

18 Sep 2020

Hold

Price
RM9.50

Target Price
RM10.00 (from RM9.83)

Market Data

Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,725.3
52-week high/low (RM)	9.87 / 5.96
Avg daily turnover (RMm)	2.3
KLCI (pts)	1,513.1

Source: Bloomberg, KAF

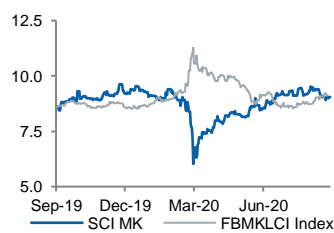
Major Shareholder (%)

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 (%)	6.9	19.1	10.0
Rel Market (%)	7.2	0.8	16.4



Source: Bloomberg, KAF

Analyst

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

Scientex

FY20: Earnings above estimates

Maintain Hold rating with higher PT of RM10.00 (from RM9.83) after rolling forward our valuation to CY21F SOP. Scientex FY20 core earnings of RM424m (+20% YoY) came in above ours and consensus full-year forecasts on the back of higher-than-expected profit margin from the Manufacturing segment due to better sales mix. Improvement in operating profit was largely attributable to higher margin from the Manufacturing segment due to higher sales, improvement in production efficiencies as well as better sales mix. This was also supported by resilient Property segment contribution due to sustainable demand for affordable housing. Moving forward, the group plans to continue to enhance its efficiencies, capabilities and capacity with CAPEX allocation of up to RM500m within its Manufacturing segment as well as launching up to 24 projects with projected GDV of 1.6b for the Property segment to meet growing demand for affordable housing. Stock is currently trading at 10x forward PE, in-line with its five-year forward mean PE, which we believe is approaching its fair value.

Financial Highlights

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	3,247.4	3,518.6	3,998.6	4,543.6	5,262.2
Core net profit (RMm)	352.7	423.6	473.7	529.2	616.8
Core EPS (Sen)	68.4	82.2	91.9	102.7	119.7
EPS growth (%)	17.0	20.1	11.8	11.7	16.6
DPS (Sen)	20.0	20.0	23.0	24.0	25.0
Core PE (x)	13.9	11.6	10.3	9.3	7.9
Div yield (%)	2.1	2.4	2.5	2.6	2.7
ROE (%)	13.9	14.2	15.2	15.0	15.4
Net Gearing (%)	32.2	24.5	31.9	34.2	32.4
PBV(x)	2.3	2.0	1.8	1.5	1.3

Source: Company, KAF

Maintain Hold rating with higher PT of RM10.00 (from RM9.83)

This is after rolling forward our valuation to CY21F SOP. Scientex's FY20 core earnings of RM424m (+20%YoY) came in above ours and consensus estimates accounting for 116% of full-year forecasts. This is due higher-than-expected blended margin from the Manufacturing segment. Given the increasing demand for Flexible Plastic Packaging (FPP) products which command higher margins supported by sustainable demand for affordable housing segment, we increase our earnings projections by 18% for FY21-22F and introduced FY23F earnings forecast. The group proposed a final dividend of 13sen bringing cumulative DPS of 23sen in FY20 (vs 20sen in FY19).

Better sales mix in Manufacturing segment

In FY20, operating profit increased to RM549m (+19% YoY) was largely contributed by stronger Manufacturing segment (+43% YoY) performance attributable to higher sales (+8% YoY), better product mix and improvement in production efficiencies. Consequently, EBIT margin for the Manufacturing segment increased to 10% (+2%-pts YoY) in FY20. This was further supported by positive operating profit contribution by the Property segment (+4% YoY) due to higher sales (+9% YoY) from good take-up rates and stable progress billing across its residential projects in Johor, Melaka and Central Region.

Meeting growing demands for FPP and affordable housing

We are projecting Scientex's earnings to grow by three-year forward earnings CAGR of 13% between FY21-23F driven by CAPEX allocation of up to RM500m to enhance the capacities, efficiencies and capabilities of the Manufacturing segment to offer value adding products to domestic and export markets. On top of that, the group also plans to launch RM1.6b in GDV in FY21F with 6,000 units across 24 projects in Johor, Melaka and Central Region of Peninsular Malaysia. We are positive on these initiatives as they are in-line with Scientex's

long-term plans of becoming Regional leader in packaging solutions as well as building 50,000 affordable housing in the country.

Proposed bonus issue and free warrants

Scientex has proposed a bonus share issuance of two bonus shares for every existing share, as well as free warrants of one warrant for every existing five Scientex shares held on entitlement date to be determined by the Board of Directors on a later date. Note that the group also has an approved and subsisting corporate exercise of a share grant plan where it is allowed to issue up to 5% of the total number of issued shares to eligible key management and employees of Scientex and its subsidiaries which is in force until 2024. Based on our back of envelope calculation, assuming Scientex issues the maximum number of shares (1.1b units) following the proposals above, this is expected to dilute Scientex's FY21F EPS to 29sen from 92sen with no change on the projected earnings.

Approaching fair value

Stock has sharply recovered by 53% from its 4-year low in March 2020 while YTD, stock increased slightly by 2% due to an uncertain market environment, be it globally or domestically. It is now trading at 10x forward PE which is in line with its five-year forward mean PE. Hence, we find the stock to be approaching its fair value. With projected DPS of 23-25sen for FY21-23F, this implies a dividend yield of around 3%.

Exhibit 1: Quarterly financial results analysis

FYE Jul RMm	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	Change (%)		Cumulative		Chg (%)	KAF	
	Jul-19	Oct-19	Jan-20	Apr-20	Jul-20	QoQ	YoY	FY19	FY20	YoY	FY20	12M/F
Revenue	939	877	914	772	955	24	2	3,247	3,519	8	3,889	90%
~ Manufacturing	630	656	659	614	621	1	(1)	2,358	2,551	8	2,681	95%
~ Property	308	222	255	158	333	>100	8	890	967	9	816	119%
Interest Expense	(5)	(5)	(4)	(4)	(3)	(28)	(37)	(16)	(16)	5		
Interest Income	2	3	3	2	3	47	78	4	11	>100		
Depreciation	25	27	27	27	29	5	13	92	111	20		
EBITDA	204	146	168	134	212	59	4	554	660	19	604	109%
Operating Profit	179	119	141	106	184	73	3	462	549	19	504	109%
~ Manufacturing	67	55	65	59	71	20	6	175	251	43	222	113%
~ Property	112	63	76	47	113	>100	0	287	298	4	283	106%
Reported PBT	177	116	139	105	184	76	4	451	544	21	492	111%
Taxation	(38)	(28)	(34)	(29)	(35)	23	(7)	(105)	(126)	21		
Minority Interest	(5)	(6)	(8)	(6)	(7)	5	29	(12)	(28)	>100		
Exceptional items	(1)	(3)	(2)	(14)	(14)	(1)	>100	(19)	(33)	76		
Reported Profit	133	81	97	70	142	>100	6	334	390	17	365	107%
Adj. Net Profit	134	83	100	84	156	86	17	353	424	20	365	116%
EPS (sen)	26	16	19	14	28	104	6	67	76	14		
Adj EPS (sen)	26	16	19	16	30	86	17	68	82	20		
DPS (sen)	10	0	0	10	13			20	23			
						%-pts	%-pts			%-pts		
Effective tax rate (%)	21	25	24	27	19	(8)	(2)	23	23	(0)		
EBITDA margin (%)	22	17	18	17	22	5	0	17	19	2		
Operating margin (%)	19	14	15	14	19	5	0	14	16	1		
~ Manufacturing (%)	11	8	10	10	11	2	1	7	10	2		
~ Property	36	28	30	30	55	25	19	32	31	(1)		
Pretax margin (%)	19	13	15	14	19	6	0	14	15	2		
Net margin (%)	14	10	11	11	16	5	2	11	12	1		

Source: Company, KAF

Exhibit 2: Sum-of-Parts Valuation

Segment	Based on CY21	Valuation
Manufacturing	20x PE	4,010
Property	0.6x PB	1,143
	Equity value (RMm)	5,153
	Outstanding shares (m)	515
	Target Price (RM)	10.00

Source: KAF

Exhibit 3: Five year forward PE band chart



Source: Bloomberg, KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Revenue	3,247	3,519	3,999	4,544	5,262
EBITDA	575	660	788	919	1,088
Depreciation/Amortisation	(92)	(111)	(117)	(170)	(218)
Operating income (EBIT)	483	549	671	749	870
Other income & associates	4	5	5	5	6
Net interest	(16)	(16)	(17)	(17)	(18)
Exceptional items	(19)	(33)	0	0	0
Pretax profit	451	544	659	737	859
Taxation	(105)	(126)	(154)	(172)	(200)
Minorities/pref dividends	(12)	(28)	(32)	(36)	(42)
Net profit	334	390	474	529	617
Core net profit	353	424	474	529	617

Balance Sheet

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	1,248	1,323	1,919	2,463	2,959
Intangible assets	294	338	338	338	338
Other long-term assets	868	1,109	1,109	1,109	1,109
Total non-current assets	2,409	2,777	3,373	3,917	4,413
Cash & equivalent	258	413	211	154	235
Stock	321	354	402	457	529
Trade debtors	735	716	814	925	1,071
Other current assets	385	340	340	340	340
Total current assets	1,698	1,824	1,767	1,876	2,176
Trade creditors	597	624	710	806	934
Short-term borrowings	704	684	684	684	684
Other current liabilities	29	41	41	41	41
Total current liabilities	1,330	1,349	1,434	1,531	1,659
Long-term borrowings	270	357	457	607	787
Other long-term liabilities	109	129	129	129	129
Total long-term liabilities	379	486	586	736	916
Shareholders' funds	2,225	2,561	2,917	3,322	3,810
Minority interests	174	194	194	194	194

Cash flow Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	451	544	659	737	859
Depreciation/Amortisation	92	111	117	170	218
Net change in working capital	86	150	(61)	(69)	(91)
Others	(72)	(90)	(137)	(154)	(182)
Cash flow from operations	557	715	579	684	804
Capital expenditure	(48)	(79)	(339)	(339)	(339)
Net investments & sale of fixed assets	(258)	(364)	(375)	(375)	(375)
Others	7	(37)	(32)	(36)	(42)
Cash flow from investing	(299)	(481)	(746)	(750)	(756)
Debt raised/(repaid)	(35)	68	100	150	180
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(107)	(116)	(119)	(124)	(129)
Others	(32)	(30)	(17)	(17)	(18)
Cash flow from financing	(173)	(79)	(35)	9	33
Net cash flow	85	156	(202)	(57)	81
Net cash/(debt) b/f	172	258	413	211	154
Net cash/(debt) c/f	258	413	211	154	235

Key Ratios

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue growth (%)	24.8	8.3	13.6	13.6	15.8
EBITDA growth (%)	34.1	14.7	19.4	16.6	18.4
Pretax margins (%)	13.9	15.5	16.5	16.2	16.3
Net profit margins (%)	10.3	11.1	11.8	11.6	11.7
Interest cover (x)	31.1	33.6	39.8	43.2	48.7
Effective tax rate (%)	23.2	23.2	23.3	23.3	23.3
Net dividend payout (%)	30.9	30.4	26.1	24.3	21.7
Debtors turnover (days)	4.4	4.9	4.9	4.9	4.9
Stock turnover (days)	10.1	9.9	9.9	9.9	9.9
Creditors turnover (days)	5.4	5.6	5.6	5.6	5.6

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)