



AmInvestment Bank

## Company report

## SCIENTEX

(SCI MK EQUITY, STIK.KL)

22 Sep 2020

Acquires 202-acre land in Pulai for RM185mil

BUY

(Maintained)

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Rationale for report: Company update

Price	RM9.90
Fair Value	RM10.74
52-week High/Low	RM10.38/RM5.96

## Key Changes

Fair value	↔
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,518.6	4,369.8	4,905.3	5,506.6
Core net profit (RM mil)	390.1	467.7	529.5	598.9
FD Core EPS (sen)	75.6	90.7	102.7	116.1
FD Core EPS growth (%)	13.4	19.9	13.2	13.1
Consensus Net Profit (RM mil)	-	446.7	500.2	587.3
DPS (sen)	23.0	27.2	30.8	34.8
PE (x)	13.1	10.9	9.6	8.5
EV/EBITDA (x)	8.7	7.4	6.5	5.7
Div yield (%)	2.4	2.9	3.2	3.7
ROE (%)	16.3	17.4	17.6	17.6
Net Gearing (%)	24.5	20.6	14.7	8.9

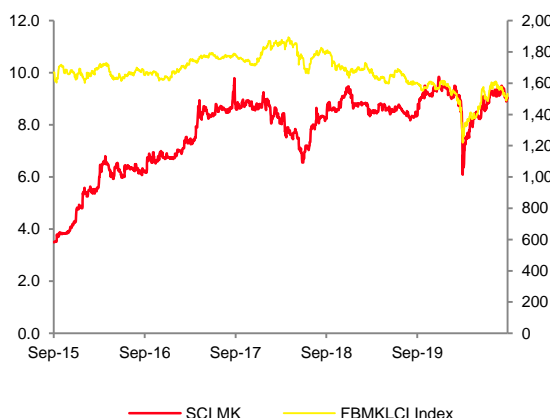
## Stock and Financial Data

Shares Outstanding (million)	515.9
Market Cap (RM mil)	5,107.2
Book Value (RM/share)	6.29
P/BV (x)	1.6
ROE (%)	16.3
Net Gearing (%)	24.5

Major Shareholders	Scientex Holdings Sdn Bhd (21.1%)
	Scientex Leasing Sdn Bhd (9.2%)
	Scientex Infinity Sdn Bhd (8.1%)

Free Float	-
Avg Daily Value (RM mil)	2.7

Price performance	3mth	6mth	12mth
Absolute (%)	14.6	44.5	12.5
Relative (%)	15.2	25.6	19.9



## Investment Highlights

- We maintain our BUY call, forecasts and fair value of RM10.74/share for Scientex based on sum-of-parts (SOP) valuation (Exhibit 1). This pegs its manufacturing segment to FY22F P/E of 15x, at a premium to its peer stretch film makers' average forward PE of 12.5x, to reflect its higher EPS growth rates of 21.6% and 13.2% in FY21–22F (vs. its global peers' a weighted average of about 10% annually).
- Scientex is acquiring freehold agricultural land measuring 202.2 acres in Pulai, Johor for RM185mil cash, earmarked for a mixed development (residential and commercial) project. The GDV is yet to be determined.
- The land is located near established property township projects such as Sri Pulai Perdana 2, Bandar Pulai Jaya and Bandar Baru Kangkar Pulai, as well as Scientex's ongoing developments Taman Pulai Mutiara and Taman Pulai Mutiara 2.
- At about RM0.9mil per acre, the price appears to be reasonable compared with two recent transactions by KSL Holdings Bhd (KSL). In 2018, KSL entered into agreements to acquire 302.5 acres of land in the same area for RM306.1mil, translating to RM1.0mil to RM1.1mil per acre.
- We note that the group's total landbank would increase to more than 5,700 acres across Johor, Melaka, Selangor, Perak and Penang, which should keep its property development business busy for more than 10 years. This newly acquired land would also complement Scientex's existing 661 acres of land in Pulai, encompassing mixed residential and commercial developments. These developments have a completed GDV of RM0.9bil, with an ongoing and future GDV of RM4.4bil and set to be enhanced further by this land purchase.
- The acquisition will increase Scientex's net debt and gearing of RM628mil and 0.25x as at 31 Jul 2020 to RM813mil and 0.32x, which are still manageable. We are positive on this latest development.

- We continue to like Scientex for: (1) the strong prospects of the packaging industry due to consumer spending, a shift to the on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its above-trend earnings growth rates of 21.6% and 13.2% for FY21–22F (vs. a weighted average of about 10% annually for its global peers) due to extensive R&D, cost efficiency initiatives and an M&A pipeline; and (3) A robust property development business despite the soft market in general thanks to its right focus on predominantly landed affordable residential units in secondary suburbs.
- At about 11x forward earnings in its entirety, we think that this home-grown regional/global plastic packaging player is highly compelling given its strong foothold in a consumer-fuelled sector.

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**EXHIBIT 1: SUM-OF-PARTS VALUATION**


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## Sum-of-Parts (SOP) Valuations

	FY22F PAT	PE multiple	
<b>Manufacturing Division</b>	<b>255.1</b>	<b>15</b>	<b>3826.4</b>
<b>Property Division</b>			
	<b>Outstanding GDV</b>		<b>NPV @ 10%</b>
<b>Developments</b>	RM (mil)		
Taman Scientex Pasir Gudang	528.0		87.4
Taman Scientex Kulai	460.0		76.1
Taman Scientex Senai	2172.0		359.4
Taman Pulau Mutiara	4757.0		787.2
Taman Heights (Ayer Keroh)	621.0		102.8
Scientex Klebang & Scientex Meru (Ipoh)	860.0		142.3
Scientex Rawang	860.0		142.3
Taman Mutiara Mas (Skudai)	1285.0		212.7
Scientex Durian Tunggal	1400.0		231.7
	<b>12943.0</b>		<b>2141.9</b>
(-) Property Division Net Debt (estimate)			<b>-234.6</b>
<b>RNAV</b>			<b>1907.4</b>
(-) 10% Discount to Property RNAV			<b>-190.7</b>
<b>Property Division Sub-Total</b>			<b>1716.6</b>
<b>Total</b>			<b>5543.0</b>
Outstanding Shares			515.9
<b>Fair Value/share (RM)</b>			<b>10.74</b>

Source: Bloomberg, AmlInvestment Bank Bhd.

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,247.4	3,518.6	4,369.8	4,905.3	5,506.6
EBITDA	546.6	658.1	773.0	856.5	950.6
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	666.2	749.7	843.8
Other income & associates	(16.9)	-	(23.9)	(27.4)	(32.0)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	450.6	544.3	643.1	728.6	824.7
Taxation	(104.7)	(126.2)	(154.4)	(174.9)	(197.9)
<b>Minorities/pref dividends</b>	<b>12.2</b>	<b>27.9</b>	<b>21.1</b>	<b>24.2</b>	<b>27.9</b>
Net profit	333.7	390.1	467.7	529.5	598.9
Core net profit	333.7	390.1	467.7	529.5	598.9
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,247.8	1,322.6	1,634.2	1,827.4	2,020.6
Intangible assets	1,043.2	1,047.7	1,052.5	1,057.5	1,062.8
<b>Other long-term assets</b>	<b>118.1</b>	<b>108.6</b>	<b>118.1</b>	<b>118.1</b>	<b>118.1</b>
Total non-current assets	2,409.0	2,776.7	2,804.8	3,003.0	3,201.5
Cash & equivalent	257.6	413.2	293.7	354.7	454.1
Stock	321.2	354.0	432.2	485.1	544.6
Trade debtors	595.8	716.0	801.7	899.9	1,010.2
<b>Other current assets</b>	<b>523.9</b>	<b>340.4</b>	<b>523.9</b>	<b>523.9</b>	<b>523.9</b>
Total current assets	1,698.5	1,823.7	2,051.5	2,263.6	2,532.8
Trade creditors	438.2	624.5	589.7	662.0	743.1
Short-term borrowings	704.0	683.7	654.0	629.0	604.0
<b>Other current liabilities</b>	<b>187.5</b>	<b>45.0</b>	<b>212.7</b>	<b>208.0</b>	<b>199.7</b>
Total current liabilities	1,329.7	1,353.2	1,456.4	1,498.9	1,546.8
Long-term borrowings	269.8	357.3	219.8	194.8	169.8
<b>Other long-term liabilities</b>	<b>109.0</b>	<b>134.2</b>	<b>109.0</b>	<b>109.0</b>	<b>109.0</b>
<b>Total long-term liabilities</b>	<b>378.8</b>	<b>491.6</b>	<b>328.8</b>	<b>303.8</b>	<b>278.8</b>
Shareholders' funds	2,225.0	2,561.4	2,821.6	3,192.3	3,611.5
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	5.55	6.29	6.59	7.30	8.12
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	450.6	544.3	643.1	728.6	824.7
Depreciation/Amortisation	92.3	108.7	106.8	106.8	106.8
Net change in working capital	86.4	(52.9)	(97.5)	(109.5)	(122.9)
<b>Others</b>	<b>(72.0)</b>	<b>(99.1)</b>	<b>(112.3)</b>	<b>(135.1)</b>	<b>(160.4)</b>
Cash flow from operations	557.4	501.0	540.1	590.9	648.2
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(306.0)	(300.0)	(300.0)	(300.0)	(300.0)
<b>Others</b>	<b>7.4</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>
Cash flow from investing	(298.6)	(288.1)	(288.1)	(288.1)	(288.1)
Debt raised/(repaid)	(19.4)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(106.7)	(115.4)	(140.3)	(158.9)	(179.7)
<b>Others</b>	<b>(46.9)</b>	<b>(87.0)</b>	<b>(85.0)</b>	<b>(83.0)</b>	<b>(81.0)</b>
<b>Cash flow from financing</b>	<b>(173.0)</b>	<b>(202.3)</b>	<b>(225.3)</b>	<b>(241.8)</b>	<b>(260.6)</b>
<b>Net cash flow</b>	<b>85.7</b>	<b>10.5</b>	<b>26.7</b>	<b>60.9</b>	<b>99.4</b>
<b>Net cash/(debt) b/f</b>	<b>170.8</b>	<b>256.5</b>	<b>267.0</b>	<b>293.7</b>	<b>354.7</b>
Net cash/(debt) c/f	256.5	267.0	293.7	354.7	454.1
Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	23.6	8.3	24.2	12.3	12.3
EBITDA growth (%)	26.9	20.4	17.5	10.8	11.0
Pretax margin (%)	13.9	15.5	14.7	14.9	15.0
Net profit margin (%)	10.3	11.1	10.7	10.8	10.9
Interest cover (x)	123.5	107.7	28.8	35.5	44.2
Effective tax rate (%)	23.2	23.2	24.0	24.0	24.0
Dividend payout (%)	30.1	29.6	30.0	30.0	30.0
Debtors turnover (days)	61	68	63	63	63
Stock turnover (days)	33	35	33	34	34
Creditors turnover (days)	46	55	51	47	47

Source: Company, AmlInvestment Bank Bhd estimates

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