Equity | Malaysia | Consumer

09 Mar 2021

Scientex

1HFY21: Broadly in line

Hold

Price
RM4.00

Target Price
RM4.19 (from RM12.50)

Market Data

Bloomberg Code	SCI MK
No. of shares (m)	1,550.6
Market cap (RMm)	2,062.
52-week high/low (RM)	4.45 / 1.99
Avg daily turnover (RMm)	8.3
KLCI (pts)	1,600.1

Source: Bloomberg, KAF

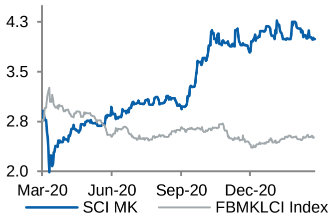
Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.0%)
Scientex Leasing Sdn Bhd	(9.1%)
Scientex Infinity Sdn Bhd	(9.0%)
Free Float	35.5

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	1.4	32.1	33.1
Rel Market (%)	3.4	25.4	23.4



Source: Bloomberg, KAF

Maintain Hold rating with TP of RM4.19 (from RM12.50) pegged to CY21F SOP valuation. TP was adjusted following Scientex 2-for-1 bonus issue. Its 1HFY21 core earnings of RM189m (+3% YoY) came in broadly in-line of our and consensus full-year forecasts. Despite lower revenue from the Packaging segment (-9% YoY) due to lower sales tonnage and challenging global markets, this was partially offset by higher sales from the Property segment (+6% YoY) in 1HFY21. This was on the back of better progress billings and new projects contributions in Scientex Tasek Gelugor, Scientex Kundang Jaya and Taman Scientex Kota Tinggi. 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 Packaging segment and plans to launch RM1.6b in GDV in FY21F for the Property segment. Stock is currently trading at +0.5SD above its five-year forward mean PE of 12x which we find to be approaching its fair value.

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)	353	424	473	529	614
Core EPS (Sen)	23	27	30	34	40
EPS growth (%)	24	20	12	12	16
DPS (Sen)	20	23	10	11	12
Core PE (x)	18	15	13	12	10
Div yield (%)	5	6	3	3	3
ROE (%)	15	15	16	16	16
Net Gearing (%)	32	25	40	42	41
PBV(x)	3	3	2	2	2

Source: Company, KAF

Maintain Hold rating with adjusted TP of RM4.19 (from RM12.50)

Valuation was pegged to CY21F based SOP valuation. This was following its 2-for-1 bonus issue which has diluted EPS. Scientex's 1HFY21 core earnings of RM189m (+3% YoY) came in at 40% and 43% of ours and consensus full-year forecasts respectively. We deem this within estimates as Scientex results are historically back-end-loaded. No dividend was declared during the quarter under review.

Positive results across segments

Scientex revenue in 1HFY21 declined to RM2b (-5% YoY) mainly dragged by lower sales in the Packaging segment (-9% YoY). This was due to lower sales tonnage due to challenging global economy. While higher sales from Property segment (+6% YoY) has offset the decline attributable to steady progress billings with positive contributions from new projects like Scientex Tasek Gelugor, Scientex Kundang Jaya and Taman Scientex Kota Tinggi. Operating profit on the other hand has increase to RM281m (+8% YoY) on the back of lower raw material costs in the previous quarter from the Packaging segment (+9% YoY) coupled with stronger contributions from the Property Segment (+4% YoY) due to the reasons mentioned above.

Expansion plans on track

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 packaging 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

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well as building 50,000 affordable housing in the country. Note that Scientex has approved and contracted RM351m of capital commitments as of 2QFY21.

Share price approaching fair value

The share price has corrected by 10% after reaching an all-time high of RM4.45 a couple of months back as prices of fossil fuel resin was increasing. It is currently trading close to 13x forward PE which is +0.5SD above its five-year forward mean PE of 12x. We find the stock to be approaching its fair value. Catalysts are expected to be its robust earnings performance from aggressive expansion plans across Packaging and Property segments. This may be dampening by increasing costs of raw materials and challenging export markets. With projected DPS of 24-26sen for FY21-23F which implies a dividend yield of 3%.

Exhibit 1: Quarterly financial results analysis

FYE Jul	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	Change (%)		Cumulative		Chg (%)	KAF	
RMm	**Jan-20**	**Apr-20**	**Jul-20**	**Oct-20**	**Jan-21**	**QoQ**	**YoY**	**1HFY20**	**1HFY21**	**YoY**	**FY21**	**6M/F**
Revenue	914	772	955	802	907	13	(1)	1,792	1,709	(5)	4,001	43%
~ Packaging	659	614	621	584	619	6	(6)	1,315	1,203	(9)	2,976	40%
~ Property	255	158	333	218	288	32	13	476	506	6	1,025	49%
Interest Expense	(4)	(4)	(3)	(2)	(2)	4	(45)	(10)	(5)	(51)		
Interest Income	3	2	3	1	1	54	(68)	6	2	(71)		
Depreciation	27	27	29	26	28	6	1	55	55	1		
EBITDA	**168**	**134**	**212**	**153**	**177**	**16**	**5**	**314**	**336**	**7**	**786**	**43%**
Operating Profit	141	106	184	127	149	18	6	259	281	8	669	42%
~ Packaging	65	59	71	69	63	(8)	(3)	121	132	9	395	33%
~ Property	76	47	113	58	86	48	14	139	144	4	274	53%
Reported PBT	139	105	184	128	150	17	7	255	278	9	658	42%
Taxation	(34)	(29)	(35)	(28)	(28)	1	(16)	(62)	(57)	(9)		
Minority Interest	(8)	(6)	(7)	(7)	(9)	21	8	(15)	(16)	10		
Exceptional items	(2)	(14)	(14)	5	1	(73)	nm	(5)	15	nm		
Reported Profit	97	70	142	93	112	21	15	178	205	15	473	43%
Adj. Net Profit	**100**	**84**	**156**	**88**	**111**	**27**	**11**	**183**	**189**	**3**	**473**	**40%**
EPS (sen)	6	4	9	6	7	21	15	12	13	15		
Adj EPS (sen)	6	5	10	6	7	27	11	12	12	3		
DPS (sen)	0	10	13	0	0			0	0			
						%-pts	**%-pts**			**%-pts**		
Effective tax rate (%)	24	27	19	22	19	(3)	(5)	24	20	(4)		
EBITDA margin (%)	18	17	22	19	20	0	1	18	20	2		
Operating margin (%)	15	14	19	16	16	1	1	14	16	2		
~ Manufacturing (%)	10	10	11	12	10	(2)	0	9	11	2		
~ Property	30	30	34	27	52	25	22	29	29	(1)		
Pretax margin (%)	15	14	19	16	16	1	1	14	16	2		
Net margin (%)	11	11	16	11	12	1	1	10	11	1		

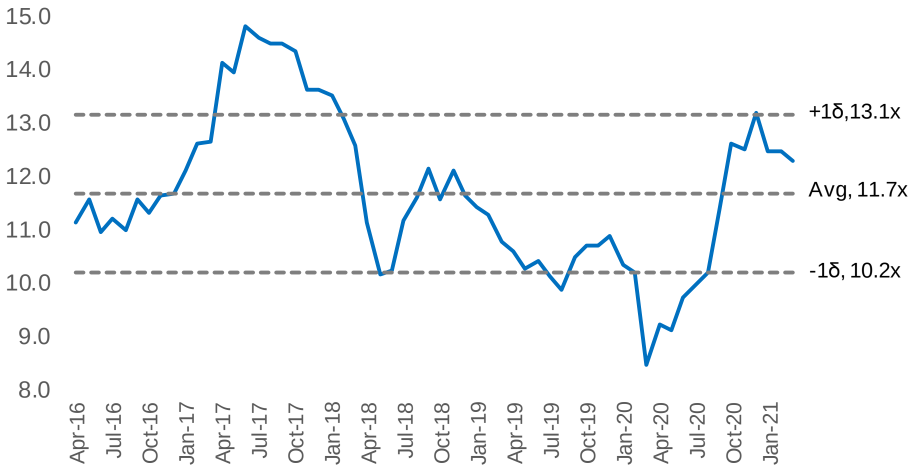
Source: Company, KAF

Exhibit 2: Sum-of-Parts Valuation

Segment	Based on CY21	Valuation
Manufacturing	23x PE	5,579
Property	0.5x PB	923
	Equity value (RMm)	6,502
	Outstanding shares (m)	1,551
	Target Price (RM)	**4.19**

Source: KAF

Exhibit 3: Five year forward PE band chart



Source: Bloomberg, KAF

Exhibit 4: PB Band chart

Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart

Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Revenue	3,247	3,519	4,001	4,537	5,137
EBITDA	554	660	786	919	1,084
Depreciation/Amortisation	(92)	(111)	(117)	(170)	(218)
Operating income (EBIT)	462	549	669	749	866
Other income & associates	(17)	(22)	5	5	6
Net interest	(16)	(16)	(17)	(17)	(18)
Exceptional items	(19)	(33)	0	0	0
Pretax profit	**410**	**478**	**658**	**737**	**854**
Taxation	(105)	(126)	(153)	(172)	(199)
Minorities/pref dividends	(12)	(28)	(32)	(36)	(41)
Net profit	**312**	**357**	**473**	**529**	**614**
Core net profit	331	391	473	529	614

Balance Sheet

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	1,248	1,323	1,919	2,463	2,959
Intangible assets	294	338	338	338	338
Other long-term assets	784	1,045	1,045	1,045	1,045
Total non-current assets	**2,409**	**2,777**	**3,373**	**3,917**	**4,413**
Cash & equivalent	258	413	309	303	417
Stock	321	354	403	457	517
Trade debtors	735	716	814	923	1,045
Other current assets	385	340	340	340	340
Total current assets	1,698	1,824	1,867	2,023	2,320
Trade creditors	597	624	710	805	912
Short-term borrowings	704	684	684	684	684
Other current liabilities	29	45	45	45	45
Total current liabilities	**1,330**	**1,353**	**1,439**	**1,534**	**1,640**
Long-term borrowings	270	357	557	757	957
Other long-term liabilities	109	134	134	134	134
Total long-term liabilities	**379**	**492**	**692**	**892**	**1,092**
Shareholders' funds	**2,225**	**2,561**	**2,915**	**3,321**	**3,806**
Minority interests	174	194	194	194	194

Cash flow Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	410	478	658	737	854
Depreciation/Amortisation	92	111	117	170	218
Net change in working capital	86	150	(61)	(68)	(76)
Others	(32)	(24)	(136)	(154)	(181)
Cash flow from operations	**557**	**715**	**577**	**685**	**816**
Capital expenditure	(48)	(79)	(339)	(339)	(339)
Net investments & sale of fixed assets	(89)	(82)	(93)	(93)	(93)
Others	(161)	(319)	(314)	(318)	(323)
Cash flow from investing	**(299)**	**(481)**	**(746)**	**(750)**	**(755)**
Debt raised/(repaid)	15	(32)	200	200	200
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(100)	(103)	(119)	(124)	(129)
Others	(88)	57	(17)	(17)	(18)
Cash flow from financing	**(173)**	**(79)**	**65**	**59**	**53**
Net cash flow	**85**	**156**	**(104)**	**(6)**	**114**
Net cash/(debt) b/f	**172**	**258**	**413**	**309**	**303**
Net cash/(debt) c/f	**258**	**413**	**309**	**303**	**417**

Key Ratios

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue growth (%)	24.8	8.3	13.7	13.4	13.2
EBITDA growth (%)	29.1	19.1	19.1	16.9	18.0
Pretax margins (%)	12.6	13.6	16.4	16.2	16.6
Net profit margins (%)	9.6	10.2	11.8	11.7	12.0
Interest cover (x)	29.7	33.6	39.7	43.2	48.5
Effective tax rate (%)	25.5	26.4	23.3	23.3	23.3
Net dividend payout (%)	33.0	33.2	32.8	32.2	30.3
Debtors turnover (days)	65	65	71	66	66
Stock turnover (days)	33	35	35	35	35
Creditors turnover (days)	63	63	61	61	61

Source: Bloomberg, 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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