

# Scientex Berhad

**TP: RM12.50** (+40.1%)

Remarkable Double-Digits Growth

Last Traded: RM8.92

**Buy**

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### Review

- Scientex Berhad's IHFY20 core earnings of RM182.6mn (+37.2% YoY) came in within our and consensus estimates at 45% and 47% respectively.
- Manufacturing.** IHFY20 revenue improved 16.9% YoY to RM1.32bn on the back of: i) contribution from newly-acquired converting business, Daibochi; alongside ii) increasing sales volume. Meanwhile, IHFY20 operating profit surged by 61.4% YoY to RM120.6mn owing to better sales mix, favourable raw material price and higher plant utilisation. Note that converting business enjoyed better margin than film manufacturing business. This can be evidenced by Daibochi's IHFY20 results, where operating profit margin was c.12% compared to Scientex film manufacturing business's operating profit margin of c.8%.
- Property.** IHFY20 operating profit improved to RM138.6mn (+32.4% YoY) underpinned by revenue growth of 34.0% YoY to RM476.5mn. This was driven by improved progress billings from its projects, particularly Pulau Mutiara, Senai Utama, Rawang and Durian Tunggal.
- No dividend was declared during the quarter under review.

### Impact

- No change to our earnings forecasts.

### Outlook

- Manufacturing.** In relation to Covid-19, we think it may lead to slight change in geographical exposure, where slower activity in Japan and Korea to be offset by new opportunities arising from customers who are in search for stable supplies. Meanwhile, management will focus on capturing US stretch film market through its plant in Arizona alongside growing its converting business through Daibochi. Various process automation enhancements and capacity expansion are being implemented in Scientex's production facilities to boost efficiency, cost effectiveness alongside capacity.
- Property.** Scientex will continue to focus on the affordable housing segment, where demands has been encouraging. Land banking activities would remain robust with the group opportunistically tapping into new areas to broaden its footprint. Meanwhile, acquisition of the Tasek Gelugor, Penang and Kundang, Selangor lands have been completed and the group intend to launch projects for these areas in 2HCY20.

### Valuation

- Reiterate Buy call on Scientex with unchanged target price of RM12.50/share based on SOP valuation.

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.2
Market Cap (RMmn)	4,595.8
52-wk Hi/Lo (RM)	9.87/8.11
12-mth Avg Daily Vol ('000 shrs)	251.0
Estimated Free Float (%)	36.0
Beta	0.7
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.0
Scientex Leasing Sdn Bhd	9.1
Scientex Infinity Sdn Bhd	8.4
LIM Teck Meng Sdn Bhd	7.5

### Forecast Revision

	FY20	FY21
Forecast Revision (%)	-	-
Net profit (RMm)	406.1	449.2
Consensus	391.7	443.8
TA's / Consensus (%)	103.7	101.2
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)	2.1	1.8

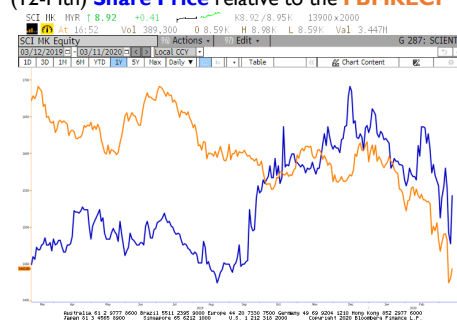
### Scorecard

	% of FY20	
vs TA	45	Within
vs Consensus	47	Within

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(4.5)	(6.4)
3 mth	(8.5)	(7.9)
6 mth	7.2	(9.8)
12 mth	7.1	(13.6)

### (12-Mth) Share Price relative to the FBMKLCI



**Table 1: Sum-of-Parts Valuation**

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY21 EPS PER 20x	4,108.8
Property	CY21 EPS PER 9x	2,330.3
Total Equity value (RMmn)		6,439.2
Share cap (mn)		515.2
<b>Target Price (RM)</b>		<b>12.50</b>

**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)	16.2	13.8	11.3	10.2	9.5
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: 2QFY20 Results Analysis (RMmn)**

FYE July (RMmn)	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	766.6	877.4	914.4	4.2	19.3	1,480.2	1,791.7	21.0
~ 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
Interest Expense	(3.4)	(5.3)	(4.3)	(17.5)	27.1	(7.2)	(9.6)	33.3
Interest Income	0.4	2.6	1.3	(51.4)	>100.0	1.1	2.5	>100.0
Depreciation	(21.5)	(26.8)	(26.7)	(0.1)	24.5	(43.0)	(53.5)	24.3
EBITDA	124.5	145.3	169.3	16.5	35.9	221.7	315.9	42.5
Operating Profit	103.1	118.5	142.6	20.3	38.3	178.6	262.4	46.9
~ 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
EI	(1.3)	(1.8)	(2.3)	25.4	78.9	(5.6)	(4.1)	(26.7)
Reported PBT	100.0	115.8	139.5	20.4	39.4	172.6	255.3	47.9
Taxation	(24.3)	(28.4)	(33.7)	18.8	39.0	(41.5)	(62.1)	49.8
Minority Interest	(2.0)	(6.5)	(8.3)	27.5	>100.0	(3.7)	(14.8)	>100.0
Reported Profit	73.7	81.0	97.5	20.4	32.2	127.4	178.4	40.0
Adj. Net Profit	75.0	82.8	99.8	20.5	33.0	133.1	182.6	37.2
EPS (sen)	15.1	15.7	18.9	20.4	25.4	26.1	34.6	32.8
Adj EPS (sen)	15.3	16.1	19.4	20.5	26.2	27.2	35.4	30.2
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>
EBIT Margin (%)	13.4	13.5	15.6	2.1	2.1	12.1	14.6	2.6
~ Manufacturing	7.1	8.5	9.9	1.4	2.8	6.6	9.2	2.5
~ Property	29.8	28.5	29.6	1.2	(0.2)	29.5	29.1	(0.4)
PBT Margin (%)	13.1	13.2	15.3	2.1	2.2	11.7	14.3	2.6
Net Margin (%)	9.8	9.4	10.9	1.5	1.1	9.0	10.2	1.2
Tax rate (%)	24.3	24.5	24.2	(0.3)	(0.1)	24.0	24.3	0.3

### 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 Thursday, March 12, 2020, 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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