Impressive 6MFY20; maintain BUY

Scientex reported a good set of results: 6MFY20 core net profit jumped 38% yoy to RM183m on better performances from both its property and manufacturing segments. Sequentially, 2QFY20 core net profit grew by 21% qoq to RM100m driven by margin expansion, buoyed by favourable sales mix and benefitting from cheaper resin costs, we believe. Overall, the results were in line with street and our expectations. Nonetheless, we trim our FY20-22E EPS forecasts by 4-7%, taking into account the potential impact of Covid-19, and lower our TP to RM10.10 (from RM10.50). We are keeping our BUY call given its solid execution, earnings track record and growth.

6MFY20 core net profit within expectations

Scientex's 6MFY20 core net earnings grew by 38% yoy to RM183m, driven by higher contributions from the manufacturing and property divisions. **Property's EBIT grew by 32% yoy to RM139m**, contributed by steady progress billings from existing projects in Kulai, Melaka, Selangor and Perak, as well as a maiden contribution from Taman Pulai Mutiara 2, Johor. **Manufacturing's EBIT also ballooned by 61% yoy to RM121m**, driven by higher sales volume from the export (+10% yoy) and domestic markets (+34% yoy, thanks to the contribution from Daibochi's converting business). Overall, the results were within street and our expectations – 6MFY20 core net profit accounted for 47-48% of the street's and our full-year profit forecasts.

Sequentially, earnings grew by 21% on higher revenue and margins

Elsewhere, Scientex's 2QFY20 core earnings rose by 21% qoq to RM100m on higher revenue (+4% qoq, mainly from higher property sales) and a 1.8ppts increase in its 2QFY20 EBITDA margin to 18.6% (both segments experienced higher margins, see Fig 2).

Plastic manufacturing may wrinkle from Covid-19 outbreak

For the plastic manufacturing division, Scientex shared during the results briefing conference call that the shipments for Scientex's flexible plastic packaging may face some delays in the near term, especially from Korea and Japan – both markets contributed an average 23.5% of manufacturing revenue between FY15-19. On a brighter note, we learnt that Scientex, as a leading global plastics player, has received numerous enquiries from MNCs looking for alternative suppliers for flexible plastic packaging, due to temporary supply-chain disruptions in China amid the Covid-19 outbreak.

Earnings & Valuation Summary

FYE 31 July	2018	2019	2020E	2021E	2022E
Revenue	2,602.8	3,247.4	3,222.9	3,443.5	3,638.9
EBITDA	429.1	573.1	591.1	651.1	679.0
Pretax profit	354.7	450.6	467.3	525.1	547.3
Net profit	284.5	333.7	354.2	398.1	414.9
EPS (sen)	55.2	64.8	68.7	77.3	80.5
PER (x)	16.2	13.8	13.0	11.5	11.1
Core net profit	284.5	352.7	358.4	398.1	414.9
Core EPS (sen)	55.9	68.5	70.4	78.2	81.5
Core EPS growth (%)	12.6	22.5	2.8	11.1	4.2
Core PER (x)	16.0	13.0	12.7	11.4	11.0
Net DPS (sen)	20.0	20.0	23.0	25.8	26.9
Dividend yield (%)	2.2	2.2	2.6	2.9	3.0
EV / EBITDA (x)	8.8	6.8	6.6	6.2	6.3
Chg in EPS (%)			(6.0)	(6.5)	(3.7)
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

Scientex

SCI MK
Sector: Plastic packaging

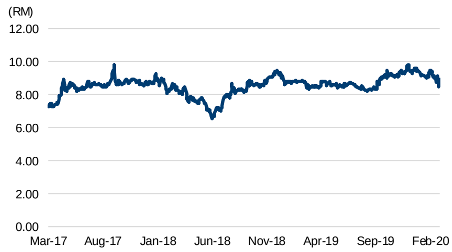
RM8.92 @ 11 March 2020

BUY (maintain)

Upside: 13.2%

Price Target: RM10.10

Previous Target: RM10.50



Price Performance

	1M	3M	12M
Absolute	-1.4%	-6.2%	4.7%
Rel to KLCI	5.9%	1.6%	20.7%

Stock Data

Issued shares (m)	515.9
Mkt cap (RMm)/(US$m)	4601.6/1088
Avg daily vol - 6mth (m)	0.3
52-wk range (RM)	8.11-9.87
Est free float	36.0%
BV per share (RM)	4.48
P/BV (x)	1.99
Net cash/(debt) (RMm)	(713.32)
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.1%
Scientex Infinity SB	8.4%
Lim Teck Meng	7.5%

Source: Affin Hwang, Company, Bloomberg

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Political uncertainty may hamper appetite for Scientex's property

As for the property division, Scientex continues to see healthy c.80% take-up rates for its affordable homes across Peninsular Malaysia. Although management remains positive on its property division, we think the uncertainty in the political arena could potentially see a: i) delay in regulatory approvals and ii) deter Malaysians from spending on big-ticket items. Nonetheless, we expect the FY20E property numbers will be well supported by the current unbilled sales of RM750m and target GDV of RM1.1bn (est: 4.4k units across 20 launches).

Maintain BUY with lower TP of RM10.10 (from RM10.50)

In spite of the strong 6MFY20 earnings, we have trimmed our FY20-22E EPS forecasts by 4-7% after incorporating lower sales volume for both manufacturing and property due to the disruption from the Covid-19 outbreak. In tandem, we lowered our 12-month price target to RM10.10 (from RM10.50) based on a SOTP valuation. We lowered our PE multiple for the plastic manufacturing segment to 15x (+1SD of 3-year forward PER; from 17x) and a 40% discount to its estimated RNAV/share for the property segment respectively. At a 13x FY20E PER, Scientex's valuation looks appealing, considering its solid earnings delivery and execution. Maintain BUY. Key downside risks: (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)	2Q19	1Q20	2Q20	qoq % chg	yoy % chg	6MFY19	6MFY20	yoy % chg	Comments
Revenue	766.6	877.4	914.4	4.2	19.3	1,480.2	1,791.7	21.0	6MFY20 revenue grew by 21% yoy on better sales performance from manufacturing (+17% yoy) and property (+34%) divisions.
Op costs	(640.0)	(729.8)	(744.4)	2.0	16.3	(1,253.1)	(1,474.2)	17.6	
EBITDA	**126.6**	**147.6**	**170.0**	15.2	34.3	**227.1**	**317.6**	39.9	
EBITDA (%)	16.5	16.8	18.6	*1.8ppt*	*2.1ppt*	15.3	17.7	*2.4ppt*	Blended EBITDA margins improved by 2.4ppt yoy to 17.7%, attributable to favourable sales mix and cheaper resin cost from the manufacturing segment.
Depn&amort	(21.5)	(27.4)	(26.7)	(2.5)	24.5	(43.0)	(54.1)	25.8	
EBIT	105.1	120.2	143.3	19.2	36.3	184.0	263.4	43.1	
Int exp	(3.4)	(5.3)	(4.3)	(17.5)	27.1	(7.2)	(9.6)	33.3	
Int/other inc	(0.4)	2.6	3.0	17.2	n.m.	0.3	5.6	>100	
EI	(1.2)	(1.7)	(2.5)	46.7	>100	(4.6)	(4.1)	(9.5)	Largely forex items in 2Q20
PBT	100.0	115.8	139.5	20.4	39.4	172.6	255.3	47.9	
Core PBT	**100.5**	**113.3**	**136.5**	**20.5**	35.8	**172.3**	**249.7**	44.9	
Tax	(24.3)	(28.4)	(33.7)	18.8	39.0	(41.5)	(62.1)	49.8	
Tax rate (%)	24.3	24.5	24.2	*-0.3ppt*	*-0.1ppt*	24.0	24.3	*0.3ppt*	
MI	(2.0)	(6.5)	(8.3)	27.5	308.8	(3.7)	(14.8)	298.9	
Net profit	**73.7**	**81.0**	**97.5**	20.4	32.2	**127.4**	**178.4**	40.0	
EPS (sen)	14.3	15.7	18.9	20.4	32.2	24.7	34.6	40.0	
Core profit	**75.0**	**82.6**	**99.9**	20.9	33.3	**132.0**	**182.6**	38.3	Within expectations - 47% and 48% of our and street FY20 forecast respectively

Source: Company, Affin Hwang estimates

Fig 2: Segmental breakdown

FYE 31 July (RMm)	2Q FY19	1Q FY20	2Q FY20	qoq % chg	yoy % chg	6M FY19	6M FY20	yoy % chg
Revenue								
-Manufacturing	549.0	655.9	659.4	0.5	20.1	1,124.8	1,315.3	16.9
-Property	217.6	221.5	255.0	15.1	17.2	355.4	476.5	34.0
Total	**766.6**	**877.4**	**914.4**	4.2	19.3	**1,480.2**	**1,791.7**	**21.0**
EBIT								
-Manufacturing	39.0	55.5	65.2	17.6	67.3	74.8	120.6	61.4
- Property	64.9	63.1	75.6	19.9	16.5	104.7	138.6	32.4
Total*	**103.9**	**118.5**	**140.8**	18.8	35.5	**179.5**	**259.3**	**44.5**
EBIT margins (%)								
-Manufacturing	7.1	8.5	9.9	*1.4ppt*	*2.8ppt*	6.6	9.2	*2.5ppt*
-Property	29.8	28.5	29.6	*1.2ppt*	*-0.2ppt*	29.5	29.1	*-0.4ppt*
Overall	13.6	13.5	15.4	*1.9ppt*	*1.8ppt*	12.1	14.5	*2.3ppt*

Source: Company
**not adjusted for EI*

Fig 3: Revised SOTP of RM10.10 (from RM10.50)

Segmental	Equity value	multiple	Share base	Equity value per	Comment
Plastic packaging	2,639.7	**PE 15.0x**	515.6	5.12	Pegged to 15x FY20E (from 17x)
Property			515.6	4.99	40% discount to RNAV
SOP (RM)				**10.10**	

Source: Affin Hwang estimates

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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