

### COMPANY RESULTS

#### Scientex (SCI MK)

2QFY20: Another Good Set Of Results

**Scientex's 2QFY20 core net profit of RM99.8m (+20.5% qoq, +33.0% yoy) was supported by its manufacturing and property development segments. Stronger utilisation rates across manufacturing plants enabled the group to achieve better economies of scale and higher margins, while its focus on affordable housing reaped outstanding results too. We expect earnings momentum to continue amid the challenging global economy. Maintain BUY. Target price: RM10.67.**

#### 2QFY20 RESULTS

Year to 31 Jul (RMm)	2QFY20	qoq % chg	yoy % chg	6MFY20	yoy % chg
Turnover	914.4	4.2	19.3	1,791.7	21.0
Manufacturing	659.4	0.5	20.1	1,315.3	16.9
Property	255.0	15.1	17.2	476.4	34.1
EBIT	140.8	18.8	35.5	259.3	44.5
Manufacturing	65.2	17.5	67.2	120.7	61.4
Property	75.6	20.0	16.5	138.6	32.4
Finance costs	(4.3)	(17.5)	27.1	(9.6)	33.3
PBT	139.5	20.4	39.4	255.3	47.9
Core net profit	99.8	20.5	33.0	182.6	37.2
<b>Margins (%)</b>	<b>(%)</b>	<b>qoq ppt chg</b>	<b>yoy ppt chg</b>	<b>(%)</b>	<b>yoy ppt chg</b>
EBIT	15.4	1.9	1.8	14.5	2.3
-Manufacturing	9.9	1.4	2.8	9.2	2.5
-Property	29.6	1.2	(0.2)	29.1	(0.4)
PBT	15.3	2.1	2.2	14.3	2.6
Core net profit	10.9	1.5	1.1	10.2	1.2

Source: Scientex, UOB Kay Hian

#### RESULTS

• **Within expectations.** Scientex's 2QFY20 core net profit came in at RM99.8m (+20.5% qoq, +33.0% yoy), bringing 1HFY20 core net profit to RM182.6m (+37.2% yoy), which accounted for 45% and 47% of our and consensus estimates respectively. The stellar results were buoyed by favourable performances at both its manufacturing and property development segments.

#### 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)	15.2	12.2	10.6	9.3	7.9
P/B (x)	2.5	1.9	1.7	1.5	1.3
EV/EBITDA (x)	12.3	9.5	8.4	7.4	6.4
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	-	-	392	444	475
UOBKH/Consensus (x)	-	-	1.04	1.04	1.15

Source: Scientex, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM8.92
Target Price	RM10.67
Upside	+19.6%

#### 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):	515.9
Market cap (RMm):	4,601.6
Market cap (US\$m):	1,087.6
3-mth avg daily t'over (US\$m):	0.7

#### Price Performance (%)

52-week high/low RM9.84/RM8.18

1mth	3mth	6mth	1yr	YTD
(1.4)	(6.2)	4.9	4.7	(5.6)

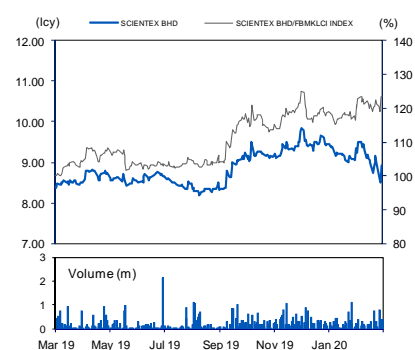
#### Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.04
Scientex Leasing Sdn Bhd	9.14
Scientex Infinity Sdn Bhd	8.39

FY20 NAV/Share (RM) 5.19

FY20 Net Debt/Share (RM) 1.01

#### PRICE CHART



Source: Bloomberg

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- Manufacturing: Revenue jumped 20.1% yoy to RM659.4m** on: a) improved utilisation rates to 65% (2QFY19: 60%) across its flexible packaging manufacturing plants; and b) higher sales volume from its newly-acquired conversion businesses - Daibochi and Mega Printing & Packaging (MPP). Daibochi's record quarterly results were partly aided by its first-mover launch of ESG compliant packaging for the F&B market. Together with improved sales mix amid higher margins from converting services and lower resin costs (2QFY20: US\$900/MT), EBIT surged 36% yoy, bringing EBIT margin to 9.9% (+2.8ppt yoy).
- Property: Top-line rose 17% yoy to RM255m** on the back of steady progress billings contributed by the RM700m unbilled sales as of 1QFY20 from development projects in Johor, Melaka, Selangor and Perak. Meanwhile, Scientex launched RM447.5m worth of new properties in 1HFY20 with unbilled sales standing at RM740m in 2QFY20. Management alluded that demand has been strong with take-up rate of about 80%. The group intends to launch RM1.1b worth of properties in FY20, fulfilling its vision to deliver 50,000 affordable homes by 2028.

### STOCK IMPACT

- On track to achieve 70% utilisation rate in FY20 as the group increases capacity.** Scientex is on track to achieve utilisation rate of 70% in FY20 (FY19: 60%), driven by: a) full-year contribution from Daibochi and MPP; and b) smooth ramp-up at the biaxially-oriented polypropylene (BOPP) and the new stretch film plant in Arizona. Meanwhile, the group is looking to diffuse production bottlenecks at some of its factories, primarily the stretch film (+10% of existing capacity), printing and laminating plants.
- Resin costs to remain low.** Resin prices have come off gradually due to: a) Covid-19 as global growth tapers; b) increase in global petrochemical refinery capacity; c) the US-China trade war which resulted in supply diversion to Southeast Asia; and d) the ongoing oil feud between OPEC and Russia. Note that Scientex would partially benefit from lower resin prices, particular on custom films which have a longer lead time of about 3 months vs stretch film's 4-6 weeks. Based on our back-of-the-envelope calculations, a 1% drop in resin cost will translate into savings of 0.4%.
- Resilient orders and supply chain amid Covid-19.** We gather that Scientex's supply chain is not impacted by Covid-19 so far as the group does not buy raw materials from China. While orders from its Japanese and Korean customers have come off slightly, overall sales have been cushioned by the diversion of customers who had in the past purchased from China and Korea.

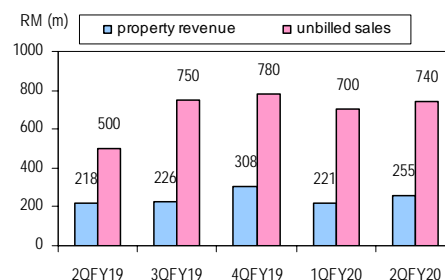
### EARNINGS REVISION/RISK

- No change to net profit forecasts.** We expect net profit to grow 15% yoy in FY20, supported by: a) stronger utilisation rates across manufacturing plants which enable the group to achieve better economies of scale and higher margins; b) consolidation of Daibochi and MPP; and c) high unbilled sales and take-up rates at its property projects.

### VALUATION/RECOMMENDATION

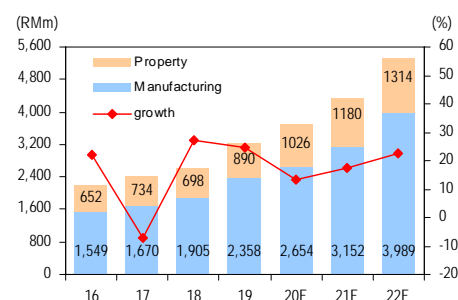
- Maintain BUY and target price of RM10.67,** based on 12x FY20F PE. We deem the share price weakness (-6% ytd) a good opportunity to accumulate the stock, given the strong management team and track record which allow the group to deliver record results year after year. Scientex remains a rare gem which continues to deliver robust earnings growth.

### PROPERTY SEGMENT



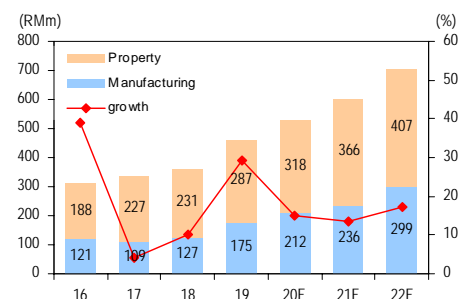
Source: Scientex, UOB Kay Hian

### 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
<b>Net turnover</b>	<b>3,247</b>	<b>3,694</b>	<b>4,347</b>	<b>5,324</b>
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)
<b>Pre-tax profit</b>	<b>451</b>	<b>520</b>	<b>592</b>	<b>697</b>
Tax	(105)	(99)	(113)	(132)
Minorities	(12)	(15)	(17)	(20)
<b>Net profit</b>	<b>334</b>	<b>407</b>	<b>463</b>	<b>545</b>
Net profit (adj.)	353	407	463	545

### 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
<b>Total assets</b>	<b>4,107</b>	<b>4,414</b>	<b>4,868</b>	<b>5,439</b>
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
<b>Total liabilities &amp; equity</b>	<b>4,107</b>	<b>4,414</b>	<b>4,868</b>	<b>5,439</b>

### CASH FLOW

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>557</b>	<b>463</b>	<b>496</b>	<b>549</b>
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
<b>Investing</b>	<b>(299)</b>	<b>(330)</b>	<b>(300)</b>	<b>(300)</b>
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
<b>Financing</b>	<b>(173)</b>	<b>70</b>	<b>(139)</b>	<b>(162)</b>
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)
<b>Net cash inflow (outflow)</b>	<b>85</b>	<b>203</b>	<b>57</b>	<b>86</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>172</b>	<b>258</b>	<b>461</b>	<b>518</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>258</b>	<b>461</b>	<b>518</b>	<b>604</b>

### KEY METRICS

Year to 31 Jul (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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

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