



AmInvestment Bank

## Company report

## SCIENTEX

(SCI MK EQUITY, STIK.KL)

10 Mar 2021

1HFY21 net profit increases 15% YoY

BUY

(Maintained)

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

Rationale for report: Company results

Price	RM3.99
Fair Value	RM4.72
52-week High/Low	RM4.45/RM1.99

## 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)	25.2	29.6	33.4	37.6
FD Core EPS growth (%)	16.9	17.7	12.6	12.6
Consensus Net Profit (RM mil)	-	448.4	506.4	578.2
DPS (sen)	7.4	9.0	10.2	11.6
PE (x)	15.9	13.5	12.0	10.6
EV/EBITDA (x)	10.4	8.8	7.8	6.8
Div yield (%)	1.8	2.2	2.5	2.8
ROE (%)	16.3	17.4	17.6	17.6
Net Gearing (%)	24.5	20.6	14.7	8.9

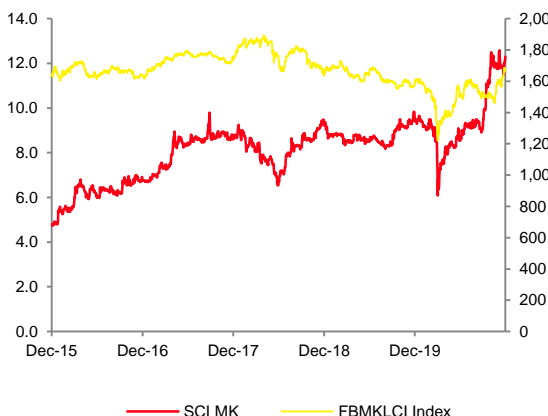
## Stock and Financial Data

Shares Outstanding (million)	1,550.6
Market Cap (RMmil)	6,186.9
Book Value (RM/share)	2.09
P/BV (x)	1.9
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 (RMmil)	8.3

Price performance	3mth	6mth	12mth
Absolute (%)	2.1	31.3	33.1
Relative (%)	4.1	24.6	23.4



## Investment Highlights

- We maintain our BUY call, forecasts and fair value of RM4.72/share for Scientex Berhad based on sum-of-parts (SOP) valuation (Exhibit 3). We peg its manufacturing segment to an FY23F P/E of 18x, at a premium compared to its peer stretch film makers' average forward PE of 12.5x, to reflect its higher fully diluted EPS growth rates of 17.7% and 12.6% in FY21-22F (vs. a weighted average of about 10% annually for its global peers). We have also adjusted for a +3% premium to reflect a 4-star ESG rating as appraised by us (Exhibit 4).
- Scientex's 1HFY21 net profit came in at 44% of our full-year forecasts and 46% of full-year consensus estimates. However, we consider the results within expectations as we expect stronger quarters ahead due to better sales performance from its property division as the domestic economy moves on from the lifting of the movement control order nationwide.
- Scientex's 1HFY21 net profit grew 15% YoY, driven largely by the manufacturing division. The division's EBIT surged by 9% thanks largely to an improved EBIT margin of 10.9% (vs. 9.2% previously) – arising possibly from: (1) better product mix that was skewed towards the downstream high-margin printing and lamination products from 61.9%-owned Daibochi; and (2) improved efficiency stemming from reduced wastage, better inventory controls, customized solutions and integration within its operating units.
- Despite the disruption from the movement onctrol order, Scientex's property development unit still manage to register a 4% YoY increase in EBIT to RM144.4mil in 1HFY21, driven by sales of RM506mil underpinned by RM775mil of new launches – mainly from its developments in Kota Tinggi, Tasek Gelugor, Kundang Jaya, Durian Tunggal and Pulau.
- We expect the unit's performance to continue improving in coming quarters, driven by: (1) progress billings from unbilled sales (that stood at RM900mil as at end-Jan 2021); and (2) RM1.6bil new launches in FY21F, comprising largely of 6,000 units of affordable housing units (with an average price of c.RM267K/unit) in Pulau, Johor and Durian Tunggal, Melaka. In our earnings forecasts, we conservatively assume FY21F new launches of only RM1.3bil.

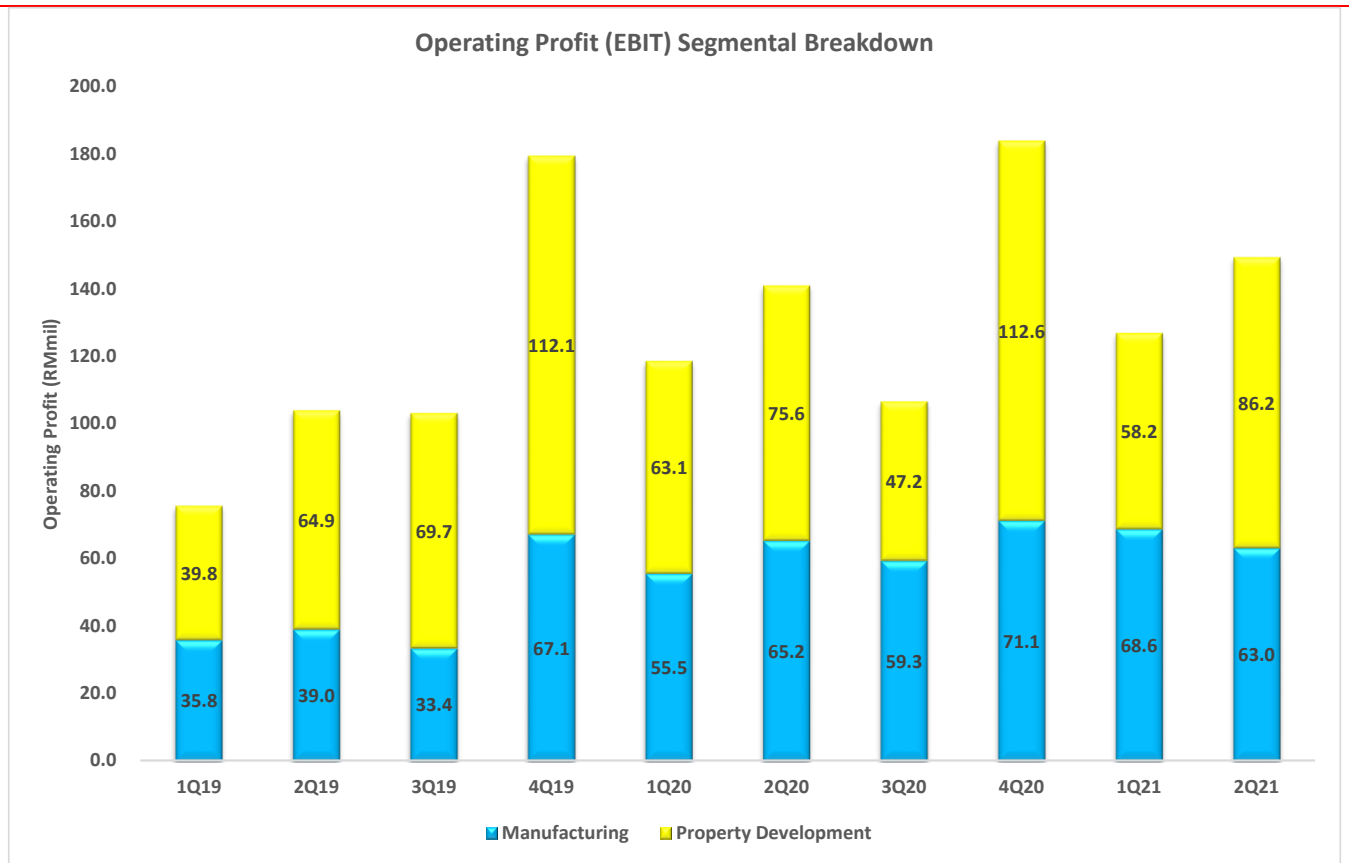
- We continue to like Scientex for: (1) the strong prospects of the packaging industry due to consumer spending, a shift to the on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its above-trend earnings growth rates of 17.7% and 12.6% for FY21-22F (vs. a weighted 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 10.5x fully-diluted FY23F 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-fueled sector.

## EXHIBIT 1: RESULTS SUMMARY

YE July	1Q FY21	2Q FY21	QoQ	1H20	1H21	YoY
<b>Revenue</b>	<b>802.3</b>	<b>906.5</b>	<b>13%</b>	<b>1791.7</b>	<b>1708.8</b>	<b>-5%</b>
Manufacturing	583.8	618.8	6%	1315.3	1202.6	-9%
Property Development	218.4	287.8	32%	476.5	506.2	6%
<b>EBIT</b>	<b>126.8</b>	<b>149.2</b>	<b>18%</b>	<b>259.3</b>	<b>275.9</b>	<b>6%</b>
Manufacturing	68.6	63.0	-8%	120.6	131.6	9%
Property Development	58.2	86.2	48%	138.6	144.4	4%
<b>Profit Before Tax (PBT)</b>	<b>128.0</b>	<b>149.5</b>	<b>17%</b>	<b>255.3</b>	<b>277.6</b>	<b>9%</b>
Taxation	-28.1	-28.4	1%	-62.1	-56.6	-9%
<b>Profit After Tax (PAT)</b>	<b>99.9</b>	<b>121.1</b>	<b>21%</b>	<b>193.2</b>	<b>221.0</b>	<b>14%</b>
Minority Interest	7.4	8.9	21%	14.8	16.3	10%
<b>Net Profit</b>	<b>92.5</b>	<b>112.2</b>	<b>21%</b>	<b>178.4</b>	<b>204.7</b>	<b>15%</b>
<b>Margins</b>						
EBIT margin	16%			14%	16%	
PBT margin	16%			14%	16%	
Net Profit margin	12%			14%	16%	
Effective Tax Rate	22%			24%	20%	

Source: AmlInvestment Bank Bhd.

EXHIBIT 2: OPERATING PROFIT SEGMENTAL BREAKDOWN



Source: Bloomberg, AmlInvestment Bank Bhd.

## EXHIBIT 3: SUM-OF-PARTS VALUATION

## Sum-of-Parts (SOP) Valuation

	FY23F PAT	PE multiple	
<b>Manufacturing Division</b>	<b>287.4</b>	<b>18</b>	<b>5173.7</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
Scientex Pulau Agricultural Land*	1600.0		264.8
	<b>14543.0</b>		<b>2406.7</b>
(-) Property Division Net Debt (estimate)			<b>-234.6</b>
<b>RNAV</b>			<b>2172.1</b>
(-) 10% Discount to Property RNAV			<b>-217.2</b>
<b>Property Division Sub-Total</b>			<b>1954.9</b>
<b>Total</b>			<b>7128.6</b>
(+) Cash proceeds from full conversion of warrants			444.5
			7573.1
Fully Diluted Outstanding Share Base			1654.0
<b>Fair Value/share (RM)</b>			<b>4.58</b>
(+) 3% premium for 4-star ESG rating			0.14
<b>Fair Value/share (RM) + ESG Premium</b>			<b>4.72</b>

\*our estimate

Source: Bloomberg, AmlInvestment Bank Bhd.

## EXHIBIT 4: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★			
Work site safety	★	★	★	★	
Migrant worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★		
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 5: 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
<b>Balance Sheet (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
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)	1.79	2.09	2.19	2.43	2.70
<b>Cash Flow (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
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
<b>Key Ratios (YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
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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