

# Scientex Berhad

**TP: RM4.20** (+5.0%)

*Moderate Performance Amid Rising Input Cost*

Last Traded: RM4.00

**Hold (ESG: ★★★)**

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### Review

- Scientex Berhad's 1HFY21 core net profit of RM189.5mn (+3.8% YoY) came in within our expectation at 45% of full-year estimate, but below consensus at 42%.
- Manufacturing.** 1HFY21 operating profit jumped 9.1% YoY despite an 8.6% drop in revenue, owing to decrease in raw material cost in 1QFY21. However, the favourable input cost in 1QFY21 has diminished in 2QFY21, corresponding to recent hike in resin price and surge in freight cost, which led to a 3.4% YoY drop in 2QFY21 profit.
- Property.** 1HFY21 operating profit improved to RM144.4mn (+4.1% YoY) underpinned by revenue growth of 6.2% YoY to RM506.2mn. This was driven by steady progress billings from existing projects alongside maiden contributions from projects in Tasek Gelugor, Kundang Jaya and Kota Tinggi.
- 2QFY21 vs 1QFY21.** The group's total operating profit jumped by 17.7% QoQ. This was mainly attributed to higher property progress billings and accelerated property launches that offset lower contribution from the Manufacturing segment in 2QFY21.
- 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 would remain as the group's long-term priorities to enhance cost efficiencies. In the short run, although Scientex endeavours to improve its product mix by focusing on value-added products, margins are expected to drop going forward due to rising resin cost. Moreover, the recent rise in logistics costs may also exert additional cost pressure on the group's near-term earnings.
- Property.** Scientex will continue to focus on the affordable housing segment, where demand has been encouraging. Land-banking activities would remain critical as the group has started planning new launches on its recently-acquired land in Jasin (targeted for launch in 4QFY21), and aiming to launch its maiden township project in Negeri Sembilan by early-2022. The group has lined up GDV launches of RM1.6bn (c.6.0k units) in FY21, nearly double its FY20's launches of RM885mn (c.3.0k units).

### Valuation

- Maintain Hold call with unchanged target price of RM4.20/share based on SOP valuation.

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	6,190.5
52-wk Hi/Lo (RM)	4.45/1.99
12-mth Avg Daily Vol ('000 shrs)	1,735.0
Estimated Free Float (%)	35.4
Beta	0.6
<b>Major Shareholders (%)</b>	
Scientex Holdings & Related	55.7

### Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMm)	419.8	466.7
Consensus	448.4	506.4
TA's / Consensus (%)	93.6	92.2
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)	1.6	1.8
Price/ NTA (x)	2.5	2.2

### Scorecard

	% of FY21	
vs TA	45	Within
vs Consensus	42	Below

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(4.1)	2.4
3 mth	4.5	(1.3)
6 mth	32.6	8.6
12 mth	39.5	14.1

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



Source: Bloomberg

**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)		1,547.6
<b>Target Price (RM)</b>		<b>4.20</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)	21.6	25.2	27.1	30.2	32.1
Adj. EPS (sen)	22.9	27.1	27.1	30.2	32.1
PER (x)	18.6	15.9	14.7	13.3	12.5
Net Dividend (sen)	6.7	7.7	8.3	9.0	10.0
Dividend Yield (%)	1.7	1.9	2.1	2.3	2.5

**Table 3: 2QFY21 Results Analysis (RMmn)**

FYE July (RMmn)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)
Revenue	914.4	802.3	906.5	13.0	(0.9)	1,791.7	1,708.8	(4.6)
~ 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
Interest Expense	(4.3)	(2.3)	(2.4)	4.3	(45.0)	(9.6)	(4.7)	(51.3)
Interest Income	1.3	3.6	2.7	(23.2)	>100	2.5	6.3	>100
Depreciation	(26.7)	(26.8)	(26.8)	0.1	0.2	(53.5)	(53.5)	0.1
EBITDA	169.3	153.5	176.0	14.6	3.9	315.9	329.5	4.3
Operating Profit	142.6	126.8	149.2	17.7	4.6	262.4	275.9	5.2
~ Manufacturing	65.2	68.6	63.0	(8.2)	(3.4)	120.6	131.6	9.1
~ Property	75.6	58.2	86.2	48.2	14.0	138.6	144.4	4.1
EI	(2.3)	5.4	9.8	82.5	nm	(4.1)	15.2	nm
Reported PBT	139.5	128.0	149.5	16.8	7.2	255.3	277.6	8.7
Taxation	(33.7)	(28.1)	(28.4)	1.0	(15.7)	(62.1)	(56.6)	(9.0)
Minority Interest	(8.3)	(7.4)	(8.9)	21.3	7.9	(14.8)	(16.3)	10.3
Reported Profit	97.5	92.5	112.2	21.2	15.1	178.4	204.7	14.7
Adj. Net Profit	99.8	87.1	102.3	17.4	2.5	182.6	189.5	3.8
EPS (sen)	6.3	6.0	7.2	21.0	14.8	11.5	13.2	14.5
Adj EPS (sen)	6.4	5.6	6.6	17.2	2.3	11.8	12.2	3.5
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBIT Margin (%)	15.6	15.8	16.5	0.7	0.9	14.6	16.1	1.5
~ Manufacturing	9.9	11.7	10.2	(1.6)	0.3	9.2	10.9	1.8
~ Property	29.6	26.6	29.9	3.3	0.3	29.1	28.5	(0.6)
PBT Margin (%)	15.3	16.0	16.5	0.5	1.2	14.3	16.2	2.0
Net Margin (%)	10.9	10.9	11.3	0.4	0.4	10.2	11.1	0.9
Tax rate (%)	24.2	22.0	19.0	(3.0)	(5.2)	24.3	20.4	(4.0)

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### 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.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★★	★★★	★★★
<b>Remark</b>	Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution.	Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly.	The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations and management and future directions.  
★★★★ (40-59%) : Adequate integration of ESG factors into operations and management and future directions.  
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
★★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, March 10, 2021, 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**

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