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Hold

Price
RM12.30

Target Price
RM12.50

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

1QFY21: results broadly in line

Financial Highlights

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	3,247	3,519	4,001	4,537	5,137
Core net profit (RMm)	331	391	473	529	614
Core EPS (Sen)	64.3	75.8	91.7	102.6	119.2
EPS growth (%)	9.9	17.8	20.9	12.0	16.1
DPS (Sen)	20.0	23.0	24.0	25.0	26.0
Core PE (x)	19.1	16.2	13.4	12.0	10.3
Div yield (%)	1.6	1.9	2.0	2.0	2.1
ROE (%)	15.7	14.9	17.3	17.0	17.2
Net Gearing (%)	32.2	24.5	32.0	34.3	32.2
PBV(x)	2.8	2.5	2.2	1.9	1.7

Source: Company, KAF

- Maintain Hold rating with TP of RM12.50 pegged to CY21F based SOP valuation.
- Scientex's 1QFY21 core earnings of RM88m (+5% YoY, -44% QoQ) came in broadly in-line with ours and consensus estimates. It accounts for 19% of ours and streets' full-year forecasts as we expect earnings to be back-end loaded as per historical trend.
- Revenue declined to RM802m (-9% YoY, -16% QoQ) on the back of lower sales contributions from the Packaging (-11% YoY, -6% QoQ) and Property (-1% YoY, -34% QoQ) segments.
- The Packaging segment was mainly affected by lower sales volume in the export market on the back of the general slowdown in the economy globally. However, this was mitigated by higher operating profit (+24% YoY) due to better sales mix and product margins contributed by its wide range of packaging products. This has increased the segment's operating profit margin to 12% (+3-ppts YoY) in 1QFY21.
- While the Property segment sales was relatively stable YoY due to steady construction progress of its on-going projects in Johor, Melaka and Ipoh. This was partially mitigated by contributions from its new projects in Scientex Taman Pulau Mutiara 2, Scientex Kundang Jaya and Scientex Tasek Gelugor as they are in early stages of development roll-out. Quarterly, the lower sales contribution was caused by lower progress billings recognized.
- Moving forward, 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.
- Since its last quarterly financial results announcement, share price has increased by 37% to an all-time trading at 11x forward PE. This is +1SD above its five-year forward mean mean PE of 10x. Considering its aggressive expansion plan, we find the stock to be approaching its fair value at current levels.
- With projected DPS of 24-26 sen for FY21-23F, this implies a dividend yield of 2% currently.

Exhibit 1: Quarterly financial results analysis

FYE Jul RMm	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	Change (%)		KAF	
	Oct-19	Jan-20	Apr-20	Jul-20	Oct-20	QoQ	YoY	FY21	3M/F
Revenue	877	914	772	955	802	(16)	(9)	4,001	20%
~ Packaging	656	659	614	621	584	(6)	(11)	2,976	20%
~ Property	222	255	158	333	218	(34)	(1)	1,025	21%
Interest Expense	(5)	(4)	(4)	(3)	(2)	(19)	(57)		
Interest Income	3	3	2	3	1	(81)	(75)		
Depreciation	27	27	27	29	26	(9)	(5)		
EBITDA	146	168	134	212	153	(28)	5	786	19%
Operating Profit	119	141	106	184	127	(31)	7	669	19%
~ Packaging	55	65	59	71	69	(4)	24	395	17%
~ Property	63	76	47	113	58	(48)	(8)	274	21%
Reported PBT	116	139	105	184	128	(30)	11	658	19%
Taxation	(28)	(34)	(29)	(35)	(28)	(20)	(1)		
Minority Interest	(6)	(8)	(6)	(7)	(7)	9	13		
Exceptional items	(3)	(2)	(14)	(14)	5	nm	nm		
Reported Profit	81	97	70	142	93	(35)	14	473	20%
Adj. Net Profit	83	100	84	156	88	(44)	5	473	19%
EPS (sen)	16	19	14	28	18	(35)	14		
Adj EPS (sen)	16	19	16	30	17	(44)	5		
DPS (sen)	0	0	10	13	-				
						%-pts	%-pts		
Effective tax rate (%)	25	24	27	19	22	3	(3)		
EBITDA margin (%)	17	18	17	22	19	(3)	2		
Operating margin (%)	14	15	14	19	16	(3)	2		
~ Manufacturing (%)	8	10	10	11	12	0	3		
~ Property	28	30	30	34	59	25	30		
Pretax margin (%)	13	15	14	19	16	(3)	3		
Net margin (%)	10	11	11	16	11	(5)	1		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 3: Sum-of-Parts Valuation

Segment	Based on CY21	Valuation
Manufacturing	23x PE	5,470
Property	0.5x PB	978
	Equity value (RMm)	6,448
	Outstanding shares (m)	516
	Target Price (RM)	12.50

Source: 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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