

14 August 2020

## Scientex Berhad

### Land Banking in Melaka

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**SCIENTX is acquiring 1,357ac of freehold land in Jasin, Melaka for RM260.2m to be financed via internal funds. The lands are targeted for mixed development, with minimal project details, pending finalisation. We are long-term positive on the land acquisition as the pricing appears attractive while its close proximity to SCIENTX's existing land bank offers economies of scale. It will also support its 2028 affordable housing target. Maintain FY20-21E CNP. Maintain MP on an unchanged TP of RM9.70.**

**Acquiring land in Jasin, Melaka for RM260.2m.** SCIENTX has proposed to acquire two pieces of freehold land from IOI Corporation Berhad and GLM Emerald Industrial Park (Jasin) Sdn Bhd measuring 1,357ac for RM260.2m. The land is slated for mixed property development, but further details such as total GDV, development cost, commencement and completion dates are too preliminary to ascertain. The land is located 5km from Jasin town and is easily accessible from North South Expressway. The acquisition will be satisfied by internal funds or borrowings and is expected to be completed by 1HCY21 and as such will only contribute from FY22 or later depending on launch timeline.

**Long-term positive on the acquisition.** We were not surprised as SCIENTX does capitalize on attractive land banking from time to time, but we are fairly positive on the implied pricing of the land of RM4.40psf which appears attractive vs. its other land transactions in Melaka which ranged from RM7.5psf to RM11.0psf. However, we do note that land cost could increase on conversion premiums and rezoning. Pending project details from management, land cost to GDV may change subject to the residential to commercial mix and its pricing strategies. We are long-term positive on this acquisition given the fairly attractive pricing, in line with the Group's objective of completing 50,000 affordable homes throughout the nation by 2028 and the land is also near SCIENTX's existing land bank in Melaka, allowing the group to capitalize on economies of scale from project implementation.

**Outlook.** The Group is targeting affordable project launches going forward, with sales target of RM1.0-1.3b in FY20-21, while unbilled sales of RM730m provides less than one year's visibility. Its manufacturing segment is focused on ramping up utilisation, targeting c.75% over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States

**No changes to FY20-21E of RM350-442.9m** as we do not expect any earnings impact in FY20-21 while the FY21 borrowing cost is negligible at this juncture. However, we expect gearing to increase to 0.39x in FY21 (from 0.33x). FY20-21E dividend of 19.7-24.8 sen is based on pay-out ratio of 30%, implying yield of 2.1-2.7%.

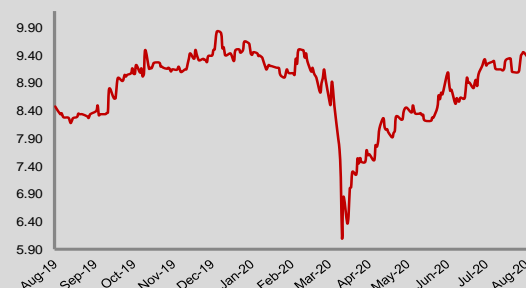
**Maintain MARKET PERFORM on an unchanged TP of RM9.70.** Our TP is based on our FY21E SoP valuation with: (i) 10x PER for the Property segment, which is on par with mid-cap and Johor-based peers, and (ii) an unchanged 15x applied PER for the manufacturing segment which is at a premium to its industrial peer TGUAN (10x PER) given its stronger margin of 10% (vs. 7%) and SCIENTX's position as the largest plastic packager under our coverage, allowing it better economies of scale. We believe our MP still holds given the lack of strong re-rating catalyst while most downsides have been accounted for.

**Risks to our call include;** (i) higher-than-expected resin cost, (ii) weaker product demand from overseas, (iii) weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

## MARKET PERFORM ↔

Price : RM9.15  
Target Price : RM9.70 ↔

### Share Price Performance



KLCI 1,576.42  
YTD KLCI chg -0.8%  
YTD stock price chg -3.2%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker SCI MK EQUITY  
Market Cap (RM m) 4,720.3  
Shares Outstanding 515.9  
52-week range (H) 9.87  
52-week range (L) 5.96  
3-mth avg daily vol: 283,964  
Free Float 36%  
Beta 0.8

### Major Shareholders

Scientex Holdings Sdn 21.0%  
Scientex Leasing Sdn 9.1%  
Scientex Infinity Sdn 8.6%

### Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	3247.4	3627.1	4100.0
EBIT	461.8	452.5	569.3
PBT	450.6	466.0	587.5
<b>Net Profit (NP)</b>	<b>333.7</b>	<b>350.6</b>	<b>442.9</b>
<b>Core NP*</b>	<b>331.2</b>	<b>350.6</b>	<b>442.9</b>
Consensus (NP)	n.m.	363.7	409.1
Earnings Revision	n.m.	n.m.	n.m.
Core EPS (sen)	61.9	65.5	82.8
Core EPS growth (%)	8.2	5.8	26.3
NDPS (sen)	20.0	19.7	24.8
BVPS (RM)	4.48	4.51	5.33
Core PER (x)	14.8	14.0	11.1
PBV (x)	2.0	2.0	1.7
Net Gearing (x)	0.30	0.31	0.39
Net Div. Yield (%)	2.2	2.1	2.7

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**OTHER POINTS**

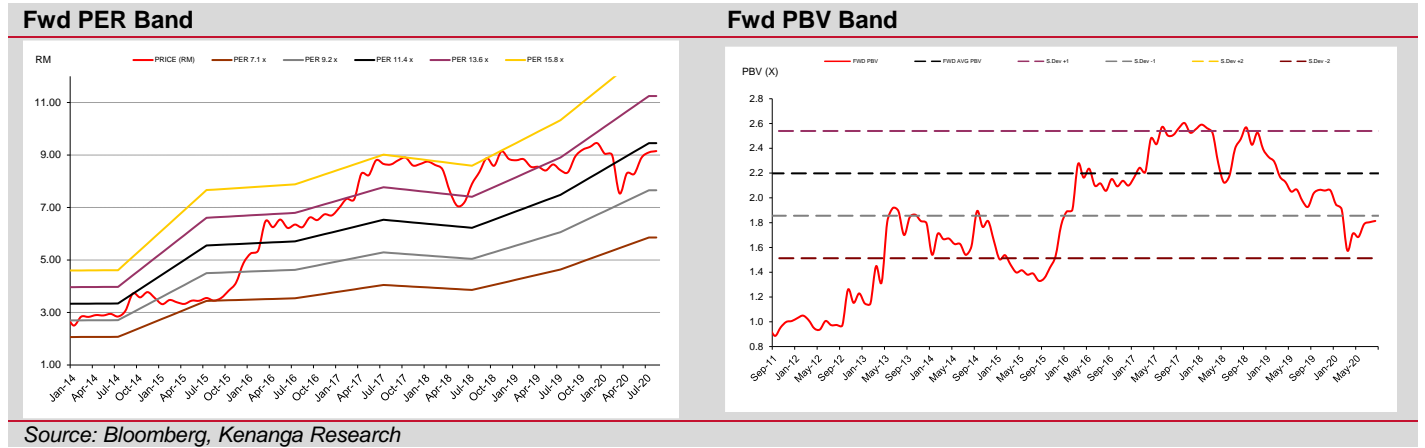
\*Our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan.

SoP Valuations			
Segment	Fair Value (RM'm)	PER (x)	Net Income (RM'm)
Property	2876	10	288
Manufacturing	2325	15	155
<b>Sum-of-Parts (RM'm)</b>	<b>5201.2</b>		<b>443</b>
<b>No. of Shares ('m)</b>	<b>535.1</b>		
<b>Target Price (RM)</b>	<b>9.70</b>		

Source: Company, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2017A	2018A	2019A	2020E	2021E	FY Jul (RMm)	2017A	2018A	2019A	2020	2021E
Revenue	2403.	2626.8	3247.4	3627.1	4100.0	<b>Growth (%)</b>					
EBITDA	388.3	436.1	554.1	544.5	684.3	Turnover	9.2	9.3	23.6	11.7	13.0
Depreciation	-63.2	-71.7	-92.3	-92.0	-109.0	EBITDA	5.8	12.3	27.1	-1.7	25.7
Operating Profit	325.1	364.4	461.8	452.5	569.3	Operating	4.0	12.1	26.7	-2.0	25.8
Interest Exp	-14.0	-10.8	-15.5	-15.3	-16.5	PBT	3.8	13.7	24.6	3.4	26.1
Associate	6.9	8.0	4.3	28.7	28.7	Net Profit	6.2	13.2	15.1	5.1	26.3
Exceptionals	0.7	0.0	0.0	0.0	0.0	Core Net	2.9	14.3	13.6	5.8	26.3
PBT	318.0	361.7	450.6	466.0	587.5						
Taxation	-58.0	-67.6	-104.7	-108.4	-136.7	<b>Profitability</b>					
Minority Interest	-4.1	-4.2	-12.2	-7.0	-7.9	EBITDA	16.2	16.6	17.1	15.0	16.7
Net Profit	255.9	289.8	333.7	350.6	442.9	Operating	13.5	13.9	14.2	12.5	13.9
Core Net Profit	255.2	291.7	331.2	350.6	442.9	PBT Margin	13.2	13.8	13.9	12.8	14.3
						Net Margin	10.6	11.0	10.3	9.7	10.8
						Core Net	10.6	11.1	10.2	9.7	10.8
						Eff. Tax Rate	18.2	18.7	23.2	23.3	23.3
						ROA	10.0	7.9	8.0	9.2	11.4
						ROE	18.5	17.0	15.8	14.6	16.8
						<b>DuPont</b>					
						Net Margin	10.6	11.1	10.2	9.7	10.8
						Assets T/O (x)	0.8	0.8	0.8	0.9	0.9
						Leverage Fac	1.9	2.0	1.9	1.7	1.8
						ROE (%)	18.5	17.0	15.7	14.6	16.8
						<b>Leverage</b>					
						Debt/Asset (x)	0.2	0.3	0.2	0.2	0.2
						Debt/Equity	0.4	0.5	0.4	0.4	0.4
						N.Debt/(Cash)	275.8	762.0	716.2	736.4	1101.5
						Net Debt/Eq	0.16	0.42	0.30	0.31	0.39
						<b>Valuations</b>					
						EPS (sen)	50.0	54.5	61.9	65.5	82.8
						NDPS (sen)	15.2	18.2	20.0	19.7	24.8
						BV (RM)	3.13	3.40	4.48	4.51	5.33
						PER	18.3	16.8	14.8	14.0	11.1
						Net Div.Yield	1.7	1.7	2.0	2.2	2.7
						PBV	2.9	2.7	2.0	2.0	1.7
						EV/EBITDA	10.3	11.5	8.8	9.3	7.5

Source: Kenanga Research



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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	3.06	586.1	Y	04/2021	13.6%	13.4%	79.0%	22.9%	33.6	18.8	15.3	3.5	3.1	17.5%	2.3%	3.450	MP
SCIENTEX BHD	9.15	4,720.3	Y	07/2020	11.7%	13.0%	5.8%	26.3%	14.8	14.0	11.1	2.0	2.0	14.6%	2.1%	9.70	MP
SLP RESOURCES BHD	1.13	358.2	Y	12/2020	19.4%	13.5%	-9.1%	28.5%	15.1	18.6	14.5	1.8	1.7	7.8%	4.9%	1.10	MP
THONG GUAN INDUSTRIES BHD	4.69	873.4	Y	12/2020	3.9%	6.9%	12.4%	12.3%	14.0	12.5	11.1	1.6	1.5	12.4%	1.9%	4.00	UP
TOMYPAK HOLDINGS	0.75	318.0	Y	12/2020	-13.3%	16.8%	n.m.	n.m.	N.A.	N.A.	N.A.	2.2	2.5	-12.6%	0.0%	0.220	UP
<b>Simple Average</b>					<b>5.4%</b>	<b>14.5%</b>	<b>-917.6%</b>	<b>-8.8%</b>	<b>19.4</b>	<b>17.0</b>	<b>13.0</b>	<b>2.2</b>	<b>2.2</b>	<b>7.9%</b>	<b>1.7%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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