

Scientex Berhad

Accumulating Lands in Jasin

TP: RM11.80 (+29.0%)

Last Traded: RM9.15

Buy

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Yesterday, Scientex Berhad announced the proposed acquisitions of two parcels of freehold lands in Jasin, Melaka, measuring 1,357 acres in total for a total cash consideration of RM260.2mn (RM4.40/sq.ft.). We are positive on the long-term prospect as this is expected to strengthen its existing presence in Melaka and enable scaling for operational efficiencies. Maintain Buy on Scientex with unchanged target price of RM11.80/share.

Accumulating Jasin Lands

The lands are strategically located between Jasin Town, Melaka City and Muar. The lands have accessibility to the North South Expressway and Alor Gajah-Central Melaka-Jasin Highway. Moreover, the lands are near to existing Scientex's Melaka township which would enhance economies of scale and potentially boast project margins.

Planning for Mixed-Property Development

Scientex plans to build mixed-property development projects in the new proposed land, which acquisitions are expected to be completed by IHCY21. Given that the acquisitions are still at the preliminary stage, no GDV guidance is available. However, we estimate the potential GDV to be c.RM5-6bn, based on average GDV per acre of land of Scientex's existing projects in Melaka, i.e. RM4.3mn/acre. Hence the acquisition is expected to increase Scientex's development projects in Melaka to a total of c.RM8.0bn.

Acquisition Price Appears Cheap

Based on a previous Jasin land acquisition by Scientex, we understand that the land cost was RM11.00/sq.ft. Hence, we find this latest Scientex's acquisition price of RM4.40/sq.ft. to be relatively cheap. We suppose the cost of the newly proposed land acquisition is cheaper because the size is significantly larger, 1,357 acres compared to previous land size of 157.8 acres. Moreover, we believe the land cost of RM260.2mn is likely to make up less than 10% of potential GDV.

Impact

We make no change to earnings forecasts. With an estimated gearing of 0.3x for FY20, we reckon that Scientex's balance sheet will remain healthy post completion of the lands acquisition.

Recommendation

Maintain 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)	4,714.3
52-wk Hi/Lo (RM)	9.87/5.96
12-mth Avg Daily Vol ('000 shrs)	341.3
Estimated Free Float (%)	35.7
Beta	0.7
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	363.7	409.1
TA's / Consensus (%)	105.7	107.0
Previous Rating	Buy (Maintained)	

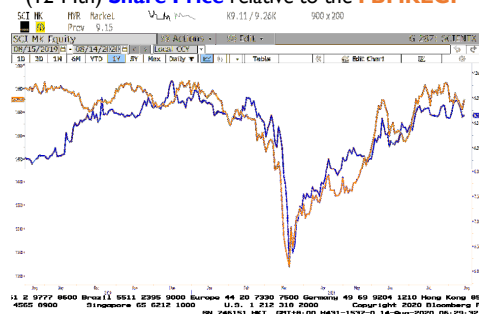
Financial Indicators

	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)	2.1	1.8

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(1.5)	(1.4)
3 mth	8.8	12.8
6 mth	(3.7)	2.1
12 mth	9.4	(1.5)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 2: Valuation Method

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

Earnings Summary

PROFIT & LOSS

FYE July (RMmn)	FY18	FY19	FY20E	FY21F	FY22F
Revenue	2,602.8	3,247.4	3,888.8	4,178.1	4,558.8
Gross Profit	511.3	683.9	796.7	903.2	978.9
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
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 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
GDPS (sen)	20.0	20.0	23.0	27.0	30.0

CASH FLOW

FYE July (RMmn)	FY18	FY19	FY20E	FY21F	FY22F
PBT	354.7	450.6	527.5	599.7	645.7
Adjustments for:					
Depreciation of PPE	71.7	92.3	93.6	111.3	129.2
Finance costs	10.8	15.5	12.7	13.4	14.1
Others	(2.4)	1.2	(6.5)	(7.8)	(9.4)
Op profit before WC	434.7	559.6	627.3	716.6	779.6
(+/-) in inventories	(41.0)	20.8	(63.4)	(28.6)	(37.7)
(+/-) in receivables	(37.1)	(35.4)	(144.3)	(65.1)	(85.7)
+/- in payables	14.4	17.0	117.9	53.2	70.0
Income Tax Paid	(80.1)	(88.2)	(121.2)	(138.4)	(149.2)
CFO	392.4	557.0	416.2	537.6	577.2
Purchase of PPE	(67.9)	(87.6)	(50.0)	(100.0)	(100.0)
Others	(635.0)	(211.1)	(280.0)	(250.0)	(250.0)
CFI	(702.8)	(298.6)	(330.0)	(350.0)	(350.0)
Net term loans	364.9	15.5	(50.0)	50.0	50.0
Dividend paid	(56.5)	(100.4)	(103.0)	(118.5)	(128.8)
Finance costs paid	(15.4)	(29.8)	(12.7)	(13.4)	(14.1)
Others	(2.2)	(58.3)	-	-	-
CFF	290.8	(173.0)	(165.8)	(81.9)	(92.9)
Net Cash Flow	(19.6)	85.3	(79.5)	105.7	134.2

BALANCE SHEET

FYE July (RMmn)	FY18	FY19	FY20E	FY21F	FY22F
PPE	1,150.6	1,247.8	1,484.2	1,722.9	1,943.6
Deferred tax assets	33.3	25.3	25.3	25.3	25.3
Goodwill	59.0	293.7	293.7	293.7	293.7
Others	930.1	842.2	848.7	856.6	865.9
Non-current assets	2,173.1	2,409.0	2,652.0	2,898.5	3,128.6
Property dev. costs	233.0	384.8	384.8	384.8	384.8
Inventories	263.6	321.2	384.6	413.2	450.9
Trade & Other receivables	541.7	730.8	875.1	940.2	1,025.9
Tax recoverable	1.7	4.1	4.1	4.1	4.1
Cash and equivalents	172.3	257.6	178.1	283.8	418.0
Current Assets	1,212.2	1,698.5	1,826.7	2,026.1	2,283.7
Assets	3,385.3	4,107.5	4,478.6	4,924.6	5,412.3
Borrowings	323.9	269.8	219.8	269.8	319.8
Retirement benefits	31.1	36.4	36.4	36.4	36.4
Deffered tax liabilities	50.6	72.5	72.5	72.5	72.5
Non Current Liabilities	405.7	378.8	328.8	378.8	428.8
Borrowings	610.4	704.0	704.0	704.0	704.0
Trade & other payables	525.9	597.2	715.2	768.4	838.4
Others	23.8	28.5	28.5	28.5	28.5
Current liabilities	1,160.0	1,329.7	1,447.7	1,500.9	1,570.9
Share capital	453.9	685.8	685.8	685.8	685.8
Reserves	1,295.8	1,539.2	1,820.5	2,139.7	2,482.3
Shareholders' Funds	1,749.6	2,225.0	2,506.3	2,825.5	3,168.1
MI	70.0	173.9	195.9	219.4	244.5
Equity	1,819.6	2,399.0	2,702.2	3,044.9	3,412.6
Equity & Liabilities	3,385.3	4,107.5	4,478.6	4,924.6	5,412.3

FINANCIAL RATIOS

FYE July (RMmn)	FY18	FY19	FY20E	FY21F	FY22F
P/E (x)	16.7	13.3	12.3	10.8	10.0
P/BV (x)	2.6	2.4	2.1	1.9	1.6
Dividend yield (%)	2.2	2.2	2.5	3.0	3.3
ROE (%)	17.2	17.9	16.2	16.4	15.7
ROA (%)	9.5	9.5	9.0	9.3	9.1
EBIT margin (%)	13.7	14.2	13.7	14.5	14.3
Net margin (%)	10.8	10.9	9.9	10.5	10.3
Gearing (x)	0.4	0.3	0.3	0.2	0.2

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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 Friday, August 14, 2020, the analyst Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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