

# Scientex Berhad

**TP: RM12.60 (+4.8%)**

Ex-Bonus TP: RM4.20

Last Traded: RM12.02

**Hold**
*Moderate Performance; Bonus Issue Approved*

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

## Review

- Scientex Berhad's IQFY21 core net profit of RM87.1mn (+5.2% YoY; -43.2% QoQ) came in within ours and consensus estimates at 21% and 19% respectively. As mentioned in our previous results preview ('IQFY21: Expect Decent YoY Growth Albeit a QoQ Decline'), we anticipated a QoQ decline owing to higher resin price and slowdown in progress billing.
- Manufacturing.** IQFY21 revenue slipped 11.0% YoY to RM583.8mn due to lower sales volume. However, operating profit jumped to RM68.6mn (+23.7% YoY) underpinned by favourable sales mix as well as improved efficiency from automation and tight cost control.
- Property.** The marginally lower IQFY21 revenue (-1.4% YoY to RM218.4mn) and less favourable product mix, has led to a 7.7% YoY drop in operating earnings to RM58.2mn.
- IQFY21 vs 4QFY20.** Operating earnings dropped by 31.5% QoQ. This was mainly attributed to lower progress billings recognised for the Property segment following a strong 4QFY20 that saw completions of several developments alongside reduced IQFY21 Manufacturing segment's contribution,
- No dividend was declared during the quarter under review.

## Impact

- We make no change to our earnings forecasts.

## Outlook

- Manufacturing.** Capacity expansion and process automation enhancements remain as the group's long-term priority to boost efficiency and cost effectiveness alongside capacity. Even though Scientex endeavours to improve product mix by focusing on value-added products, we expect temporal margin compression arisen from rising resin input cost. Resin prices, especially the linear low-density polyethylene, have picked up considerably since early-Apr 2020 (+60% from bottom).
- Property.** Although we remain upbeat on Scientex's Property segment in the long-term due to pent up demand for affordable homes, we reckon the progress billing in the immediate quarters could be slow. This is because majority of projects have not reached the key billing milestones. Nonetheless, the group has targeted GDV launches of RM1.6bn (c.6.0k units) in FY21, nearly double its FY20 launches of RM885mn (c.3.0k units).
- The proposed 2-for-1 bonus share issue and 1-for-5 free warrant issue have been duly approved with the ex-date fixed on 13 Jan 2021. The exercise price of warrant was set at RM4.30 per piece. We reckon the

## Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.9
Market Cap (RMmn)	6,200.8
52-wk Hi/Lo (RM)	12.90/5.96
12-mth Avg Daily Vol ('000 shrs)	493.0
Estimated Free Float (%)	35.5
Beta	0.6
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.0
Scientex Leasing Sdn Bhd	9.1
Scientex Infinity Sdn Bhd	9.0

## Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMm)	419.8	466.7
Consensus	453.6	509.9
TA's / Consensus (%)	92.6	91.5
Previous Rating	Hold (Maintained)	

## Financial Indicators

	FY21	FY22
Net debt/ equity (%)	25.7	22.3
ROE (%)	15.5	15.4
ROA (%)	8.7	8.7
NTA/Share (RM)	4.9	5.5
Price/ NTA (x)	2.5	2.2

## Scorecard

	% of FY21	
vs TA	21	Within
vs Consensus	19	Within

## Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	2.0	4.0
3 mth	31.1	10.7
6 mth	40.1	9.7
12 mth	26.1	6.2

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

corporate exercises, which triple the share base, would bode well for the stock's liquidity and marketability.

### Valuation

- Maintain Hold call with unchanged target price of RM12.60/share, and ex-bonus TP of RM4.20/share based on SOP valuation.

**Table 1: Sum-of-Parts Valuation**

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY22 EPS PER 20x	3,975.6
Property	CY22 EPS PER 9x	2,522.6
Total Equity value (RMmn)		6,498.3
Share cap (mn)		515.9
<b>Target Price (RM)</b>		<b>12.60</b>

**Table 2: Earnings Summary (RMmn)**

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
Revenue	3,247.4	3,518.6	3,872.1	4,380.9	4,775.9
EBITDA	554.1	656.9	692.8	762.5	806.9
EBIT	461.8	549.5	580.4	642.8	681.8
Reported PBT	450.6	544.3	580.0	644.5	687.4
Adj. PBT	471.8	572.9	580.0	644.5	687.4
Reported Net Profit	333.7	390.1	419.8	466.7	496.4
Adj. Net profit	354.9	418.7	419.8	466.7	496.4
Basic/Diluted EPS (sen)	64.7	75.6	81.4	90.5	96.2
Adj. EPS (sen)	68.8	81.2	81.4	90.5	96.2
PER (x)	18.6	15.9	14.8	13.3	12.5
Net Dividend (sen)	20.0	23.0	25.0	27.0	30.0
Dividend Yield (%)	1.7	1.9	2.1	2.2	2.5

**Table 3: IQFY21 Results Analysis (RMmn)**

FYE July (RMmn)	IQFY20	4QFY20	IQFY21	QoQ (%)	YoY (%)
Revenue	877.4	954.6	802.3	(16.0)	(8.6)
~ Manufacturing	655.9	621.4	583.8	(6.1)	(11.0)
~ Property	221.5	333.2	218.4	(34.4)	(1.4)
Interest Expense	(5.3)	(2.8)	(2.3)	(19.0)	(56.5)
Interest Income	1.3	1.9	3.6	89.6	178.4
Depreciation	(26.8)	(27.3)	(26.8)	(2.0)	(0.0)
EBITDA	146.6	212.4	153.5	(27.7)	4.7
Operating Profit	119.8	185.1	126.8	(31.5)	5.8
~ Manufacturing	55.5	71.1	68.6	(3.6)	23.7
~ Property	63.1	112.6	58.2	(48.3)	(7.7)
EI	(1.8)	(11.4)	5.4	nm	nm
Reported PBT	115.8	184.2	128.0	(30.5)	10.5
Taxation	(28.4)	(35.4)	(28.1)	(20.5)	(0.9)
Minority Interest	(6.5)	(6.7)	(7.4)	9.0	13.4
Reported Profit	81.0	142.1	92.5	(34.9)	14.3
Adj. Net Profit	82.8	153.4	87.1	(43.2)	5.2
EPS (sen)	15.7	27.5	17.9	(34.9)	14.1
Adj EPS (sen)	16.1	29.7	16.9	(43.2)	5.2
DPS (sen)	0.0	13.0	0.0	(100.0)	nm
				<b>%-pts</b>	<b>%-pts</b>
EBIT Margin (%)	13.7	19.4	15.8	(3.6)	2.1
~ Manufacturing	8.5	11.4	11.7	0.3	3.3
~ Property	28.5	33.8	26.6	(7.2)	(1.8)
PBT Margin (%)	13.2	19.3	16.0	(3.3)	2.8
Net Margin (%)	9.4	16.1	10.9	(5.2)	1.4
Tax rate (%)	24.5	19.2	22.0	2.8	(2.5)

### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated**: The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Friday, December 18, 2020, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my