A SCIntillating quarter; reaffirm BUY

Scientex reported a good set of results – 1QFY20 core net profit of grew 45% yoy to RM83m on better performance from both property and manufacturing segments. Overall, the results were within market and our expectations (accounting for 21-22% of full year estimates) as we expect stronger property billings and higher production volumes in the coming quarter. Key drivers for Scientex – i) increasing utilisation rates and cheaper production costs for the manufacturing segment; ii) resilient demand for its affordable housing projects. There are no changes in our earnings forecasts. We maintain our BUY rating and 12-month SOTP of RM10.50.

1QFY20 core net profit grew by 45% yoy, within expectations

Scientex's 1QFY20 core net profit rose by 45% yoy to RM83m on higher revenue (+23% yoy; Fig 2) and a higher EBITDA margin (+2.7ppts to 16.8%, on higher manufacturing margins with cheaper resin costs and better production efficiency). Notably, **manufacturing segment EBIT rose by 55% yoy to RM55m**, driven by continued demand from export (+9% yoy) and domestic markets (+27% yoy; also partly lifted by subsidiary Daibochi's contribution). Elsewhere, **the property segment's EBIT expanded by 58% to RM63m** from the steady progress billing recognised for its development projects. All in, the results were within street and our expectations, accounting for 21-22% of full-year earnings forecasts.

Weaker profits sequentially, but expected

Scientex's 1QFY20 core net profit fell by 38% qoq due to the high base seen in 4QFY19 (which was a record quarter). With a sequential decline in 1QFY20's progress billing, we saw the property division's EBIT pulling back by 44% qoq to RM63m. With 1Q being a seasonally weaker quarter, we are expecting upcoming quarters to see some improvement in property numbers, underpinned by current unbilled sales of RM700m and the target GDV of RM1.1bn (est. 4.4k units across 20 property launches).

Manufacturing: ramping up utilisation, expanding in US market

Scientex is currently focused on ramping up its utilisation rate, with a target to achieve at least 70% in FY20E (vs. 1QFY20: 65%), driven by its BOPP plant and Arizona plants and through higher process automation at its plants. Post briefing, we also learnt that Scientex has made further inroads into the US market, via the acquisition of stretch film plants in Lancaster, South Carolina State, Eastern USA (no machines installed yet).

Earnings & Valuation Summary

FYE 31 July	2018	2019	2020E	2021E	2022E
Revenue (RMm)	2,602.8	3,247.4	3,696.5	4,031.9	4,057.1
EBITDA (RMm)	429.1	573.1	617.5	677.4	684.3
Pretax profit (RMm)	354.7	450.6	504.6	563.5	570.0
Net profit (RMm)	284.5	333.7	381.1	425.8	430.7
EPS (sen)	55.9	64.8	74.8	83.6	84.6
PER (x)	17.1	14.7	12.7	11.4	11.3
Core net profit (RMm)	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)	17.1	13.9	12.7	11.4	11.3
Net DPS (sen)	20.0	20.0	24.7	27.6	27.9
Dividend Yield (%)	2.1	2.1	2.6	2.9	2.9
EV/EBITDA (x)	9.6	7.3	7.2	7.0	7.4
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	0.9

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

Scientex

SCI MK
Sector: Plastic packaging

RM9.53 @ 17 December 2019

BUY (maintain)

Upside: 10.2%

Price Target: RM10.50

Previous Target: RM10.50

Price Performance

	1M	3M	12M
Absolute	4.7%	14.3%	2.3%
Rel to KLCI	6.2%	16.5%	6.7%

Stock Data

Issued shares (m)	515.3
Mkt cap (RMm)/(US$m)	4910.4/1185.6
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	8.11-9.87
Est free float	36.2%
BV per share (RM)	4.48
P/BV (x)	2.13
Net cash/ (debt) (RMm)	(713.32)
Derivatives	No
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, Bloomberg

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Property: first foray into Negeri Sembilan…

Scientex is acquiring i) 108.5 acres of freehold land in Seremban, Negeri Sembilan for RM66.2m; and ii) 85.7 acres of freehold land in Kota Tinggi, Johor for RM39.2m. We are positive on Scientex's first foray into Negeri Sembilan with the Seremban land acquisition, given the land is near most hypermarkets and is easily accessible by the North-South expressway. The acquisition price for the Seremban land based on RM14 psf looks fair, similar to the recent land transaction median price of RM14 psf in Taman Bukit Galena.

…, and stronger footing in Johor.

As for the Kota Tinggi land acquisition, the acquisition price for the Kota Tinggi land based on RM10 psf is lower than the median price transaction of RM12 psf in Kota Tinggi. The acquisitions will be funded by internally generated funds and bank borrowings. Both lands are slated for a mixed development project, but further details, ie. total GDV, development cost, commencement and completion dates are still at its infancy stage. Post-acquisition, Scientex's landbank will increase to 3,990 acres, which will help to realise its Vision 2028 to deliver 50k affordable homes by 2028 (currently 18.5k units).

Reiterate BUY with an unchanged TP of RM10.50

We maintain our earnings forecasts, BUY rating and 12-month price target of RM10.50, based on our SOTP valuation (17x FY20E PER for manufacturing; 40% discount to property RNAV). At 13x FY20E PER, Scientex's valuations look appealing. 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)	1Q FY19	4Q FY19	1Q FY20	qoq % chg	yoy % chg	Comments
Revenue	713.6	938.8	877.4	(6.5)	22.9	**yoy:** revenue grew by 23% yoy on better sales performance achieved at both manufacturing (+14% yoy) and property (+61% yoy) divisions. **qoq:** Revenue declined by 7% qoq, mainly due to lower progress billings recognized for the property segment (-28% qoq), partially lifted by higher manufacturing contribution (+4% qoq).
Op costs	(613.1)	(733.8)	(729.8)	(0.5)	19.0	
EBITDA	100.5	205.0	147.6	(28.0)	46.8	
EBITDA margin (%)	14.1	21.8	16.8	*-5.0ppt*	*2.7ppt*	**yoy:** Blended EBITDA margin improved by 2.7ppt yoy to 16.8%, partly attributable to favourable sales mix and better product margins from the manufacturing segment.
Depn and amort	(21.6)	(25.2)	(27.4)	8.8	27.1	
EBIT	79.0	179.8	120.2	(33.1)	52.2	
Int expense	(3.8)	(4.5)	(5.3)	16.6	38.9	
Int and other inc	0.7	1.8	2.6	40.3	>100	
Exceptional items	(3.4)	(0.5)	(1.7)	n.m.	n.m.	1QFY20 EI largely comprise of forex loss and disposal gain on property.
Pretax profit	**72.5**	**176.6**	**115.8**	(34.4)	59.7	
Tax	(17.2)	(38.0)	(28.4)	(25.2)	65.1	
Tax rate (%)	23.7	21.5	24.5	*3.0ppt*	*0.8ppt*	
MI	(1.7)	(5.2)	(6.5)	24.4	>100	
Net profit	**53.7**	133.4	81.0	(39.3)	50.9	
EPS (sen)	10.4	25.9	15.7	(39.3)	50.9	
Core net profit	**57.0**	**134.0**	**82.6**	(38.3)	44.9	Within street and our expectation, accounting for 21-22% of full year estimate

Source: Company data, Affin Hwang estimates

Fig 2: Segmental breakdown

FYE 31 July (RMm)	1Q FY19	4Q FY19	1Q FY20	qoq % chg	yoy % chg
Revenue					
-Manufacturing	575.8	630.3	655.9	4.1	13.9
-Property	137.8	308.5	221.5	-28.2	60.7
Total	**713.6**	**938.8**	**877.4**	-6.5	22.9
EBIT					
-Manufacturing	35.8	67.1	55.5	-17.4	54.9
- Property	39.8	112.1	63.1	-43.8	58.4
Total*	**75.6**	**179.2**	**118.5**	-33.9	56.8
EBIT margins (%)					
-Manufacturing	6.2	10.6	8.5	*-2.2ppt*	*2.2ppt*
-Property	28.9	36.3	28.5	*-7.9ppt*	*-0.4ppt*
Overall	10.6	19.1	13.5	*-5.6ppt*	*2.9ppt*

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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