.6	2,357.8	23.8
~ Property	193.8	225.7	308.5	36.7	59.2	698.2	889.6	27.4
Interest Expense	(4.0)	(3.8)	(4.5)	17.2	12.3	(10.8)	(15.5)	44.5
Interest Income	2.7	2.2	1.8	(16)	(32)	8.0	4.3	(46.0)
Depreciation	(20.3)	(24.0)	(25.2)	4.9	24.5	(71.7)	(92.3)	28.7
EBITDA	121.5	127.1	204.4	60.8	68.3	429.1	554.1	29.1
Operating Profit	101.2	103.1	179.2	73.9	77.1	357.4	461.8	29.2
~ Manufacturing	26.3	33.4	67.1	>100	>100	126.9	175.2	38.1
~ Property	74.9	69.7	112.1	60.8	49.7	230.5	286.5	24.3
EI	(12.1)	(14.2)	(1.4)	(90.3)	(88.6)	2.3	(21.2)	nm
Reported PBT	99.9	101.4	176.6	74.1	76.7	354.7	450.6	27.0
Taxation	(16.0)	(25.3)	(38.0)	50.3	137.4	(66.0)	(104.7)	58.7
Minority Interest	(0.9)	(3.3)	(5.2)	58.2	451.3	(4.2)	(12.2)	>100
Reported Profit	83.0	72.9	133.4	83.0	60.8	284.5	333.7	17.3
Adj. Net Profit	95.1	87.1	134.8	54.8	41.8	282.2	354.9	25.8
EPS (sen)	17.0	14.3	25.9	80.9	52.6	58.5	66.7	14.0
Adj EPS (sen)	19.4	17.1	26.2	53.0	34.5	58.0	70.9	22.2
DPS (sen)	10.0	10.0	10.0	0	0.0	20.0	20.0	0.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	14.0	12.4	19.1	6.6	5.0	13.7	14.2	0.5
~ Manufacturing	5.0	5.5	10.6	5.1	5.7	6.7	7.4	0.8
~ Property	38.7	30.9	36.3	5.5	(2.3)	33.0	32.2	(0.8)
PBT Margin (%)	13.9	12.2	18.8	6.6	4.9	13.6	13.9	0.2
Net Margin (%)	13.2	10.5	14.4	3.8	1.2	10.8	10.9	0.1
Tax rate (%)	16.0	24.9	21.5	(3.4)	5.5	18.6	23.2	4.6

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.

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As of Friday, September 27, 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

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