

COMPANY RESULTS

Scientex (SCI MK)

4QFY19: Above Expectations; Registered Record Quarterly Results

Scientex recorded its highest ever quarterly results. Higher utilisation rates, consolidation of newly-acquired subsidiaries and significantly lower resin prices boosted manufacturing performance, while improved progress billings from its record high unbilled sales contributed to the property segment's performance. We upgrade FY20F and FY21F EPS by 4% and roll forward our valuation to FY20. Maintain BUY with a higher target price of RM10.67.

4QFY19 RESULTS

Year to 31 Jul (RMm)	4QFY19	qoq % chg	yoy % chg	12MFY19	yoy % chg
Turnover	938.8	13.3	28.0	3,247.4	23.8
Manufacturing	630.3	4.6	19.6	2,357.9	23.8
Property	308.5	36.7	49.6	889.5	23.2
EBIT	179.2	73.9	65.6	461.8	26.7
Manufacturing	67.1	+>100	+>100	175.3	38.2
Property	112.1	60.9	36.9	286.5	20.6
Finance costs	(4.5)	17.2	12.3	(15.5)	44.5
PBT	176.6	52.7	65.2	450.6	24.6
Core net profit	133.0	52.7	32.5	353.1	22.8
Margins (%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	19.1	6.6	4.3	14.2	0.3
-Manufacturing	10.6	5.1	5.7	7.4	0.8
-Property	36.4	5.5	(3.4)	32.2	(0.7)
PBT	18.8	4.9	4.2	13.9	0.1
Core net profit	14.2	3.7	0.5	10.9	(0.1)

Source: Scientex, UOB Kay Hian

RESULTS

• **Above expectations.** Scientex registered a record set of quarterly results in 4QFY19, bringing full-year FY19 core net profit to RM353.1m (+22.8% yoy), which accounted for 108% and 115% of our and consensus earnings estimates respectively. The discrepancy was mainly on the property side which came in significantly stronger. Note that the manufacturing division was in line with our assumptions. Meanwhile, the group has announced a final DPS of 10 sen, bringing FY19 DPS to 20 sen, implying a dividend yield of 2.4%. This represents a payout ratio of 27%, in-line with the group's dividend policy of 30%.

KEY FINANCIALS

Year to 31 Jul (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,603	3,247	3,694	4,347	5,324
EBITDA	429	554	626	710	827
Operating profit	357	462	532	603	708
Net profit (rep./act.)	285	334	407	463	545
Net profit (adj.)	284	353	407	463	545
EPS (sen)	58.8	72.9	84.1	95.7	112.6
PE (x)	15.1	12.2	10.6	9.3	7.9
P/B (x)	2.5	1.9	1.7	1.5	1.3
EV/EBITDA (x)	12.7	9.9	8.7	7.7	6.6
Dividend yield (%)	1.9	2.2	2.8	3.2	3.8
Net margin (%)	10.9	10.3	11.0	10.6	10.2
Net debt/(cash) to equity (%)	43.6	32.2	19.5	15.3	10.8
Interest cover (x)	39.9	35.7	40.0	45.9	53.4
ROE (%)	17.4	16.8	17.2	17.3	18.0
Consensus net profit	-	-	359	415	-
UOBKH/Consensus (x)	-	-	1.13	1.11	-

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM8.89
Target Price	RM10.67
Upside	+20.0%
(Previous TP	RM9.74)

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	515.3
Market cap (RMm):	4,580.7
Market cap (US\$m):	1,092.2
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

52-week high/low	RM9.48/RM8.18			
1mth	3mth	6mth	1yr	YTD
7.2	3.9	4.6	3.0	0.5

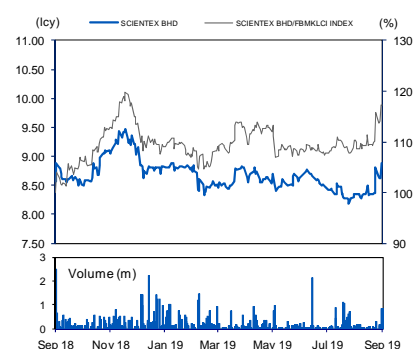
Major Shareholders

Scientex Holdings Sdn Bhd	21.06
Scientex Leasing Sdn Bhd	9.15
Scientex Infinity Sdn Bhd	7.96

FY20 NAV/Share (RM) 5.19

FY20 Net Debt/Share (RM) 1.01

PRICE CHART



Source: Bloomberg

ANALYST(S)

Malaysia Research Team
+603 2147 1988
research@uobkayhian.com

- Manufacturing division sustained its momentum in 4QFY19.** 4QFY19 manufacturing revenue rose 4.6% qoq and 19.6% qoq and yoy respectively to RM630.3m thanks to: a) higher utilisation rates seen across its various manufacturing plants, and b) successful consolidation of newly-acquired subsidiaries namely, Daibochi and Klang Hock Plastic Industries (KHPI). Moreover, with an improved sales mix and substantially lower resin prices during the quarter, EBIT rose by more than 100% qoq and yoy. Consequently, manufacturing EBIT margin expanded 5.1% and 5.7% to 10.6%. Note that overall utilisation rate stood at approximately 75% as of 4QFY19 (3QFY19: 70%) with BOPP and Arizona plants achieving approximately 70% and 40% rates respectively. Management also concurred that the US plant has recently turned EBITDA positive and it is in the midst of installing a third production line that is fully automated to ease the high labour costs.

- Property segment further accelerates to clock in another record quarter in 4QFY19.** Scientex's property segment revenue came in at RM308.5 (+36.7% qoq, +49.6% yoy) on the back of steady progress billings contributed by the RM750m unbilled sales as of the last quarter. The contributions were mainly from new development projects in Johor, Melaka and Rawang. Meanwhile, Scientex has achieved its target in successfully launching new properties worth RM1.1b in GDV in FY19 with unbilled sales standing at RM780m in 4QFY19 (3QFY18: RM500m). Management alluded that demand has been strong with take-up rate of approximately 80%. Moving forward, the group intends to launch another RM1.3b worth of properties in FY20, fulfilling its vision to deliver 50,000 affordable homes by 2028.

STOCK IMPACT

- Resin prices are softening.** Resin prices have come off gradually due to the trade war, resulting in supply diversion to Southeast Asia. This has allowed buyers like Scientex to buy PE and PP at levels significantly below quoted spot prices, which according to Bloomberg dropped by approximately 2% and 6% qoq and 13% and 16% yoy respectively for the quarter ending July. Another significant determinant factor for the low resin prices is the increase in global petrochemical refinery capacity. Note that the group would partially benefit from lower resin prices, particular on custom films which have a longer lead time of about 3 months as compared to stretch film's 4-6 weeks. Based on our back-of-the-envelope calculations, a 1% drop in resin cost will translate into effective savings of 0.4%.

- To remain acquisitive under Vision 2028 strategy.** Understandably, Scientex intends to increase its manufacturing capacity to 1m MT p.a. (currently 450,000MT) and build 50,000 homes (currently 18,553) by FY28. Management alluded that the group will look further into other M&As for 70% of its manufacturing arm's expansion with the remaining 30% to be based on organic growth. As a result of its dominant position in the Malaysia packaging market, we are not ruling out the possibility of Scientex acquiring a foreign company moving forward. The few acquisitions in the past have been synergistic, allowing Scientex to access new product segments and clientele.

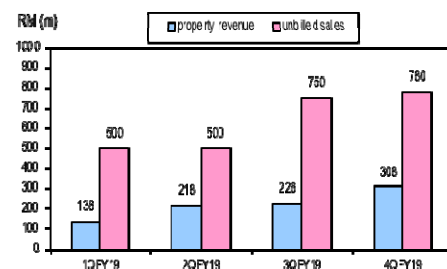
EARNINGS REVISION/RISK

- We raise our FY20 and FY21 earnings forecasts by 4% respectively on the back of some house-keeping adjustments as well as higher property progress billings. We also introduce FY22 assumptions.

VALUATION/RECOMMENDATION

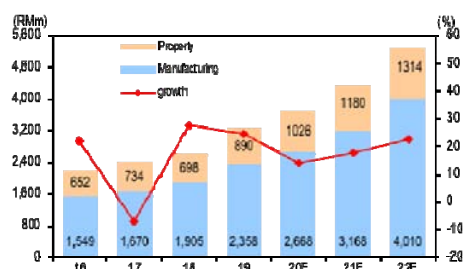
- Maintain BUY with a higher target price of RM10.67** (from RM9.74), as we roll forward our valuation to 2020 (from FY20), pegged to an unchanged 12x 2020F PE. We like the stock for its strong management team and track record, which enable the group to deliver record annual results year after year. With Scientex's Vision 2028 aim intact, we believe the group will be able to continue its growth impetus moving forward.

PROPERTY SEGMENT



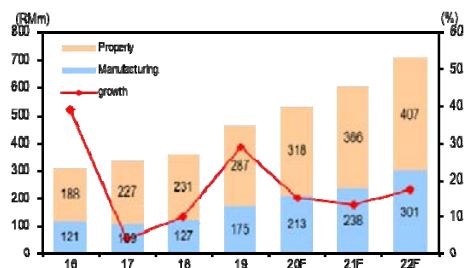
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Net turnover	3,247	3,694	4,347	5,324
EBITDA	554	626	710	827
Deprec. & amort.	92	95	107	119
EBIT	462	532	603	708
Associate contributions	4	4	4	4
Net interest income/(expense)	(16)	(16)	(15)	(15)
Pre-tax profit	451	520	592	697
Tax	(105)	(99)	(113)	(132)
Minorities	(12)	(15)	(17)	(20)
Net profit	334	407	463	545
Net profit (adj.)	353	407	463	545

CASH FLOW

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Operating	557	463	496	549
Pre-tax profit	451	520	592	697
Tax	(88)	(99)	(113)	(132)
Deprec. & amort.	82	95	107	119
Working capital changes	86	(54)	(91)	(135)
Other operating cashflows	26	0	0	1
Investing	(299)	(330)	(300)	(300)
Capex (growth)	(217)	(330)	(300)	(300)
Investments	(80)	0	0	0
Proceeds from sale of assets	3	0	0	0
Others	(5)	0	0	0
Financing	(173)	70	(139)	(162)
Dividend payments	(107)	(122)	(139)	(163)
Issue of shares	0	0	0	1
Proceeds from borrowings	31	0	0	1
Loan repayment	(65)	(24)	0	0
Others/interest paid	(32)	216	0	(1)
Net cash inflow (outflow)	85	203	57	86
Beginning cash & cash equivalent	172	258	461	518
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	258	461	518	604

BALANCE SHEET

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Fixed assets	1,248	1,483	1,676	1,858
Other LT assets	1,161	1,161	1,161	1,161
Cash/ST investment	258	461	518	604
Other current assets	1,441	1,309	1,513	1,816
Total assets	4,107	4,414	4,868	5,439
ST debt	704	650	650	650
Other current liabilities	626	657	770	938
LT debt	270	300	300	300
Other LT liabilities	109	109	109	110
Shareholders' equity	2,225	2,510	2,833	3,216
Minority interest	174	189	206	226
Total liabilities & equity	4,107	4,414	4,868	5,439

KEY METRICS

Year to 31 Jul (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	17.1	17.0	16.3	15.5
Pre-tax margin	13.9	14.1	13.6	13.1
Net margin	10.3	11.0	10.6	10.2
ROA	8.9	9.5	10.0	10.6
ROE	16.8	17.2	17.3	18.0
Growth				
Turnover	24.8	13.8	17.7	22.5
EBITDA	29.1	13.0	13.4	16.4
Pre-tax profit	27.0	15.4	13.8	17.7
Net profit	17.3	21.8	13.8	17.7
Net profit (adj.)	24.0	15.3	13.8	17.7
EPS	24.0	15.3	13.8	17.7
Leverage				
Debt to total capital	28.9	26.0	23.8	21.6
Debt to equity	43.8	37.9	33.5	29.5
Net debt/(cash) to equity	32.2	19.5	15.3	10.8
Interest cover (x)	35.7	40.0	45.9	53.4

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2019, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W