

23 Jun 2020

Buy

Price
 RM8.62

Target Price
 RM9.83 (from RM9.59)

Market Data

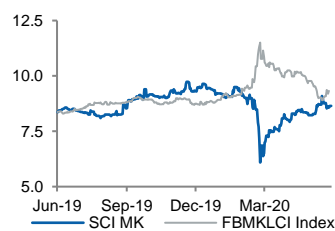
Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,441.9
52-week high/low (RM)	9.87 / 5.96
Avg daily turnover (RMm)	3.9
KLCI (pts)	1,511.2
Source: Bloomberg, KAF	

Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.0%)
Scientex Leasing Sdn Bhd	(9.1%)
Scientex Infinity Sdn Bhd	(8.6%)
Free Float	35.8
Source: Bloomberg, KAF	

Performance

	3M	6M	12M
Absolute (%)	25.8	(8.3)	(0.9)
Rel Market (%)	8.5	(2.3)	10.3



Source: Bloomberg, KAF

Analyst

Damia Othman
 (603) 2171 0507
 damia@kaf.com.my

Scientex

Solid 9MFY20 performance despite MCO

Maintain Buy rating for Scientex with higher TP of RM9.83 (from RM9.59) pegged to CY20F SOP valuation. 9MFY20's solid core earnings of RM276m (+26% YoY) came in above our estimates but within consensus full-year forecasts. This is due to higher-than-expected sales contribution from the Property segment despite MCO implementation. Looking forward, Scientex's earnings growth is expected to sustain across both Manufacturing and Property segments based on: 1) growing demand for FPP products; 2) margin expansion from continuous capability and efficiency enhancements, and 3) sustainable demand for affordable housing. The stock is trading at 10x forward PE which is -0.5SD below its five-year forward mean PE of 11x, which we find to be undervalued considering its growth prospects.

Financial Highlights

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue (RMm)	2,603	3,247	3,497	3,889	4,113
Core net profit (RMm)	285	353	365	400	447
Core EPS (Sen)	58.5	68.4	70.8	77.7	86.8
EPS growth (%)	2.7	17.0	3.4	9.8	11.7
DPS (Sen)	20.0	20.0	20.0	22.0	24.0
Core PE (x)	14.7	12.6	12.2	11.1	9.9
Div yield (%)	2.3	2.3	2.3	2.6	2.8
ROE (%)	17.3	16.8	15.5	15.2	15.2
Net Gearing (%)	43.6	32.2	32.7	31.2	27.0
PBV(x)	2.4	2.0	1.8	1.6	1.4

Source: Company, KAF

Maintain Buy rating with higher TP of RM9.83 (from RM9.59) pegged to CY20F SOP

Scientex's 9MFY20 core earnings of RM276m (+26% YoY) came in above our estimates accounting for 85% of full-year forecasts but within consensus estimates at 75% of full-year forecasts. This was due to higher-than-expected sales from the Property segment despite implementation of Movement Control Order (MCO) starting 18th Mar 2020 whereby there was disruption of construction activities nationwide. Therefore, we increase our earnings forecasts for FY20F by 13%, expecting higher Property sales in 4QFY20 as construction and sales activities have been able to resume since 4th May 2020, with strict Standard Operating Procedures (SOP). The group declared a single tier interim dividend of 10sen (similar to 9MFY19) during the quarter under review.

Business disruptions during MCO

Even though 9MFY20 revenue increased to RM2.6b (+11% YoY) due to higher sales across the Manufacturing (+12% YoY) and Property (+9% YoY) segments, 3QFY20 sales declined to RM722m (-7% YoY, -16% QoQ) as business operations were disrupted due to MCO implementation. This was mainly dragged by lower Property segment contribution on the back of disruption in construction activities, delay in issuing Certificate of Compliance and Completion (CCC) and the inability to execute sales during this period. However, considering MCO is now in the recovery stage, operations are back to normal while following strict SOP to mitigate the risk of Covid-19 infections among employees and clients. This is expected to normalise contributions in 4QFY20.

Aiming for sustainable growth across segments

We expect Scientex's earnings to grow by three-year forward earnings CAGR of 8% between FY20-22F mainly driven by growing demand for Flexible Plastic Packaging (FPP) products as well as sustainable demand for affordable housing segment. In the near term, the group plans to enhance the capacities, efficiencies and capabilities of the Manufacturing segment to meet rising demand as well as offering value adding products to domestic and export markets. The group also plans to launch two new projects in Gelugor, Penang and Kundang, Selangor to expand its market reach targeting affordable housing markets in 1HFY21. We believe Scientex will launch total GDV of around RM1b annually between FY20-22F.

Stock is undervalued

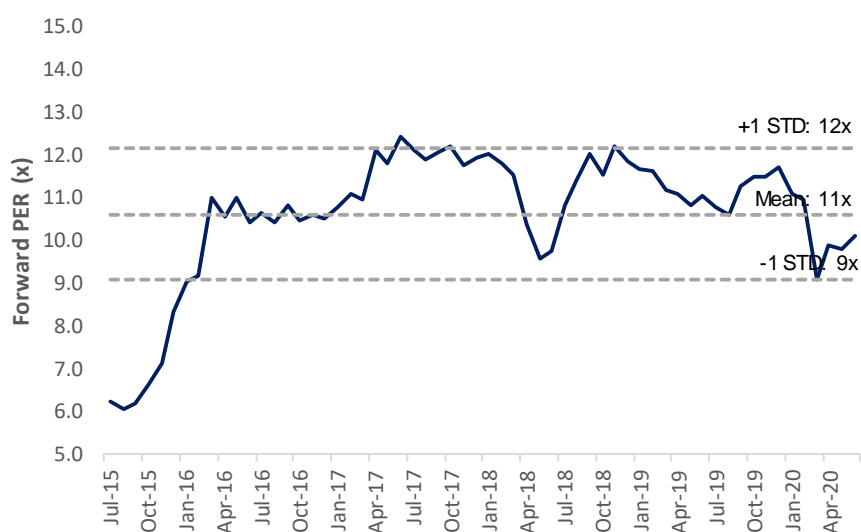
The share price has recovered by 41% since its three-year low in Mar-20. Currently it is trading at 10x forward PE, -0.5SD below its five-year forward mean PE of 11x. Considering its growing Manufacturing segment with resilient operating profit margins from the Property segment, we find the stock to be undervalued. With projected DPS of 20-24sen for FY20-22F, at current level this implies a decent dividend yield of 2-3%.

Exhibit 1: Quarterly financial results analysis

FYE Jul RMm	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	Change (%)		Cumulative		Chg (%)	KAF	
	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20	QoQ	YoY	9MFY19	9MFY20	YoY	FY20F	9M/F
Revenue	828	939	877	914	772	(16)	(7)	2,309	2,564	11	3,912	66%
~ Manufacturing	603	630	656	659	614	(7)	2	1,728	1,930	12	2,681	72%
~ Property	226	308	222	255	158	(38)	(30)	581	634	9	762	83%
Interest Expense	(4)	(5)	(5)	(4)	(4)	(9)	3	(11)	(14)	23		
Interest Income	2	2	3	3	2	(26)	2	2	8	215		
Depreciation	24	25	27	27	27	(0)	14	67	82	22		
EBITDA	127	204	146	168	134	(20)	5	350	448	28	550	81%
Operating Profit	103	179	119	141	106	(24)	3	283	366	29	450	81%
~ Manufacturing	33	67	55	65	59	(9)	78	108	180	66	222	81%
~ Property	70	112	63	76	47	(38)	(32)	174	186	7	228	81%
Reported PBT	101	177	116	139	105	(25)	3	274	360	31	438	82%
Taxation	(25)	(38)	(28)	(34)	(29)	(15)	14	(67)	(91)	36		
Minority Interest	(3)	(5)	(6)	(8)	(6)	(23)	94	(7)	(7)	0		
Exceptional items	(14)	(1)	(3)	(2)	(14)	481	3	(18)	(14)	(25)		
Reported Profit	73	133	81	97	70	(29)	(4)	200	262	31	323	81%
Adj. Net Profit	87	134	83	100	84	(16)	(3)	219	276	26	323	85%
EPS (sen)	14	26	16	19	14	(29)	(6)	40	48	19		
Adj EPS (sen)	17	26	16	19	16	(16)	(3)	42	54	26		
DPS (sen)	10	10	0	0	10			10	10			
						%-pts	%-pts			%-pts		
Effective tax rate (%)	25	21	25	24	27	3	3	24	25	1		
EBITDA margin (%)	15	22	17	18	17	(1)	2	15	17	2		
Operating margin (%)	12	19	14	15	14	(2)	1	12	14	2		
~ Manufacturing (%)	6	11	8	10	10	(0)	4	6	9	3		
~ Property	31	36	28	30	66	37	35	30	29	(1)		
Pretax margin (%)	12	19	13	15	14	(2)	1	12	14	2		
Net margin (%)	10	14	10	11	11	(0)	0	9	11	1		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Revenue	2,603	3,247	3,497	3,889	4,113
EBITDA	429	575	604	686	774
Depreciation/Amortisation	(72)	(92)	(100)	(126)	(150)
Operating income (EBIT)	357	483	504	560	624
Other income & associates	8	(17)	5	5	5
Net interest	(11)	(16)	(17)	(19)	(21)
Exceptional items	0	(19)	0	0	0
Pretax profit	355	432	492	546	609
Taxation	(66)	(105)	(114)	(131)	(146)
Minorities/pref dividends	(4)	(12)	(13)	(15)	(15)
Net profit	285	334	365	400	447
Core net profit	285	353	365	400	447

Balance Sheet

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	1,151	1,248	1,572	1,870	2,144
Intangible assets	59	294	294	294	294
Other long-term assets	902	784	784	784	784
Total non-current assets	2,173	2,409	2,733	3,031	3,305
Cash & equivalent	172	258	160	154	132
Stock	264	321	346	385	407
Trade debtors	543	735	791	880	931
Other current assets	233	385	385	385	385
Total current assets	1,212	1,698	1,682	1,803	1,854
Trade creditors	526	597	643	715	756
Short-term borrowings	610	704	604	554	504
Other current liabilities	24	29	29	29	29
Total current liabilities	1,160	1,330	1,276	1,298	1,289
Long-term borrowings	324	270	370	470	470
Other long-term liabilities	82	109	109	109	109
Total long-term liabilities	406	379	479	579	579
Shareholders' funds	1,750	2,225	2,487	2,784	3,118
Minority interests	70	174	174	174	174

Cash flow Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	355	432	492	546	609
Depreciation/Amortisation	72	92	100	126	150
Net change in working capital	38	86	(35)	(55)	(32)
Others	(72)	(53)	(97)	(112)	(125)
Cash flow from operations	392	557	460	504	602
Capital expenditure	(65)	(48)	(150)	(150)	(150)
Net investments & sale of fixed assets	(146)	(89)	(93)	(93)	(93)
Others	(492)	(161)	(195)	(196)	(197)
Cash flow from investing	(703)	(299)	(437)	(439)	(439)
Debt raised/(repaid)	365	15	0	50	(50)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(56)	(100)	(103)	(103)	(113)
Others	(18)	(88)	(17)	(19)	(21)
Cash flow from financing	291	(173)	(120)	(72)	(184)
Net cash flow	(20)	85	(98)	(6)	(22)
Net cash/(debt) b/f	192	172	258	160	154
Net cash/(debt) c/f	172	258	160	154	132

Key Ratios

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue growth (%)	8.3	24.8	7.7	11.2	5.8
EBITDA growth (%)	7.5	34.1	5.1	13.4	12.9
Pretax margins (%)	13.6	13.3	14.1	14.0	14.8
Net profit margins (%)	10.9	10.3	10.4	10.3	10.9
Interest cover (x)	33.2	31.1	29.5	29.8	30.2
Effective tax rate (%)	18.6	24.3	23.2	24.0	24.0
Net dividend payout (%)	34.2	30.9	28.3	28.3	27.7
Debtors turnover (days)	63	65	70	76	76
Stock turnover (days)	30	33	35	34	35
Creditors turnover (days)	66	63	65	64	65

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)