

5 Apr 2021

Hold

Price
RM4.01

Target Price
RM4.19

Bloomberg code
SCI MK

Analyst

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Scientex

Expanding landbanks in Penang

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	2	3	3
ROE (%)	15	15	16	16	16
Net Gearing (%)	32	25	40	36	41
PBV(x)	3	3	2	2	2

Source: Company, KAF

- Maintain Hold rating with unchanged TP of RM4.19 pegged to CY21F based SOP valuation.
- Scientex announced today that it proposes to acquire 343 acres of freehold lands in North Seberang Perai Penang for RM247m or RM16.50psf.
- According to Scientex, the proposed acquisition follows Scientex receiving overwhelming demand for its maiden Penang township development in Tasek Gelugor which has launched its first phase in October 2020 with GDV of RM86m for 382 units of affordable double-storey terrace houses.
- To recap, Scientex bought its first freehold landbank in Penang with total area of 180 acres for RM110m in June 2019 which is equivalent to RM14.00psf.
- The lands are nearby (3KM) its existing Scientex Tasek Gelugor development and is easily accessible to the North-South expressway via Sungai Dua. On top of that, it is within a reasonable distance of 35KM from Scientex's other future development in the northern region, Scientex Sungai Petani Kedah,
- The land acquisition is expected to be completed by 1H22 pending Estate Land Board's approval. The group plans to finance the acquisition through internally generated funds and bank borrowings.
- Assuming the acquisition is funded by 80% bank borrowings, our back of the envelope calculations shows that Scientex's net gearing level is expected to increase marginally from 36% to 42% in FY22F. Hence, we find its healthy balance sheet being able to support the proposed acquisition.
- We are positive on the news as this is expected to enable the group to leverage on its growth plan of providing affordable and quality landed properties to the affordable housing segment in the mid to long term.
- Upon completion of the proposed acquisition Scientex's total landbank is expected to increase to 6,213 acres with estimated GDV of RM32b (+9%) to sustain its Property segment business over the next 10 years.
- Currently the group has ongoing property developments worth a total GDV of RM2b across states of Johor, Melaka, Selangor, Perak and Penang.
- No change in our earnings forecasts as we expect immaterial contribution from land acquisition in the near term.
- The share price has traded sideways for the past three months as investors take the wait and see approach considering volatile economic environments.
- It is currently trading just above 10x forward PE which is close to its five-year forward mean PE. Hence, we find the stock to be approaching its fair value.

Exhibit 1: Overwhelming response of Tasek Gelugor maiden launch

Maiden launch in Tasek Gelugor... debuting the first-ever freehold landed 2-storey affordable homes in Penang



2-storey terrace houses

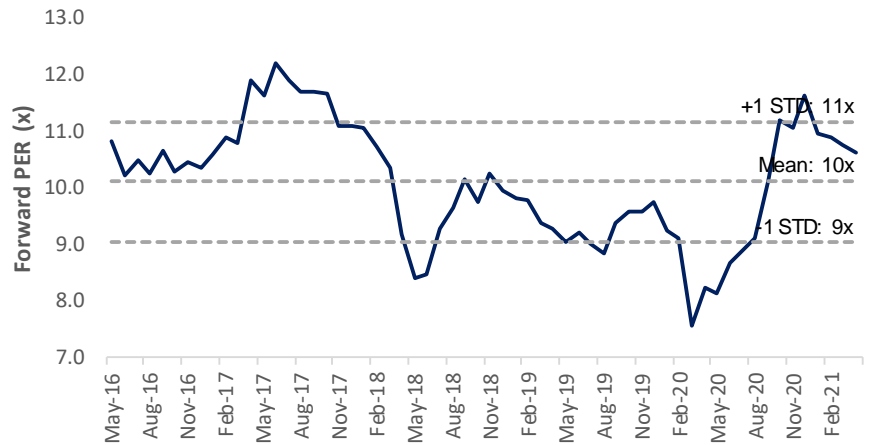
Launched first Penang development in Tasek Gelugor

- Launched in October 2020
- 382 units 2-storey terrace houses
- GDV of RM86 million

Take-up rate >90%

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



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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