

Scientex Berhad

Increasing Offering in Northern Region to Meet Overwhelming Demands

TP: RM5.05 (+26.0%)

Last Traded: RM4.01

Buy (ESG: ★★★)

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Yesterday, Scientex Berhad announced its proposed acquisition of three pieces of freehold agriculture lands in Seberang Perai Utara, Pulau Pinang, measuring 343 acres for a total cash consideration of RM246.7mn (RM16.50/sf.). We are positive on the long-term prospect to strengthen its existing presence in Penang and enable scaling for operational efficiencies given the close proximity to its existing Tasek Gelugor development. We take this opportunity to bump up Scientex's property valuation to match valuation of a mid-sized property player. Consequently, we upgrade Scientex's recommendation to Buy from Hold with a higher target price of RM5.05/share.

Enhancing Coverage in the Northern Region

The proposed lands acquisition is in close proximity to Scientex's existing development in Tasek Gelugor (c.3km apart) and within reasonable distance from future projects in Sungai Petani, Kedah. The lands have accessibility to North-South Expressway via Sungai Dua (approximately 7km in distance). We expect the close proximity to existing Scientex's development to generate economies of scale and potentially boost project's margin. Note that, the first launch of 382 units of house (GDV c.RM86mn and launched in Oct-2020) in Tasek Gelugor, Penang was nearly 100% taken-up.

Establishing Presence Through Affordable Housing

Scientex plans to leverage on the new land to build mixed-property development, particularly in the affordable landed properties segment to fill the pent-up demands in the Northern region. The proposed lands acquisition is expected to be completed by 1H CY22. We estimate the potential GDV to be up to RM2.0bn, based on average of RM5.0-6.0mn GDV per acre of land of the surrounding projects.

Land Cost to GDV still Low Despite a Higher Acquisition Cost per SF

Against precedent transactions occurred in 2019 by Tambun Indah, which was transacted at RM14.35/sf., and Scientex's first lands acquisition in Tasek Gelugor of RM14.00/sf. (refer to Table 1), the proposed acquisition price of RM16.50/sf. could be a tad expensive at c.16% premium following a two years duration. Nevertheless, the land cost of RM246.7mn, which makes up c.12% of potential GDV, are still considered reasonable.

Impact

We make no change to earnings forecasts. With an estimated gearing of 0.3x for FY21, we reckon that Scientex's balance sheet will remain healthy post completion of the lands acquisition.

Recommendation

Upgrade Scientex to Buy from Hold with a higher target price of RM5.05/share (previously RM4.20/share) based on revised SOP valuation (20x CY22 manufacturing earnings and 14x CY22 property earnings). We bump up

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	6,206.0
52-wk Hi/Lo (RM)	4.45/2.44
12-mth Avg Daily Vol ('000 shrs)	1,624.4
Estimated Free Float (%)	35.4
Beta	0.5
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	55.7

Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMm)	419.8	466.7
Consensus	441.1	507.7
TA's / Consensus (%)	95.2	91.9
Previous Rating	Hold (Upgraded)	

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

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	0.5	(1.0)
3 mth	(1.7)	(0.5)
6 mth	10.2	5.0
12 mth	60.8	18.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Scientex's targeted property valuation to 14x CY22 EPS to match the ascribed valuation of mid-sized property player under TA Research's coverage of 14-19x EPS. We value Scientex's property segment at the lower range of the mid-sized property player as Scientex has smaller potential GDV based on current landbanks (RM32bn against its peers' potential GDV of RM39-137bn).

Table 1: Project Development Comparison

Project	Area (acres)	GDV (RM'mn)	Year of Land Purchase	Land Cost (RM/sf.)
Setia Fontaines	1,675	9,600	2016	8.50
Tambun Indah Pearl City	210	1,000	2019	14.35
Scientex Tasek Gelugor	180	880	2019	14.00
Proposed Acquisition*	343	2,000	2021	16.50

*GDV is based on estimation

Note: We disregard Setia Fontaine as a comparable given the size of land acquired was c.5x of Scientex's proposed acquisition and was performed 5 years ago.

Figure 2: Valuation Method

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY22 EPS PER 20x	3,975.6
Property	CY22 EPS PER 14x	3,924.1
Equity value (RMmn)		7,899.7
+ Proceed from Warrant Conversion (RMmn)		443.7
Total Equity Value (RMmn)		8,343.4
Share cap (mn)		1,547.6
+ Warrant Conversion (mn)		103.2
Enlarged Share Cap (mn)		1,650.8
Target Price (RM)		5.05

Earnings Summary

PROFIT & LOSS

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
Revenue	3,247.4	3,518.6	3,872.1	4,380.9	4,775.9
Gross Profit	683.9	804.9	833.2	922.3	970.4
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
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 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
GDPS (sen)	6.7	7.7	8.3	9.0	10.0

CASH FLOW

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
PBT	450.6	544.3	580.0	644.5	687.4
Adjustments for:					
Depreciation of PPE	92.3	107.4	112.4	119.7	125.1
Finance costs	15.5	16.3	13.8	14.4	13.6
Others	1.2	5.3	(13.4)	(16.1)	(19.3)
Op profit before WC	559.6	673.3	692.8	762.5	806.9
(+/-) in inventories	20.8	(22.1)	(34.2)	(51.0)	(39.6)
(+/-) in receivables	(35.4)	64.0	(106.5)	(107.9)	(83.8)
+ /(-) in payables	17.0	15.0	102.7	95.6	74.2
- in development properties	84.1	93.6	96.8	118.2	124.7
Income Tax Paid	(88.2)	(106.0)	(134.4)	(149.7)	(159.5)
CFO	557.0	715.3	617.3	667.7	722.9
Purchase of PPE	(87.6)	(134.4)	(150.0)	(150.0)	(150.0)
Others	(211.1)	(346.5)	(500.0)	(350.0)	(350.0)
CFI	(298.6)	(480.9)	(650.0)	(500.0)	(500.0)
Net term loans	15.5	(32.5)	50.0	50.0	50.0
Dividend paid	(100.4)	(103.2)	(118.7)	(129.0)	(129.0)
Finance costs paid	(29.8)	(27.3)	(13.8)	(14.4)	(13.6)
Others	(58.3)	84.1	-	-	-
CFF	(173.0)	(78.9)	(82.4)	(93.4)	(92.6)
Net Cash Flow	85.3	155.6	(115.2)	74.3	130.3

BALANCE SHEET

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
PPE	1,247.8	1,322.6	1,360.2	1,390.5	1,415.3
Deferred tax assets	25.3	19.0	19.0	19.0	19.0
Goodwill	293.7	338.1	338.1	338.1	338.1
Others	842.2	1,097.1	1,513.7	1,761.6	2,006.1
Non-current assets	2,409.0	2,776.7	3,230.9	3,509.1	3,778.5
Property dev. costs	384.8	340.4	340.4	340.4	340.4
Inventories	321.2	354.0	388.2	439.2	478.8
Trade & Other receivables	730.8	714.9	821.3	929.2	1,013.0
Tax recoverable	4.1	1.2	1.2	1.2	1.2
Cash and equivalents	257.6	413.2	298.1	372.4	502.7
Current Assets	1,698.5	1,823.7	1,849.2	2,082.4	2,336.1
Assets	4,107.5	4,600.4	5,080.1	5,591.5	6,114.6
Borrowings	269.8	357.3	407.3	457.3	507.3
Retirement benefits	36.4	39.0	39.0	39.0	39.0
Deferred tax liabilities	72.5	89.9	89.9	89.9	89.9
Others	-	5.3	5.3	5.3	5.3
Non Current Liabilities	378.8	491.6	541.6	591.6	641.6
Borrowings	704.0	683.7	683.7	683.7	683.7
Trade & other payables	597.2	624.5	727.2	822.8	896.9
Others	28.5	45.0	45.0	45.0	45.0
Current liabilities	1,329.7	1,353.2	1,456.0	1,551.5	1,625.7
Share capital	685.8	691.8	691.8	691.8	691.8
Reserves	1,539.2	1,869.6	2,170.8	2,508.5	2,876.0
Shareholders' Funds	2,225.0	2,561.4	2,862.6	3,200.3	3,567.7
MI	173.9	194.3	220.0	248.1	279.6
Equity	2,399.0	2,755.7	3,082.6	3,448.4	3,847.3
Equity & Liabilities	4,107.5	4,600.4	5,080.1	5,591.5	6,114.6

FINANCIAL RATIOS

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
P/E (x)	17.5	14.8	14.8	13.3	12.5
P/BV (x)	3.2	2.8	2.5	2.2	1.9
Dividend yield (%)	1.7	1.9	2.1	2.2	2.5
ROE (%)	17.9	17.5	15.5	15.4	14.7
ROA (%)	9.5	9.6	8.7	8.7	8.5
EBIT margin (%)	14.2	15.6	15.0	14.7	14.3
Net margin (%)	10.9	11.9	10.8	10.7	10.4
Gearing (x)	0.3	0.2	0.3	0.2	0.2

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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
Scoring	★★★	★★★★	★★★	★★★
Remark	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, management and future directions.
 ★★★ (40-59%) : Adequate integration of ESG factors into operations, 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 Tuesday, April 06, 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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