21 September 2020

Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM9.50 @ 18 September 2020**

Scientex (SCI MK)

BUY (maintain)
Up/Downside: +38.9%

Price Target: RM13.20
Previous Target (Rating): RM11.20 (BUY)

"Results exceeded expectations"

Record FY20 performance; reaffirm BUY

- **Scientex reported a surprisingly strong set of results – FY20 core net profit expanded by 20% yoy to RM422m on better performance from both its property and manufacturing segments**
- **The results were above market and our expectations – accounting for 114% and 119% of respective full-year forecasts.**
- **Given the better-than-expected results, we raise our FY21-22E core EPS by 20-28%, and lift our TP to RM13.20 (from RM11.20). Maintain BUY.**

FY20 core net profit rose by 20% yoy, exceeded expectations

Scientex's FY20 core net profit rose by 20% yoy to RM422m, on the back of stronger performances from both the manufacturing and property divisions. **Property EBIT grew by 4% yoy** to RM298m, contributed by steady progress billings from affordable residential projects in Johor, Melaka and Selangor. **Manufacturing EBIT also ballooned by 43% yoy** to RM251m on higher domestic sales (+21% yoy, thanks to contribution from Daibochi's converting business) as well as better margins on favourable product mix, lower resin costs and higher efficiency. Overall, the results were ahead of expectations, accounting for 114% of street and 119% of our earnings forecasts. The variance against our forecast was largely due to better-than-expected margins from the manufacturing segment.

Sequentially better by 88% qoq on low base effect

Sequentially, Scientex's 4QFY20 core net profit rose by 88% qoq to RM156m on low base effect. Back in 3QFY20, Scientex's business operations were disrupted by the Covid-19 Movement Control Order: manufacturing entities were allowed to operate at minimal capacity to comply with the SOP imposed by the authorities while the property division's operations were closed during the period.

Property: aggressively exploring land-banking opportunities

For the property segment, Scientex continues to see average c.70% take-up rates for its affordable homes across Peninsular Malaysia. We expect near-term property numbers to be supported by current unbilled sales of RM650m and target GDV of RM1.6bn (c.6k units across 24 property launches). To achieve its Vision 2028 of delivering 50k affordable homes, the Group is still aggressively pursuing land-banking expansion, with its latest acquisition of: 1) 1,515 acres in Jasin, Melaka, 2) 109 acres in Seremban, Negeri Sembilan and 3) 139 acres in Cheras, Selangor. Per briefing information, Scientex's landbank as at 4QFY20 has increased to 5,504 acres (from 3,795 acres in 4QFY19) with a future est. GDV of RM27.8bn (from RM22.0bn in 4QFY19).

Earnings & Valuation Summary

FYE 31 July	2019	2020	2021E	2022E	2023E
Revenue (RMm)	3,247.4	3,518.6	3,785.8	4,355.0	4,975.0
EBITDA (RMm)	573.1	700.0	752.4	879.5	1,042.3
Pretax profit (RMm)	450.6	544.3	630.7	751.7	923.1
Net profit (RMm)	333.7	390.1	453.3	540.3	663.4
EPS (sen)	64.8	75.7	88.0	104.9	128.8
PER (x)	14.7	12.5	10.8	9.1	7.4
Core net profit (RMm)	352.7	422.1	453.3	540.3	663.4
Core EPS (sen)	68.5	82.9	88.0	104.9	128.8
Core EPS growth (%)	22.5	21.1	6.2	19.2	22.8
Core PER (x)	13.9	11.5	10.8	9.1	7.4
Net DPS (sen)	20.0	23.0	26.7	31.8	39.1
Dividend Yield (%)	2.1	2.4	2.8	3.3	4.1
EV/EBITDA	10.1	8.2	7.6	6.2	4.6
Chg in EPS (%)			20.3	27.5	new
Affin/Consensus (x)			1.1	1.2	new

Source: Company, Affin Hwang estimates

Share price performance

	1M	3M	12M
Absolute (%)	3.4	10.9	13.6
Rel KLCI (%)	8.3	10.7	20.6

	BUY	HOLD	SELL
Consensus	4	3	-

Source: Bloomberg

Stock Data

Sector	Plastic pkg.
Issued shares (m)	515.9
Mkt cap (RMm)/(US$m)	4900.8/1189.5
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	5.96-10.3
Est free float	35.7%
Stock Beta	0.78
Net cash/(debt) (RMm)	(627.8)
ROE (FY21E)	14.6%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.1%
Scientex Infinity SB	8.6%
Lim Teck Meng	7.5%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE July (RMm)	4Q19	3Q20	4Q20	QoQ % chg	YoY % chg	FY19	FY20	YoY % chg	Comments
Revenue	938.8	772.2	954.6	23.6	1.7	3,247.4	3,518.6	8.3	FY20 revenue grew by 8% yoy on higher contribution from manufacturing (+8% yoy) and property (+8% yoy) divisions.
Op costs	(733.8)	(625.5)	(729.4)	16.6	(0.6)	(2,674.4)	(2,829.8)	5.8	
EBITDA	205.0	146.7	225.2	53.6	9.9	573.1	688.8	20.2	
EBITDA margin (%)	*21.8*	*19.0*	*23.6*	*4.6ppt*	*1.8ppt*	*17.6*	*19.6*	*1.9ppt*	Blended FY20 EBITDA margin improved by 1.9ppts yoy to 19.6%, attributable to favourable sales mix, cheaper resin cost and better production efficiency from the manufacturing segment.
Depn and amort	(25.2)	(26.6)	(27.3)	2.4	8.2	(92.3)	(107.14)	16.4	
EBIT	179.8	120.0	197.9	64.9	10.1	480.8	581.4	20.9	
EBIT margin (%)	*19.2*	*15.5*	*20.7*	*5.2ppt*	*1.6ppt*	*14.8*	*16.5*	*1.7ppt*	
Int expense	(4.5)	(3.9)	(2.8)	(28.5)	(37.4)	(15.5)	(16.3)	5.2	
Int and other inc	1.8	2.2	3.3	46.9	78.0	4.3	11.2	>100	
Exceptional items	(0.5)	(13.6)	(14.2)	4.6	>100	(19.0)	(32.0)	68.2	4QFY20 EIs largely comprised of impairment of PPE (RM11m), impairment of goodwill (RM4m) and fair value gain on investments (RM4.4m)
Pretax profit	**176.6**	**104.7**	**184.2**	75.9	4.3	**450.6**	**544.3**	20.8	
Tax	(38.0)	(28.7)	(35.4)	23.3	(6.8)	(104.7)	(126.2)	20.6	
Tax rate (%)	*21.5*	*27.4*	*19.2*	*-8.2ppt*	*-2.3ppt*	*23.2*	*23.2*	*0ppt*	
MI	(5.2)	(6.4)	(6.7)	5.3	29.4	(12.2)	(27.9)	>100	Higher MI due to better performance from 62%-owned Daibochi which has been consolidated since 3Q19.
Net profit	**133.4**	**69.6**	**142.1**	>100	6.5	**333.7**	**390.1**	16.9	
EPS (sen)	25.9	13.5	27.6	>100	6.5	64.8	75.7	16.9	
Core net profit	**134.0**	**83.2**	**156.3**	87.8	16.7	**352.7**	**422.1**	19.7	Exceeded street and our expectations.

Source: Affin Hwang, Company

Manufacturing: continues to enhance capacity and capabilities

During the analyst briefing, we gather that Scientex has ambitious plans for the plastic manufacturing division: -

Expanding capacity: Due to the shrinking demand for automotive interior products, Scientex has made an overall impairment of c.RM15m on the sub-division, and has decided to demolish the factory to make way for a robotic industrial stretch film facility. Scientex has allocated c.RM300m to add 8 stretch lines over the 3-years, which will increase stretch capacity by 32% to est.245k MT/annum by FY23E, we believe. On a less positive note, we learnt that the operations in US is facing hiccups due to the Covid-19 pandemic, and it would focus on ramping up utilisation of the Arizona plant, while putting on hold expansion plans for the new Lancaster facility. Assuming the Arizona plant is running at 30% utilisation, we estimate Scientex's US operations had contributed c.3% of FY20 manufacturing revenue.

Increase capabilities: Scientex has put in more efforts in R&D – focus on product innovation for sustainable, recyclable products, in order to meet the latest and broader range of market applications over the long-run.

Going downstream: Scientex is also expanding into the flexible plastic packaging products through its recently acquired 61.9%-owned Daibochi and Mega Printing & Packaging SB, which products command better margin, compared to its lower-margin plain stretch films. We believe Scientex's venture is bearing fruit - manufacturing margins have expanded by 1.8ppts qoq to 11.4% in 4QFY20. Daibochi has set a 3-year revenue target of RM1bn (FY19 revenue of RM619m), and has allocated capex of RM100m to add 21 new lines, which will increase its production capacity to 60% by FY21E. Recall, Daibochi had contributed c.36% of Scientex's FY20 overall EBIT.

Proposed bonus shares and free warrants

The Group has proposed to undertake a bonus issue of up to 1,034m new shares, on the basis of 2 bonus share for every 1 existing share held. In addition, Scientex has also proposed issuance of 103k new free warrants, on the basis of 1 free warrant for every 5 shares held, in order to reward shareholders of the company for their continuous support by enabling them to participate in a derivative of the company without incurring any cost Overall, this exercise will increase Scientex's current share base to 1.6bn shares (from 516m shares), which should further enhance the liquidity of the stock. The exercise is expected to be completed by 1QFY21. Elsewhere, Scientex has declared a dividend of 13 sen for the quarter, bringing full-year FY20 dividend to 23 sen (FY19: 20 sen).

Reaffirm BUY with higher TP of RM13.20

We lift our FY21-22E earnings forecasts by 20-28%, after incorporating higher contribution from both the property and plastic manufacturing segments whilst introducing our FY23E forecasts. In tandem, we raised our 12-month price target to RM13.20 (from RM11.20) based on SOTP valuation (15x FY21E PER for manufacturing; 30% discount to property RNAV). At 11x FY21E PER, valuations look attractive. Key downside risks to our call includes: (i) higher-than-expected resin costs, (ii) weaker export sales and (iii) weaker-than-expected property sales.

Fig 2: Segmental breakdown

FYE 31 July (RMm)	4Q FY19	3Q FY20	4Q FY20	qoq % chg	yoy % chg	FY19	FY20	yoy % chg
Revenue								
-Manufacturing	630.3	614.4	621.4	1.1	(1.4)	2,357.8	2,551.1	8.2
-Property	308.5	157.8	333.2	>100	8.0	889.6	967.5	8.7
Total	**938.8**	**772.2**	**954.6**	23.6	1.7	**3,247.4**	**3,518.6**	8.3
EBIT								
-Manufacturing	67.1	59.3	71.1	20.0	6.0	175.2	251.0	43.2
- Property	112.1	47.2	112.6	>100	0.4	286.5	298.4	4.2
Total*	**179.2**	**106.4**	**183.7**	72.6	2.5	**461.8**	**549.5**	19.0
EBIT margins (%)								
-Manufacturing	10.6	9.6	11.4	*1.8ppt*	*0.8ppt*	7.4	9.8	*2.4ppt*
-Property	36.3	29.9	33.8	*3.9ppt*	*-2.6ppt*	32.2	30.8	*-1.4ppt*
Overall	19.1	13.8	19.2	*5.5ppt*	*0.2ppt*	14.2	15.6	*1.4ppt*

Source: Company
**not adjusted for EI*

Fig 3: Revised SOTP of RM13.20 (from RM11.20)

Segmental	Equity value	multiple	Share base	Equity value per	Comment
Plastic packaging	2,930.7	**PE 15.0x**	515.6	5.68	Pegged to 15x FY20E
Property			515.6	7.53	30% discount to RNAV
SOP (RM)				**13.20**	

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
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