

UOBKH HIGHLIGHTS

Scientex (SCI MK/BUY/RM4.01/Target: RM4.43)

Tapping Deeper Into Penang With Acquisition Of Land Parcels In North Seberang Perai

WHAT'S NEW

Scientex's wholly-owned subsidiary, Scientex Quatari Sdn Bhd and Scientex (Skudai) Sdn Bhd are acquiring three pieces of freehold land parcels in North Seberang Perai, Penang measuring 343 acres in total from Sunrich Conquest Sdn Bhd and Titanium Greenview Sdn Bhd for a price consideration of RM246.7m. The acquisition will be funded by internal funds and bank borrowings, and is expected to be completed by 1H22.

COMMENT

- **Purchase price appears to be fair.** The purchase price of the land parcels comes up to RM16.5psf, which is at a premium vs the asking price of RM14psf for its maiden acquisition of land in Tasek Gelugor in 2019 previously, but still at a discount compared with the median price of RM20-22 psf for the landbank transacted in that area.
- **Land parcels are strategically positioned.** The new landbank is expected to offer potential homeowners good road connectivity as it is only about 7km from Sungai Dua Toll and North South Expressway. It is also easily accessible from Butterworth, nearby KTM station, and has close proximity to shopping malls (Tesco, Mydin, Sunshine) as well as educational institutions (USM, UiTM, MRSM) nearby.
- **Close proximity to existing township in Tasik Gelugor.** To note, the new lands are also situated close to Scientex's existing projects in Tasik Gelugor. Scientex Tasek Gelugor was launched in Oct 20 and has recorded robust take-up rates of >90%, indicating stellar demand for affordable homes in Penang. Based on our assessments, Scientex's earlier development in Tasek Gelugor (180 acres land) mainly comprises 2,332 units of affordable 2-storey terraces (selling price from RM222,000 each; total GDV about RM518m) and 85 units of commercial shop lots (selling price is not disclosed as they have yet to be launched).
- **Our projected GDV for these three lands is about RM1.06b.** This is based on our assumptions of about 4,400 units of houses at an average of RM222,000 each and 161 shop lots at about RM500,000 each (median selling price of nearby shop lots) based on units/land size of earlier projects. Based on our estimation, the land can potentially deliver a profit of >RM300m to Scientex when fully developed. This acquisition also increases Scientex's total landbank to >6,200 acres that will sustain over 10 years of development with estimated total GDV of RM32b upon completion. We deem the acquisition to be in line with Scientex's aspiration to build 50,000 affordably-priced homes by 2028.
- **We are positive on the acquisition.** We deem these acquisitions to be healthy, and well supported by the company's strong balance sheet with: a) hefty cash position of RM123m, and b) healthy net gearing of 0.33x. The expansion also helps Scientex to establish a stronger brand after its stellar maiden venture into Penang in 2020.

EARNINGS REVISION

- No change to our net profit forecasts as we expect the new project to contribute meaningfully only from FY23.

RECOMMENDATION

- **Maintain BUY and target price of RM4.43.** Our target price implies 13.2x 2022F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5- year net earnings CAGR of 20%). We continue to like the stock for its strong management team and track record, which enables the group to deliver record annual results year after year. With Scientex's Vision 2028 aim remaining intact, we believe the group will be able to continue its growth impetus moving forward.

ANALYST

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