

Scientex Berhad

TP: RM11.80 (+34.5%)

Strengths Intact Despite Operational Disruptions

Last Traded: RM8.77

Buy

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Review

- Scientex Berhad's 9MFY20 core earnings of RM267.4mn (+21.5% YoY) came in within our and consensus estimates at 70% and 72% respectively.
- The group declared a first single-tier interim dividend of 10.0sen/share, similar to amount declared in 3QFY19
- Manufacturing.** 9MFY20 revenue increased 11.7% YoY to RM1.93bn on the back of: i) full 9-months contribution from the converting business, which was acquired in 3QFY19 alongside ii) increased sales volume. As a result, 9MFY20 operating profit surged to RM179.9mn (+66.4% YoY) underpinned by better sales mix, improved cost control. Note that Scientex's manufacturing entities were allowed to operate during the MCO as essential services.
- Property.** 3QFY20 operating profit decreased 32.3% YoY to RM47.2mn due to disruption to construction activities, site inspection alongside absence of sales and purchase agreement execution during MCO period. Nevertheless, the cumulative 9MFY20 operating profit remained strong at RM185.8mn (+6.6% YoY) supported by revenue growth of 9.1% YoY to RM634.3mn. This was driven by improved progress billings from its projects, particularly Durian Tunggal, Melaka and projects in its Johor stronghold.

Impact

- No change to our earnings forecasts.

Outlook

- Manufacturing.** The group expects flexible plastic packaging products to be strong. Meanwhile, capacity expansion and process automation enhancements are expected to remain as the group's long-term priority to boost efficiency, cost effectiveness alongside capacity. On its converting business, new lines would be installed within the next six months to enhance its printing, lamination and bagging process.
- Property.** Scientex has resumed its property development operations since May-2020 corresponding to the announcement of conditional MCO. Furthermore, it has intensified sales efforts at digital platform secure booking and capture interests from wider group of potential buyers. Management remains optimistic and intends to launch projects for its recent acquired Tasek Gelugor, Penang and Kundang, Selangor lands in 2HCY20.

Valuation

- Reiterate Buy call on Scientex with unchanged target price of RM11.80/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)	4,518.5
52-wk Hi/Lo (RM)	9.87/5.96
12-mth Avg Daily Vol ('000 shrs)	336.4
Estimated Free Float (%)	35.8
Beta	0.8

Major Shareholders (%)

Scientex Holdings Sdn Bhd	21.0
Scientex Leasing Sdn Bhd	9.1
Scientex Infinity Sdn Bhd	8.6
LIM Teck Meng Sdn Bhd	7.5

Forecast Revision

	FY20	FY21
Forecast Revision (%)	-	-
Net profit (RMm)	384.3	437.7
Consensus	369.6	431.8
TA's / Consensus (%)	104.0	101.4
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY20	FY21
Net debt/ equity (%)	29.5	26.2
ROE (%)	16.7	17.0
ROA (%)	9.1	9.5
NTA/Share (RM)	4.3	5.0
Price/ NTA (x)	2.0	1.7

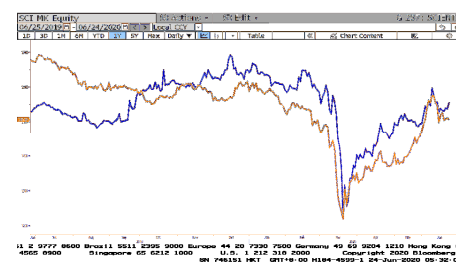
Scorecard

	% of FY20	
vs TA	70	Within
vs Consensus	72	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	6.6	4.9
3 mth	34.9	16.7
6 mth	(6.8)	(6.1)
12 mth	1.5	(10.1)

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



Source: Bloomberg

Table 1: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY21 EPS PER 20x	3,707.0
Property	CY21 EPS PER 9x	2,397.6
Total Equity value (RMmn)		6,104.6
Share cap (mn)		515.2
Target Price (RM)		11.80

Table 2: Earnings Summary (RMmn)

FYE July (RMmn)	FY18	FY19	FY20E	FY21F	FY22F
Revenue	2,602.8	3,247.4	3,888.8	4,178.1	4,558.8
EBITDA	429.1	554.1	627.3	716.6	779.6
EBIT	357.4	461.8	533.7	605.3	650.4
Reported PBT	354.7	450.6	527.5	599.7	645.7
Adj. PBT	352.4	471.8	527.5	599.7	645.7
Reported Net Profit	284.5	333.7	384.3	437.7	471.4
Adj. Net profit	282.2	354.9	384.3	437.7	471.4
Basic/Diluted EPS (sen)	55.2	64.8	74.6	85.0	91.5
Adj. EPS (sen)	54.8	68.9	74.6	85.0	91.5
PER (x)	15.9	13.5	11.8	10.3	9.6
Net Dividend (sen)	20.0	20.0	23.0	27.0	30.0
Dividend Yield (%)	2.3	2.3	2.6	3.1	3.4

Table 3: 3QFY20 Results Analysis (RMmn)

FYE July (RMmn)	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	828.5	914.4	772.2	(15.5)	(6.8)	2,308.7	2,564.0	11.1
~ Manufacturing	602.8	659.4	614.4	(6.8)	1.9	1,727.5	1,929.7	11.7
~ Property	225.7	255.0	157.8	(38.1)	(30.1)	581.1	634.3	9.1
Interest Expense	(3.8)	(4.3)	(3.9)	(9.0)	2.6	(11.0)	(13.5)	22.6
Interest Income	0.8	1.3	1.0	(20.2)	19.4	2.0	3.5	79.0
Depreciation	(24.0)	(26.7)	(26.6)	(0.3)	10.8	(67.1)	(80.1)	19.4
EBITDA	128.5	169.3	134.3	(20.7)	4.5	350.1	445.9	27.3
Operating Profit	104.4	142.6	107.7	(24.5)	3.1	283.1	365.7	29.2
~ Manufacturing	33.4	65.2	59.3	(9.1)	77.6	108.1	179.9	66.4
~ Property	69.7	75.6	47.2	(37.6)	(32.3)	174.4	185.8	6.6
EI	(14.2)	(2.3)	(14.2)	>100	0.3	(19.8)	(19.3)	(2.6)
Reported PBT	101.4	139.5	104.7	(24.9)	3.3	274.0	360.1	31.4
Taxation	(25.3)	(33.7)	(28.7)	(14.9)	13.7	(66.7)	(90.8)	36.2
Minority Interest	(3.3)	(8.3)	(6.4)	(22.5)	94.4	(7.0)	(21.2)	>100
Reported Profit	72.9	97.5	69.6	(28.6)	(4.5)	200.3	248.1	23.8
Adj. Net Profit	87.1	99.8	83.9	(15.9)	(3.7)	220.1	267.4	21.5
EPS (sen)	14.3	18.9	13.5	(28.6)	(5.7)	40.4	48.1	19.1
Adj EPS (sen)	17.1	19.4	16.3	(16.0)	(4.9)	44.4	51.9	16.8
DPS (sen)	10.0	0.0	10.0	nm	0.0	10.0	10.0	0.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	12.6	15.6	13.9	(1.6)	1.3	12.3	14.3	2.0
~ Manufacturing	5.5	9.9	9.6	(0.2)	4.1	6.3	9.3	3.1
~ Property	30.9	29.6	29.9	0.3	(1.0)	30.0	29.3	(0.7)
PBT Margin (%)	12.2	15.3	13.6	(1.7)	1.3	11.9	14.0	2.2
Net Margin (%)	10.5	10.9	10.9	(0.1)	0.3	9.5	10.4	0.9
Tax rate (%)	24.9	24.2	27.4	3.2	2.5	24.4	25.2	0.9

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 Wednesday, June 24, 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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