

Scientex Berhad

1HFY21 Below Expectations

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1HFY21 CNP of RM194m came in below our/consensus estimates at 43% each. Top-line also came in at 43% of full-year estimate. No dividend in 1HFY21, as expected. Slower manufacturing sales and margin compression in 2QFY21 was the main drag. Property segment recovered with steady growth QoQ and YoY. We marginally reduce FY21E CNP by 3% to RM439m on weaker manufacturing segment. Maintain MP with slightly lower SoP-driven TP of RM3.75 (from RM3.78).

1HFY21 underperformed. 1HFY21 CNP of RM194m came below our/street full-year expectations at 43% each. The deviation was mainly from lower-than-expected top-line of RM1.7b, at 42%/43% of our/street expectations. No dividend, as expected.

YoY, 1HFY21 CNP of RM194m rose 7% despite a 5% decline in revenue to RM1.7b. This was contributed by: (i) higher EBIT margin, which rose 1.6ppt to 16.1% on the back of higher manufacturing EBIT margin (+2ppt to 11%), and (ii) lower effective tax rate of 20% (vs. 24%). Revenue declined mainly due to the 9% decrease in manufacturing revenue, which the Group attributed to lower sales tonnage of packaging products. However, the Group's lower resin costs in 1HFY21 helped lift manufacturing EBIT by 9%, boosted by higher EBIT margin of 11% (vs. 9%). On the property segment, revenue rose 6% from robust property sales especially affordable housing, and construction progress. With the property EBIT margin constant at 29%, property EBIT rose in tandem by 4%. Similar to 1HFY20, the Group did not declare dividends in 1HFY21.

QoQ, 2QFY21 CNP rose 11% to RM102m, in-line with a 13% increase in revenue. The increase in revenue was driven by a 6% increase in manufacturing revenue and 32% increase in property revenue, which are both encouraging signs of recovery as both segments saw decline in revenue (-6% and -34%, respectively) in the previous quarter. However, higher resin costs weighed on its manufacturing EBIT margin by 1.5ppt to 10.2%, bringing manufacturing EBIT down by 8%. Conversely, higher property margin (+3.3ppt) of 30% coupled with strong property sales growth lifted property EBIT up by 48%. All in, the net result was an 11% increase in CNP.

Moving forward, we expect the manufacturing segment to continue facing headwinds mainly due to slower-than-expected sales recovery and higher resin costs. As such, the Group will be focused on ramping up utilization, targeting c.80% over the next few years, including its Arizona plant in the United States. On the property segment, we believe that the accommodative monetary policy environment bodes well for the Group by helping to boost demand for its affordable homes.

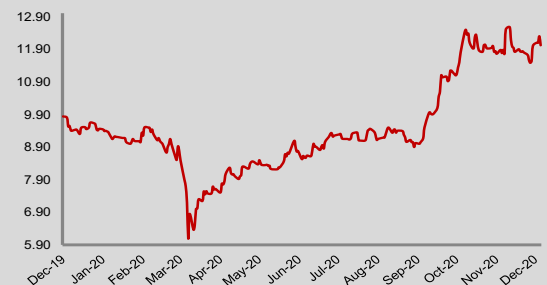
Post results, we marginally decrease FY21E CNP by 3% to RM439m (from RM454m) to account for slightly weaker plastic sales and higher resin costs (FY21 assumption: USD1,100/MT). We maintain our FY22 estimates.

Maintain MARKET PERFORM with a slightly lower SoP-derived TP of RM3.75 (from RM3.78) on the earnings adjustment. We maintain our ascribed 12.5x PER for the property segment and slightly lower the ascribed PER for the manufacturing segment from to 14.5x (from 15x), at +0.5SD to reflect uncertain sentiment affecting resin prices.

MARKET PERFORM ↔

Price : **RM4.00**
Target Price : **RM3.75** ↓

Share Price Performance



KLCI 1,624.78
YTD KLCI chg -0.1%
YTD stock price chg -5.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	6,202.4
Shares Outstanding	1,550.6
52-week range (H)	4.45
52-week range (L)	1.99
3-mth avg daily vol:	2,020,200
Free Float	35%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn	21.0%
Scientex Leasing Sdn	9.1%
Scientex Infinity Sdn	9.1%

Summary Earnings Table

FYE Jul (RM m)	2020A	2021E	2022E
Turnover	3518.6	4010.0	4076.9
EBIT	549.5	559.0	612.9
PBT	544.3	577.2	632.1
Net Profit (NP)	390.1	439.1	477.7
Core NP*	407.5	439.1	477.7
Consensus (NP)	N/A	448.4	506.4
Earnings Revision	N/A	-3%	N/A
Core EPS (sen)	26.3	28.3	30.8
Core EPS growth (%)	23.7	7.8	8.8
NDPS (sen)	7.7	8.5	9.2
BVPS (RM)	1.65	1.85	2.07
Core PER (x)	15.2	14.1	13.0
PBV (x)	2.4	2.2	1.9
Net Gearing (x)	0.25	0.28	0.30
Net Div. Yield (%)	1.9	2.1	2.3



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Risks to our call include: (i) higher/lower-than-expected resin cost, (ii) stronger/weaker product demand from overseas, (iii) stronger/weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

Results Highlights								
FYE July (RM m)	2Q FY21	1Q FY21	QoQ Chg	2Q FY20	YoY Chg	1H FY21	1H FY20	YoY Chg
Turnover	906.5	802.3	13%	914.4	-1%	1708.8	1791.7	-5%
EBIT	149.2	126.8	18%	140.8	6%	275.9	259.3	6%
Interest income	2.7	3.6	-23%	3.0	-10%	6.3	5.6	12%
Finance costs	(2.4)	(2.3)	4%	(4.3)	-45%	(4.7)	(9.6)	-51%
PBT	149.5	128.0	17%	139.5	7%	277.6	255.3	9%
Taxation	(28.4)	(28.1)	1%	(33.7)	-16%	(56.6)	(62.1)	-9%
Net Profit	121.1	99.9	21%	105.7	15%	221.0	193.2	14%
Minority interest	(8.9)	(7.4)	21%	(8.3)	8%	(16.3)	(14.8)	10%
PATAMI	112.2	92.5	21%	97.5	15%	204.7	178.4	15%
Core PATAMI	101.9	92.2	11%	99.8	2%	194.1	181.4	7%
Core EPS (sen)	6.6	5.9	11%	6.4	2%	12.5	11.7	7%
NDPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	16.5%	15.8%		15.4%		16.1%	14.5%	
PBT margin	16.5%	16.0%		15.3%		16.2%	14.3%	
Core PATAMI margin	11.2%	11.5%		10.9%		11.4%	10.1%	
Effective tax rate	19.0%	22.0%		24.2%		20.4%	24.3%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE July (RM m)	2Q FY21	1Q FY21	QoQ Chg	2Q FY20	YoY Chg	1H FY21	1H FY20	YoY Chg
Turnover								
Manufacturing	618.8	583.8	6%	659.4	-6%	1202.6	1315.3	-9%
Property	287.8	218.4	32%	255.0	13%	506.2	476.5	6%
Group Turnover	906.5	802.3	13%	914.4	-1%	1708.8	1791.7	-5%
Segment Results								
Manufacturing	63.0	68.6	-8%	65.2	-3%	131.6	120.6	9%
Property	86.2	58.2	48%	75.6	14%	144.4	138.6	4%
Group EBIT	149.2	126.8	18%	140.8	6%	275.9	259.3	6%
EBIT Margin								
Manufacturing	10.2%	11.7%		9.9%		10.9%	9.2%	
Property	29.9%	26.6%		29.6%		28.5%	29.1%	
Group EBIT Margin	16.5%	15.8%		15.4%		16.1%	14.5%	

Source: Company, Kenanga Research

SoP Valuations			
Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	3,694	12.5	295.5
Manufacturing	2,089	14.5	144
Sum-of-Parts (RM m)	5776.2		439.1
No. of Shares (m)	1550.6		
Target Price (RM)	3.75		

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.72	329.4	Y	04/2021	16.0%	13.3%	101.7%	21.2%	19.1	9.6	7.8	2.0	1.7	19.5%	4.1%	3.85	OP
SCIENTEX BHD	4.00	6,202.4	Y	07/2021	14.0%	1.7%	7.8%	8.8%	15.2	14.1	13.0	2.4	2.2	16.7%	2.1%	3.75	MP
SLP RESOURCES BHD	0.855	271.0	Y	12/2021	22.3%	11.7%	21.6%	9.6%	16.4	13.8	12.6	1.4	1.3	9.7%	6.4%	0.950	MP
THONG GUAN INDUSTRIES BHD	1.95	738.6	Y	12/2021	12.8%	8.6%	10.5%	8.5%	9.4	8.5	7.8	1.2	1.0	13.0%	2.4%	3.00	OP
TOMYPAK HOLDINGS	0.575	247.6	Y	12/2021	12.8%	3.8%	2200.0%	87.0%	N/A	115.0	57.5	1.3	1.3	1.1%	0.0%	0.415	UP
Simple Average					15.6%	7.8%	468.3%	27.0%	N/A	32.2	19.7	1.7	1.5	12.0%	3.0%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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