

13 Aug 2020

## Hold

**Price**  
 RM9.15

**Target Price**  
 RM9.83

### Market Data

Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,715.0
52-week high/low (RM)	9.87 / 5.96
Avg daily turnover (RMm)	2.5
KLCI (pts)	1,576.4

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 (%)	7.6	(1.1)	9.7
Rel Market (%)	(4.6)	(3.4)	10.9



Source: Bloomberg, KAF

### Analyst

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# Scientex

## Acquiring lands in Jasin for RM260m

Downgrade rating to Hold from Buy with unchanged TP of RM9.83 pegged to CY20F SOP valuation. Scientex proposed to acquire two parcels of freehold lands located in the District of Jasin, Malacca with a total area of around 1,357 acres for a purchase consideration of RM260m. We find that acquiring at larger sizes of lands allows the group to purchase at a lower price per square footage. This is expected to allow Scientex to unlock higher values in the mid to long-term across its landbanks therefore sustaining the Property segment contributions to the group. Share price has recovered by 53% from its 4-year low in March 2020 now trading at 11x forward PE which is in line with its five-year forward mean PE. Hence, we find the stock to be approaching its fair value.

### 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)	15.6	13.4	12.9	11.8	10.5
Div yield (%)	2.2	2.2	2.2	2.4	2.6
ROE (%)	17.3	16.8	15.5	15.2	15.2
Net Gearing (%)	43.6	32.2	32.7	40.6	43.0
PBV(x)	2.5	2.1	1.9	1.7	1.5

Source: Company, KAF

### Downgrade our rating from Buy to Hold with unchanged TP of RM9.83

This is based on SOP valuation pegged to CY20F. Scientex proposed to acquire two parcels of freehold lands located in the District of Jasin, State of Malacca with an aggregate area of around 1,357 acres for a total purchase consideration of RM260m. The group entered into the Sales and Purchase Agreement (SPA) with IOI Corporation Berhad and GLM Emerald Industrial Park (Jasin) Sdn Bhd.

### Land purchased based on willing-buyer willing-seller basis

Based on our back of the envelope calculation, the purchase price is expected to value the lands at RM4.40/sqf. This was arrived on a willing-buyer willing-seller basis. Note that Scientex is in the process of completing a landbank acquisition also in Jasin, Melaka with total area of 158 acres costing at RM76m hence valuing the land bought at RM11.00/sqf. Therefore, we find that acquiring at larger sizes of lands allows the group to purchase at a lower price per square footage. This is expected to allow Scientex to unlock higher values across its landbanks in the mid to long-term therefore sustaining the Property segment contributions to the group.

### Strategically located between Jasin Town and Malacca City

The lands are situated less than 5KM from Jasin Town and around 12KM from Malacca City. They are easily accessible from North South Expressway through the Jasin and Ayer Keroh Interchange as well as Alor Gajah – Central Malacca – Jasin Highway. The lands are proposed to be developed into a mixed-property development and is within close proximity to Scientex's existing property development projects in Jasin, Ayer Keroh and Durian Tunggal.

### In line with long-term growth strategy

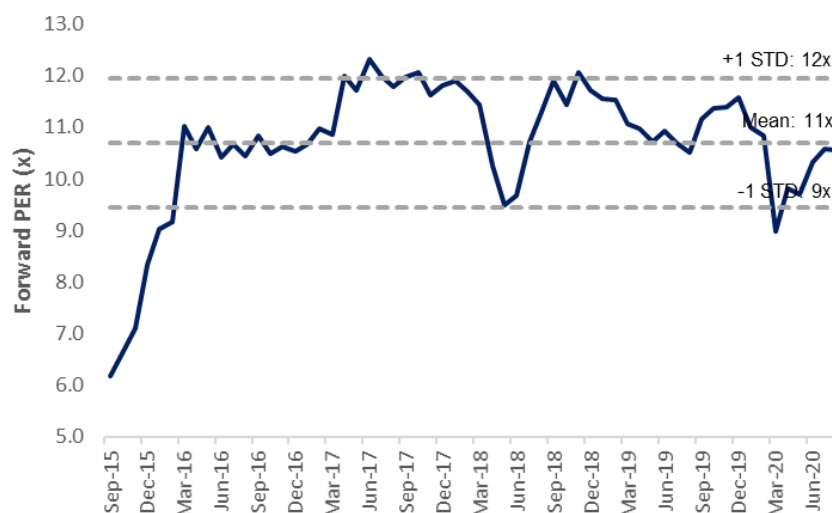
The acquisition is expected to be completed by end of CY20. Management guided that it is too early to ascertain the potential GDV of the lands. As part of Scientex's growth strategies, the group continues to explore opportunities to expand its landbank to sustain contributions from the Property segment in the next ten years. Following the completion of the acquisition,

the group's net gearing is expected to be at a comfortable level of 0.41x for FY21F (from 0.33x in FY20F).

**Approaching fair value**

Share price has recovered by 53% from its 4-year low in March 2020 (-3% YTD) now trading at 11x forward PE which is in line with its five-year forward mean PE. With projected DPS of 20-24sen for FY20-22F, this implies a dividend yield of around 2%. Hence, we find the stock to be approaching its fair value.

**Exhibit 1: Five year forward PE band chart**



Source: Bloomberg, KAF

**Exhibit 2: Continuously expanding the group's landbank to sustain future contributions from the Property segment**

**Land acquisitions in 2019**

Location:	<b>Penang (Tasek Gelugor)</b>
Size:	179.7 acres
Cost:	RM109.6 mil
Acquired:	<b>December 2019</b>
Location:	<b>Ipoh (Meru)</b>
Size:	22.8 acres
Cost:	RM30.4 mil
Acquired:	<b>October 2019</b>
Location:	<b>Rawang (Kundang Jaya)</b>
Size:	166.5 acres
Cost:	RM123.3 mil
Acquired:	<b>December 2019</b>
Location:	<b>Seremban</b>
Size:	108.5 acres
Cost:	RM66.2 mil
Acquired:	<b>1H CY2021 (est. completion)</b>
Location:	<b>Melaka (Jasin)</b>
Size:	157.8 acres
Cost:	RM75.6 mil
Acquired:	<b>2H CY2020 (est. completion)</b>
Location:	<b>Johor (Kota Tinggi)</b>
Size:	85.7 acres
Cost:	RM39.2 mil
Acquired:	<b>March 2020</b>

Peninsular Malaysia



**Enlarged development profile**

Jan 2019	Current
16 developments	21 developments
RM17.8B GDV	RM23.2B GDV
3,265 acres	3,990 acres

Source: Company, KAF

**Exhibit 3: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 4: PE Band chart**



Source: Company, KAF, Bloomberg

**Income Statement**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue	2,603	3,247	3,497	3,889	4,113
EBITDA	429	575	604	686	795
Depreciation/Amortisation	(72)	(92)	(100)	(126)	(171)
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
<b>Pretax profit</b>	<b>355</b>	<b>432</b>	<b>492</b>	<b>546</b>	<b>609</b>
Taxation	(66)	(105)	(114)	(131)	(146)
Minorities/pref dividends	(4)	(12)	(13)	(15)	(15)
<b>Net profit</b>	<b>285</b>	<b>334</b>	<b>365</b>	<b>400</b>	<b>447</b>
Core net profit	285	353	365	400	447

**Balance Sheet**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Fixed assets	1,151	1,248	1,572	2,130	2,643
Intangible assets	59	294	294	294	294
Other long-term assets	902	784	784	784	784
<b>Total non-current assets</b>	<b>2,173</b>	<b>2,409</b>	<b>2,733</b>	<b>3,291</b>	<b>3,804</b>
Cash & equivalent	172	258	160	44	43
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	1,693	1,765
Trade creditors	526	597	643	715	756
Short-term borrowings	610	704	604	604	604
Other current liabilities	24	29	29	29	29
<b>Total current liabilities</b>	<b>1,160</b>	<b>1,330</b>	<b>1,276</b>	<b>1,348</b>	<b>1,389</b>
Long-term borrowings	324	270	370	570	780
Other long-term liabilities	82	109	109	109	109
<b>Total long-term liabilities</b>	<b>406</b>	<b>379</b>	<b>479</b>	<b>679</b>	<b>889</b>
<b>Shareholders' funds</b>	<b>1,750</b>	<b>2,225</b>	<b>2,487</b>	<b>2,784</b>	<b>3,118</b>
Minority interests	70	174	174	174	174

**Cash flow Statement**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Pretax profit	355	432	492	546	609
Depreciation/Amortisation	72	92	100	126	171
Net change in working capital	38	86	(35)	(55)	(32)
Others	(72)	(53)	(97)	(112)	(125)
<b>Cash flow from operations</b>	<b>392</b>	<b>557</b>	<b>460</b>	<b>504</b>	<b>622</b>
Capital expenditure	(65)	(48)	(150)	(410)	(410)
Net investments & sale of fixed assets	(146)	(89)	(93)	(93)	(93)
Others	(492)	(161)	(195)	(196)	(197)
<b>Cash flow from investing</b>	<b>(703)</b>	<b>(299)</b>	<b>(437)</b>	<b>(699)</b>	<b>(699)</b>
Debt raised/(repaid)	365	15	0	200	210
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(56)	(100)	(103)	(103)	(113)
Others	(18)	(88)	(17)	(19)	(21)
<b>Cash flow from financing</b>	<b>291</b>	<b>(173)</b>	<b>(120)</b>	<b>78</b>	<b>76</b>
<b>Net cash flow</b>	<b>(20)</b>	<b>85</b>	<b>(98)</b>	<b>(116)</b>	<b>(1)</b>
<b>Net cash/(debt) b/f</b>	<b>192</b>	<b>172</b>	<b>258</b>	<b>160</b>	<b>44</b>
<b>Net cash/(debt) c/f</b>	<b>172</b>	<b>258</b>	<b>160</b>	<b>44</b>	<b>43</b>

**Key Ratios**

<b>FYE Jul</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue growth (%)	8.3	24.8	7.7	11.2	5.8
EBITDA growth (%)	7.5	34.1	5.1	13.4	15.9
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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