

7 May 2021

Hold

Price
RM4.13

Target Price
RM4.19

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

Expanding landbanks in Johor Bahru

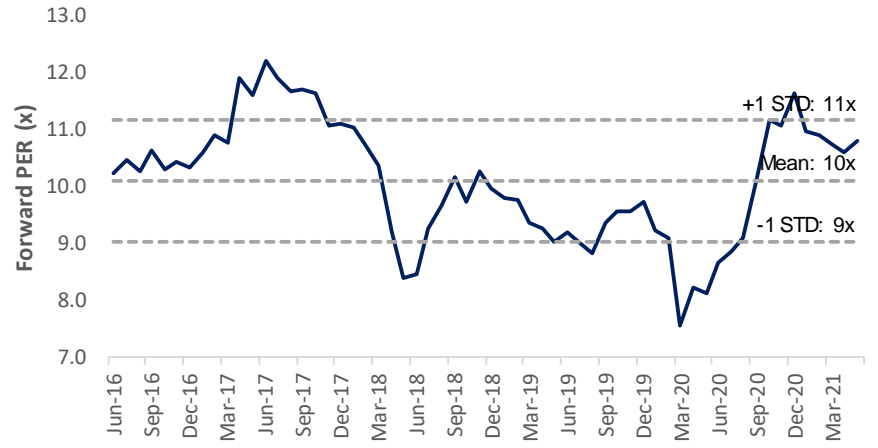
Financial Highlights

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	42	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 it has entered into a conditional Sales and Purchase Agreement (SPA) with SP Setia (SPSB MK, Buy, TP: RM1.55) to purchase eight parcels of freehold lands in Mukim Tebrau near Ulu Tiram, Johor Bahru with a total area of 960 acres for a purchase consideration of RM518m equivalent to RM12.42psf.
- The lands are located 25KM away from Johor Bahru city centre and 25KM from its existing Taman Scientex Utama, Senai development. Moreover, the lands are easily accessible to Senai Desaru Expressway via Exit 2204 Ulu Tiram.
- Scientex guided the purchase consideration was arrived on a willing-buyer-willing-seller basis considering the strategic location, the economic value development prospects and favourable deferred payment terms in order to establish a stronger foothold in a more established Johor property market.
- Note that the payments of the proposed acquisition will be completed in three phases of approximately RM236m by FY22F (phase one), RM141m by FY23F (phase 2), and the balance RM141m by FY24F (phase 3).
- 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 while maintaining below 50% level for FY22-24F. Hence, we find its healthy balance sheet being able to support the proposed acquisition.
- We are positive on the news in the long run as this is expected to accelerate Scientex's affordable housing launches from 3,500 units to 8,000 units annually to reach its target of building 50,000 affordable houses by 2028. To date, Scientex has built over 23,600 units of affordable homes.
- The lands are proposed to be developed into a mixed-property development pending management guidance of potential GDV and project timelines. 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 it is too early to determine the potential GDV and profit contributions from this acquisition.
- The share price has traded sideways YTD 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: 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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