Scientex (SCI MK)

HOLD (downgrade)
Up/Downside: 1.3%

Price Target: RM4.05
Previous Target (Rating): RM4.40 (BUY)

"1H FY21 earnings were below expectations"

Downgrading: rising resin prices to weigh on margins

- **1H FY21 core net profit of RM189m made up 42% of street's and our full-year forecasts**
- **While the property segment recorded higher sales and progress billings, manufacturing saw a 1.6ppt decline in EBIT margin from higher resin and freight cost. We expect further a margin squeeze in subsequent quarters**
- **We downgrade Scientex to HOLD from Buy with a new TP of RM4.05**

2Q FY21 manufacturing margins hit by higher cost

Scientex's 2Q FY21 core net profit grew by 17% qoq to RM101.9m mainly due to higher revenue contribution from the property (+31.8% qoq) and manufacturing (+6.0% qoq) segments. The property segment saw steady construction progress, positive contribution from its maiden project in Taman Scientex Kota Tinggi and seven new launches during the quarter. Meanwhile, the manufacturing segment saw higher sales volume from some recovery in demand. Elsewhere, the EBITDA margin remained relatively flat at 18.3%. However, manufacturing EBIT margins fell by 1.6ppt qoq due to the recent rise in resin prices and freight cost.

1H FY21 core net profit grew by 3.5% yoy

Scientex's 1H FY21 core net profit grew by 3.5% yoy to RM189m, despite the revenue declining by 4.6% yoy due to lower contribution from the manufacturing segment (-8.6% yoy), cushioned by a 6.2% yoy increase in property earnings. The manufacturing segment saw lower sales volume due to the pandemic, while the property segment's sales picked up during the quarter as it saw RM775m worth of property projects launched with an average take-up rate of 75%. Meanwhile, EBITDA margin improved 0.7ppt yoy due to better sales mix and product margins as Scientex enjoyed lower raw material cost in the early part of the financial year. Elsewhere, interest expense was lower due to lower interest rate while tax expense was also lower.

Expecting margin squeeze in the coming quarters

Moving forward, we expect some squeeze in the manufacturing segment's margin due to rising resin prices as well as higher freight costs. Data from Bloomberg showed that HDPE, LDPE and PP resin prices rose by more than 50% yoy and more than 10% YTD (through 5 March 2021) attributable to tight global inventories that have resulted from both planned and unplanned shutdowns and strong demand. Further, the freight cost has also increased due to a global shortage of shipping containers.

Share price performance

	1M	3M	12M
Absolute (%)	-4.1	4.5	39.5
Rel KLCI (%)	-6.4	5.9	22.3

	BUY	HOLD	SELL
Consensus	3	4	-

Source: Bloomberg

Stock Data

Sector	Plastic pkg.
Issued shares (m)	1,550.6
Mkt cap (RMm)/(US$m)	6,202.4/1,506.2
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	1.99-4.45
Est free float	35.4%
Stock Beta	0.69
Net cash/(debt) (RMm)	(637.2)
ROE (FY21E)	12.6%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.1%
Scientex Infinity SB	9.0%
Lim Teck Meng	7.5%

Source: Affin Hwang, Bloomberg

Azhani Hashim
T (603) 2146 7544
E azhani.hashim@affinhwang.com

Earnings & Valuation Summary

FYE 31 July	2019	2020	2021E	2022E	2023E
Revenue (RMm)	3,247.4	3,518.6	3,558.7	4,439.8	5,055.2
EBITDA (RMm)	573.1	700.0	623.8	840.5	994.2
Pretax profit (RMm)	450.6	544.3	507.3	716.0	868.3
Net profit (RMm)	333.7	390.1	379.9	514.6	624.1
EPS (sen)	64.8	75.7	32.2	31.1	37.7
PER (x)	6.3	5.3	12.6	13.0	10.7
Core net profit (RMm)	352.7	422.1	379.9	514.6	624.1
Core EPS (sen)	68.5	81.9	32.2	31.1	37.7
Core EPS growth (%)	22.5	19.7	-60.7	-3.4	21.3
Core PER (x)	5.9	4.9	12.6	13.0	10.7
Net DPS (sen)	20.0	22.7	6.9	9.3	11.3
Dividend Yield (%)	4.9	5.6	1.7	2.3	2.8
EV/EBITDA	5.2	4.2	8.3	8.2	6.3
Chg in EPS (%)			(16.2)	(4.9)	(6.0)
Affin/Consensus (x)			0.8	1.0	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Downgrade to HOLD with a target price of RM4.05

We are adjusting down our core earnings by 5-16% in FY21-23E after incorporating (i) higher resin and freight costs; (ii) some improvement in property earnings, underpinned by current unbilled sales of RM900m; and (iii) lower interest rate. Additionally, in view of the earnings and valuation risk stemming from increasing raw material prices, higher freight cost and a softer recovery in plastic demand, we are lowering our valuation multiple for the plastics segment to 12x (based on a past-5-year average forward mean) from 15x previously. Based on our SOTP valuation of 12x FY21E PER for manufacturing, a 30% discount to property RNAV, we derive our new 12-month target price of RM4.05 (previously RM4.40, adjusted for 2:1 bonus issue). With the limited upside to our target price, we downgrade Scientex to HOLD, from BUY. Key upside/downside risks to our HOLD call: (i) lower/higher resin costs, (ii) stronger/weaker export sales and (iii) stronger/weaker-than-expected property sales.

Fig 1: Results comparison

FYE 31 Jul (RMm)	2Q FY20	1Q FY21	2Q FY21	QoQ % chg	YoY % chg	6M FY20	6M FY21	YoY % chg	Comments
Revenue	914.4	802.3	906.5	13.0	(0.9)	1,791.7	1,708.8	(4.6)	1H FY21 revenue fell by 4.6% yoy on lower manufacturing revenue (-8.6% yoy) on lower sales volume, mitigated by higher property revenue (+6.2% yoy) from higher sales and progress billings
Op costs	(744.4)	(653.5)	(740.8)	13.4	(0.5)	(1,474.2)	(1,394.3)	(5.4)	Lower raw material cost in the early part of the year
EBITDA	170.0	148.8	165.7	11.4	(2.5)	317.6	314.5	(1.0)	
EBITDA (%)	18.6	18.5	18.3	*-0.3ppt*	*-0.3ppt*	17.7	18.4	*0.7ppt*	
Depn&amort	(26.7)	(27.4)	(26.8)	(2.3)	0.2	(54.1)	(54.2)	0.1	
EBIT	143.3	121.3	138.9	14.5	(3.0)	263.4	260.3	(1.2)	
EBIT (%)	15.7	15.1	15.3	*0.2ppt*	*-0.3ppt*	14.7	15.2	*0.5ppt*	
Int exp	(4.3)	(2.3)	(2.4)	4.3	(45.0)	(9.6)	(4.7)	(51.3)	
Int/other inc	3.0	3.6	2.7	(23.2)	(10.0)	5.6	6.3	11.8	1H FY21 EIs largely comprised of forex gain
EI	(2.5)	5.4	10.2	88.7	(515.1)	(4.1)	15.7	n.m	
PBT	**139.5**	**128.0**	**149.5**	16.8	7.2	**255.3**	**277.6**	8.7	
Tax	(33.7)	(28.1)	(28.4)	1.0	(15.7)	(62.1)	(56.6)	(9.0)	
Tax rate (%)	24.2	22.0	19.0	*-3ppt*	*-5.2ppt*	24.3	20.4	*-4ppt*	
MI	(8.3)	(7.4)	(8.9)	21.3	7.9	(14.8)	(16.3)	10.3	Higher MI due to better performance of its 62%-owned Daibochi, which has been consolidated since 3Q19.
Net profit	**97.5**	**92.5**	**112.2**	21.2	15.1	**178.4**	**204.7**	14.7	
EPS (sen)	18.9	17.9	7.2	(59.7)	(61.8)	34.6	25.2	(27.3)	Increase in share base due to the issuance of bonus shares
Core profit	**99.9**	**87.1**	**101.9**	17.0	2.0	**182.6**	**189.0**	3.5	Below expectations – making up 42% of street and our FY21 estimates

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Jul (RMm)	2Q FY20	1Q FY21	2Q FY21	QoQ % chg	YoY % chg	6M FY20	6M FY21	YoY % chg
Revenue								
-Manufacturing	659.4	583.8	618.8	6.0	(6.2)	1,315.3	1,202.6	(8.6)
-Property	255.0	218.4	287.8	31.8	12.9	476.5	506.2	6.2
Total	**914.4**	**802.3**	**906.5**	13.0	(0.9)	**1,791.7**	**1,708.8**	(4.6)
EBIT								
-Manufacturing	65.2	68.6	63.0	(8.2)	(3.4)	120.6	131.6	(43.1)
- Property	75.6	58.2	86.2	48.2	14.0	138.6	144.4	(58.0)
Total*	**140.8**	**126.8**	**149.2**	17.7	6.0	**259.3**	**275.9**	**(51.1)**
EBIT margins (%)								
-Manufacturing	9.9	11.7	10.2	*-1.6ppt*	*0.3ppt*	9.2	10.9	*2.6ppt*
-Property	29.6	26.6	29.9	*3.3ppt*	*0.3ppt*	29.1	28.5	*-2.5ppt*
Overall	15.4	15.8	16.5	*0.7ppt*	*1.1ppt*	14.5	16.1	*1.3ppt*

Source: Company
**not adjusted for EI*

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:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com