

18 December 2020

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Neutral (Maintained)

Business Divisions Face Temporary Hiccup

Target Price (Return): MYR11.50 (-4%)
 Price: MYR12.00
 Market Cap: USD1,534m
 Avg Daily Turnover (MYR/USD): 9.88m/2.40m

- **Stay NEUTRAL with new SOP-derived MYR11.50 TP from MYR10.30, 4% downside.** 1QFY21F (Jul) earnings were below our and Street's expectations at MYR92.5m (+14.3% YoY, -34.9% QoQ), dragged down by the packaging unit's poor export sales and property division's margins deterioration. However, earnings should gradually recover in the coming quarters, in tandem with the global outlook's improvement. We believe Scientex is currently fairly valued – our TP implies 12.6x P/E, in line with its 12x historical average P/E.
- **SCI's 1QFY21 net profit was a slight miss** vs our and Street's expectations at MYR92.5m (+14.3% YoY, -34.9% QoQ) after both the packaging and property segments' earnings disappointed. Net profit accounted for 21% and 20% of our and consensus' full-year estimates. Post results, we trim FY21F earnings by 3% to reflect lower sales assumptions for the manufacturing and property divisions.
- **Results review.** The packaging segment's sales were dragged down (-11% YoY, -6% QoQ) by poor export sales – they were affected by the pandemic. The property segment's EBIT margin deteriorated (-4ppts vs FY20's) due to an unfavourable product mix. No dividend was declared.
- **Earnings to pick up.** Looking forward, we expect earnings to gradually recover in the quarters ahead, in tandem with the improvements in the global outlook. The demand for packaging products from the export market will likely recover as economies reopen. Notably, the packaging segment's EBIT margin was maintained at c.11% (+3.2ppts vs 1QFY20's), helped by the integration of Daiboichi's (DPP MK, NR) operations. We believe margins can be maintained at this level moving forward. Sales from the property division are also expected to pick up, as the group gears up with new launches. It has set an ambitious GDV target of MYR1.6bn (RHB forecast: MYR1.2bn) for FY21F vs MYR885m in launches for FY20.
- **The warrant exercise price has been fixed at MYR4.30 (ex-bonus)**, which represents a 7.2% premium above the theoretical ex-bonus price of MYR4.01 (5-day VWAP immediately before the price-fixing date). Full exercise of the 103.4m warrants issued would raise c.MYR444m in cash.
- **Maintain NEUTRAL with new MYR11.50 TP** after rolling forward our valuation base year to FY22F from FY21F. Despite the expectation of earnings recovery, we believe SCI is fairly valued at current levels with no immediate catalysts for a change in our call. Our current TP implies 12.6x P/E – in line with its 12x historical average P/E. Its relatively resilient earnings growth should already be priced in – the group reported higher earnings growth during the past three years. Our valuation on the packaging division implies 20x FY22F P/E, or a 53% premium vs peer average – justified by SCI's larger scale of operations. Meanwhile, we value the property division at a 55% discount to RNAV.
- **Risks.** A sharp decline/surge in raw material prices could pose upside/downside risks to earnings.

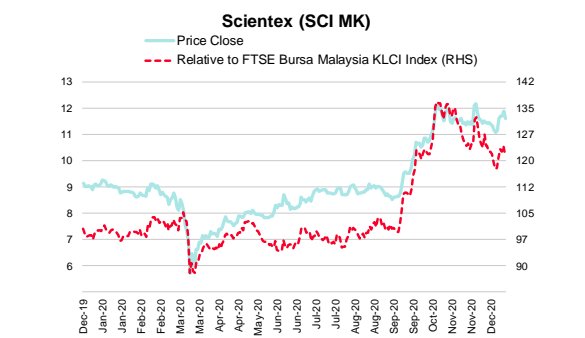
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.2	2.0	31.1	40.1	26.1
Relative	21.8	(2.0)	20.4	30.4	19.9
52-wk Price low/high (MYR)	6.09 – 12.6				



Source: Bloomberg

Forecasts and Valuation	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Total turnover (MYRm)	3,247	3,519	3,629	4,055	4,313
Recurring net profit (MYRm)	343	390	422	481	522
Recurring net profit growth (%)	26.5	13.7	8.3	13.8	8.6
Recurring P/E (x)	17.54	15.42	14.24	12.52	11.53
P/B (x)	2.7	2.3	2.1	1.9	1.7
P/CF (x)	10.80	8.41	10.71	9.57	8.90
Dividend Yield (%)	1.7	1.9	2.1	2.4	2.6
EV/EBITDA (x)	12.11	10.30	9.46	8.19	7.24
Return on average equity (%)	17.3	16.3	15.6	15.9	15.5
Net debt to equity (%)	29.9	22.8	16.8	10.3	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Malaysia	Recurring EPS	0.69	0.78	0.84	0.96	1.04
Consumer Non-cyclical	DPS	0.20	0.23	0.25	0.29	0.31
Scientex	BVPS	4.44	5.12	5.71	6.38	7.11
SCI MK	Return on average equity (%)	17.3	16.3	15.6	15.9	15.5
Neutral						
	Valuation metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Recurring P/E (x)	17.54	15.42	14.24	12.52	11.53
	P/B (x)	2.7	2.3	2.1	1.9	1.7
	FCF Yield (%)	8.5	10.6	4.4	5.5	9.4
	Dividend Yield (%)	1.7	1.9	2.1	2.4	2.6
	EV/EBITDA (x)	12.11	10.30	9.46	8.19	7.24
	EV/EBIT (x)	14.48	12.32	11.27	9.76	8.59
	Income statement (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Total turnover	3,247	3,519	3,629	4,055	4,313
	Gross profit	684	3,519	911	1,027	1,065
	EBITDA	563	657	705	796	850
	Depreciation and amortisation	(92)	(107)	(113)	(128)	(134)
	Operating profit	471	549	592	669	717
	Net interest	(16)	(16)	(14)	(9)	(3)
	Pre-tax profit	460	544	589	671	724
	Taxation	(105)	(126)	(141)	(161)	(170)
	Reported net profit	343	390	422	481	522
	Recurring net profit	343	390	422	481	522
	Cash flow (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Change in working capital	86	150	(2)	(7)	(4)
	Cash flow from operations	557	715	562	629	676
	Capex	(48)	(79)	(300)	(300)	(110)
	Cash flow from investing activities	(299)	(481)	(311)	(311)	(121)
	Dividends paid	(107)	(116)	(127)	(144)	(157)
	Cash flow from financing activities	(173)	(79)	(104)	(148)	(160)
	Cash at beginning of period	172	258	413	560	729
	Net change in cash	85	156	147	169	395
	Ending balance cash	258	413	560	729	1,124
	Balance sheet (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Total cash and equivalents	258	413	560	729	1,124
	Tangible fixed assets	1,969	2,296	2,482	2,655	2,631
	Total investments	84	71	82	93	105
	Total assets	4,107	4,600	4,978	5,424	5,867
	Short-term debt	704	684	720	725	725
	Total long-term debt	270	357	357	357	357
	Total liabilities	1,709	1,845	1,901	1,981	2,027
	Total equity	2,399	2,756	3,077	3,443	3,840
	Total liabilities & equity	4,107	4,600	4,978	5,424	5,867
	Key metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Revenue growth (%)	24.8	8.3	3.1	11.7	6.4
	Recurrent EPS growth (%)	22.9	13.7	8.3	13.8	8.6
	Gross margin (%)	21.1	100.0	25.1	25.3	24.7
	Operating EBITDA margin (%)	17.3	18.7	19.4	19.6	19.7
	Net profit margin (%)	10.6	11.1	11.6	11.9	12.1
	Dividend payout ratio (%)	29.2	29.5	30.0	30.0	30.0
	Capex/sales (%)	1.5	2.3	8.3	7.4	2.6
	Interest cover (x)	30.3	33.6	43.1	73.1	218.9

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Jul (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenue	877.4	954.6	802.3	(16.0)	(8.6)	Poor performance by packaging and property divisions.
EBITDA	145.3	211.0	153.5	(27.3)	5.7	
Depreciation	(26.8)	(27.3)	(26.8)	(2.0)	(0.0)	
EBIT	118.5	183.7	126.8	(31.0)	7.0	
<i>EBIT margin (%)</i>	<i>13.5</i>	<i>19.2</i>	<i>15.8</i>			YoY, higher margin due to integration of Daibochi's operations.
Interest expense	(5.3)	(2.8)	(2.3)	(19.0)	(56.5)	
Interest income	2.6	3.3	3.6	8.2	37.3	
Associates	0.0	0.0	0.0	nm	nm	
Pre-tax profit	115.8	184.2	128.0	(30.5)	10.5	
<i>Pre-tax margin (%)</i>	<i>13.2</i>	<i>19.3</i>	<i>16.0</i>			
Tax	(28.4)	(35.4)	(28.1)	(20.5)	(0.9)	
<i>Effective tax rate (%)</i>	<i>24.5</i>	<i>19.2</i>	<i>22.0</i>			
Minority interest	6.5	6.7	7.4	9.0	13.4	
Net profit	81.0	142.1	92.5	(34.9)	14.3	Below our and consensus expectations.
<i>Net margin (%)</i>	<i>9.2</i>	<i>14.9</i>	<i>11.5</i>			

Source: Company data, RHB

Figure 2: Segmental breakdown

FYE Jul (MYRm)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenue						
Manufacturing	655.9	621.4	583.8	(6.1)	(11.0)	Lower export sales due the global economy's slowdown.
Property	221.5	333.2	218.4	(34.4)	(1.4)	
Total	877.4	954.6	802.3	(16.0)	(8.6)	
EBIT						
Manufacturing	55.5	71.1	68.6	(3.6)	23.7	Margins deteriorated due to an unfavourable product mix.
Property	63.1	112.6	58.2	(48.3)	(7.7)	
Total	118.5	183.7	126.8			
EBIT margin (%)						
Manufacturing	8.5	11.4	11.7			
Property	28.5	33.8	26.6			

Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)	Implied FY22F P/E (x)
Manufacturing	DCF (WACC: 6.7%, TG:1.0%)	3,927.7	20.0
Property	RNAV (Discount of 55%)	1,822.9	7.3
Total equity value		5,750.6	
Number of shares (m)		500.6	
TP per share (MYR)		11.50	12.6

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-09-21	Neutral	10.3	9.9
2020-07-24	Neutral	9.8	9.3
2018-06-21	Neutral	7.4	6.9
2018-03-23	Neutral	8.7	8.2
2018-02-26	Neutral	9.1	8.5

Source: RHB, Bloomberg

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