



AmInvestment Bank

## Company report

## SCIENTEX

(SCI MK EQUITY, STIK.KL)

10 May 2021

Acquires land in JB from S P Setia for RM518.1mil cash

**BUY**

(Maintained)

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Rationale for report: Company update

Price	RM4.13
Fair Value	RM5.01
52-week High/Low	RM4.45/RM2.72

## Key Changes

Fair value	↑
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,518.6	4,369.8	4,905.3	5,506.6
Core net profit (RM mil)	390.1	455.4	515.7	583.4
FD Core EPS (sen)	25.2	28.9	32.5	36.6
FD Core EPS growth (%)	16.9	14.8	12.6	12.6
Consensus Net Profit (RM mil)	-	441.1	507.7	584.3
DPS (sen)	7.4	8.8	10.0	11.3
PE (x)	16.4	14.3	12.7	11.3
EV/EBITDA (x)	10.7	9.2	8.2	7.3
Div yield (%)	1.8	2.1	2.4	2.7
ROE (%)	16.3	16.9	17.2	17.3
Net Gearing (%)	24.5	20.9	15.4	9.7

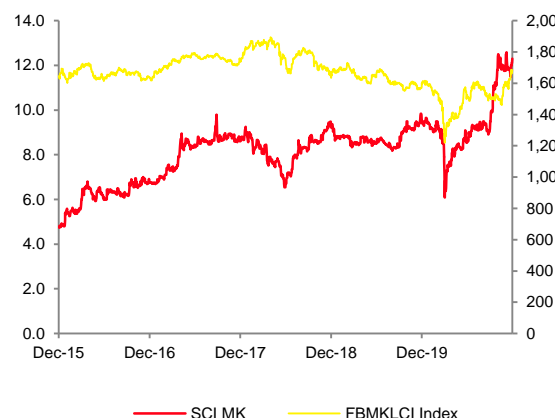
## Stock and Financial Data

Shares Outstanding (million)	1,550.6
Market Cap (RM mil)	6,404.0
Book Value (RM/share)	2.09
P/BV (x)	2.0
ROE (%)	16.3
Net Gearing (%)	24.5

Major Shareholders	Scientex Holdings Sdn Bhd (21.1%)
	Scientex Leasing Sdn Bhd (9.2%)
	Scientex Infinity Sdn Bhd (8.1%)

Free Float	-
Avg Daily Value (RM mil)	3.9

Price performance	3mth	6mth	12mth
Absolute (%)	(2.8)	3.9	47.5
Relative (%)	(3.4)	(0.5)	27.9

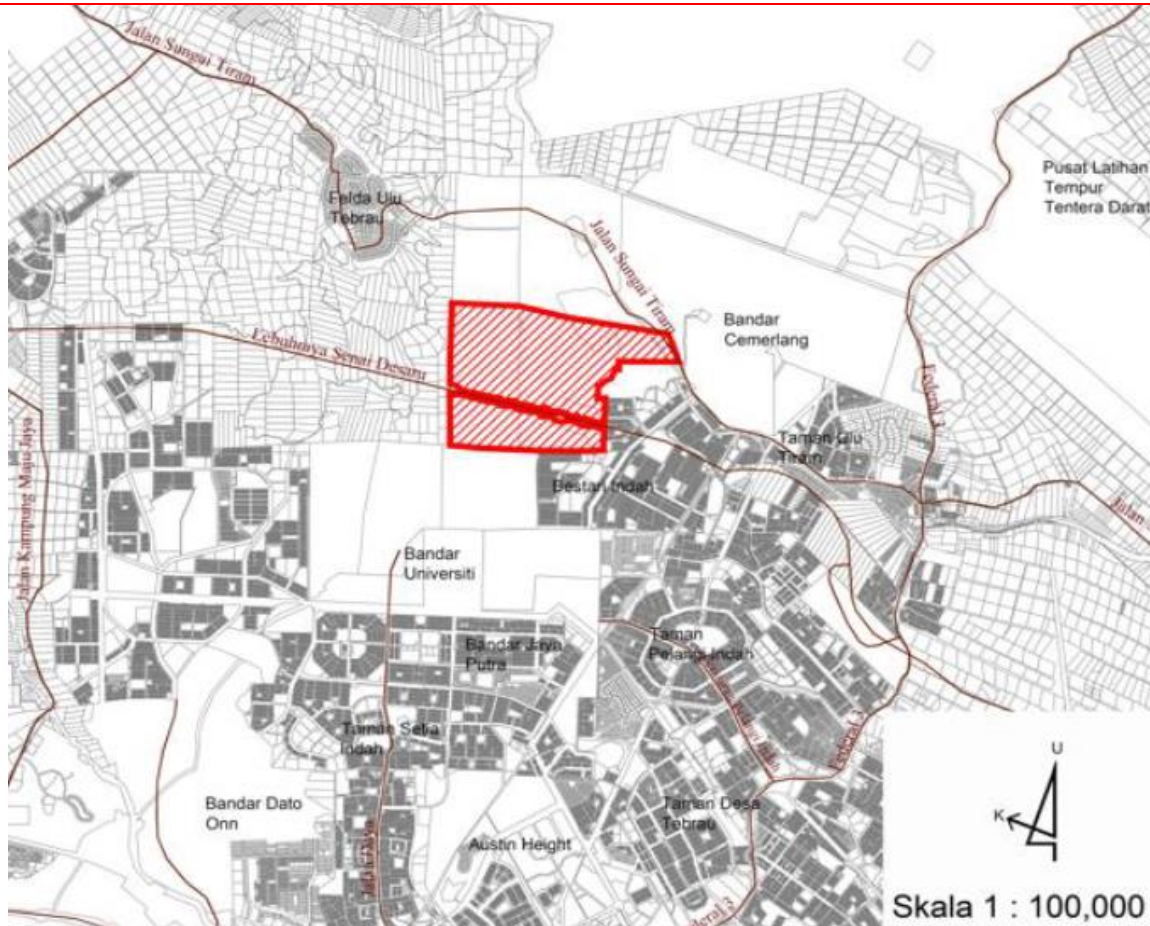


## Investment Highlights

- We maintain our BUY call and forecasts, but raise our fair value (FV) by 9% to RM5.01 (from RM4.59) based on sum-of-parts (SOP) valuation (Exhibit 2), after reflecting the enhancement from the latest land acquisition. We continue to value Scientex's manufacturing unit at 18x its FY23F earnings, at a premium to an average forward PE of 12.5x for global stretch film makers to reflect the unit's higher earnings growth of about 13% annually in FY21–23F (vs. a weighted average of about 10% annually for its global peers). Our FV also imputes a 3% premium to the SOP valuation to reflect our 4-star ESG rating (Exhibit 3).
- Scientex is buying from S P Setia freehold agricultural land measuring 960 acres in Mukim Tebrau, Johor Bahru (JB) for RM518.1mil cash (see Exhibit 1 for the location). Located near established townships such as Taman Bukit Tiram, Austin Duta, Taman Seri Austin, Bandar Dato Onn and Taman Setia Indah, the land is earmarked for mixed development (residential and commercial) with a GDV of RM7–8bil over 10 years based on our estimates.
- At about RM12.39 per sq ft (psf), Scientex is paying an 8% premium over a March 2021 valuation of RM11.50 by independent valuers. Even with the 8% premium, the price is still significantly lower than the asking price of RM35 psf for a 299-acre freehold agricultural land up for sale in Mukim Tebrau at present, based on our search. The key difference between the two is that this 299-acre land is nearer to JB city centre (about 15km away) vs. the land Scientex is acquiring (about 28km away). We believe from Scientex's standpoint, the 8% premium is easily "recoverable" given the economies of scale it can derive administratively from the development of one huge plot of land (vs. small land plots in multiple locations). We estimate that S P Setia will bag about RM300mil gains from the disposal.
- We are positive on the latest development. The new acquisition will increase Scientex's landbank by 15% to 7,173 acres across Johor, Melaka, Selangor, Perak and Penang, which should keep its property development business busy for more than 10 years. In terms of GDV, the acquisition will add 46% to RM24.2bil. More specifically, the acquisition will complement Scientex's existing 2,700 acres of land in Johor (GDV of RM8,780mil) and almost double its presence in the state in terms of GDV.
- The acquisition will increase Scientex's net debt and gearing of RM1,134mil and 0.42x to RM1,652mil and 0.61x, which are still manageable.

- We continue to like Scientex for: (1) the strong prospects of the packaging industry due to consumer spending, a shift to on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its packaging-related manufacturing unit that is projected to grow at about 13% annually in FY21-23F (vs. a weighted average of about 10% annually for its global peers), underpinned by its significant R&D spending, further improvement in economies of scale and an active M&A pipeline; and (3) a robust property development business despite the soft market in general thanks to its right focus on predominantly affordable landed residential units in suburbs.
- At about 11x its fully-diluted FY23F earnings in its entirety, we think that this home-grown regional/global plastic packaging player is highly compelling given its strong foothold in a consumer-fueled sector.

**EXHIBIT 1: LOCATION OF LAND TO BE ACQUIRED**



Source: SP Setia

## EXHIBIT 2: SUM-OF-PARTS VALUATION

## Sum-of-Parts (SOP) Valuation

	FY23F PAT	PE multiple	
<b>Manufacturing Division</b>	<b>271.9</b>	<b>18</b>	<b>4,894.5</b>
<b>Property Division</b>			
	<b>Outstanding GDV</b>		<b>NPV @ 10%</b>
<b>Developments</b>	RM (mil)		
Taman Scientex Pasir Gudang	444		73.5
Taman Scientex Kulai	421		69.7
Taman Mutiara Mas (Skudai)	1,285		212.7
Taman Scientex Senai	2,017		333.8
Taman Pulai Mutiara	4,333		717.1
Taman Heights (Ayer Keroh)	621		102.8
Scientex Durian Tunggal	1,223		202.4
Scientex Klebang & Scientex Meru (Ipoh)	500		82.7
Scientex Rawang	850		140.7
Scientex Tasek Gelugor	2,880		476.6
Scientex Kundang Jaya	1,700		281.3
Scientex Kota Tinggi	280		46.3
Scientex Johor Bahru	7,700		1274.3
	<b>24,254</b>		<b>4013.8</b>
(-) Property Division Net Debt (estimate)			<b>-1008.6</b>
<b>RNAV</b>			<b>3005.2</b>
(-) 10% Discount to Property RNAV			<b>-300.5</b>
<b>Property Division Sub-Total</b>			<b>2,704.7</b>
<b>Total</b>			<b>7,599.3</b>
(+) Cash proceeds from full conversion of warrants			444.5
			8,043.8
Fully Diluted Outstanding Share Base			1,654.0
<b>Fair Value/share (RM)</b>			<b>4.86</b>
(+) 3% premium for 4-star ESG rating			0.15
<b>Fair Value/share (RM) + ESG Premium</b>			<b>5.01</b>

Source: Bloomberg, AmlInvestment Bank Bhd.

## EXHIBIT 3: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★			
Work site safety	★	★	★	★	
Worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★		
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,247.4	3,518.6	4,369.8	4,905.3	5,506.6
EBITDA	546.6	658.1	756.8	838.3	930.1
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	650.0	731.5	823.3
Other income & associates	(16.9)	-	(7.7)	(9.2)	(11.6)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	450.6	544.3	626.9	710.4	804.2
Taxation	(104.7)	(126.2)	(150.4)	(170.5)	(193.0)
<b>Minorities/pref dividends</b>	<b>12.2</b>	<b>27.9</b>	<b>21.1</b>	<b>24.2</b>	<b>27.9</b>
Net profit	333.7	390.1	455.4	515.7	583.4
Core net profit	333.7	390.1	455.4	515.7	583.4
<b>Balance Sheet (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	1,247.8	1,322.6	1,634.2	1,827.4	2,020.6
Intangible assets	1,043.2	1,047.7	1,052.5	1,057.5	1,062.8
<b>Other long-term assets</b>	<b>118.1</b>	<b>108.6</b>	<b>118.1</b>	<b>118.1</b>	<b>118.1</b>
Total non-current assets	2,409.0	2,776.7	2,804.8	3,003.0	3,201.5
Cash & equivalent	257.6	413.2	285.1	336.3	424.8
Stock	321.2	354.0	432.2	485.1	544.6
Trade debtors	595.8	716.0	801.7	899.9	1,010.2
<b>Other current assets</b>	<b>523.9</b>	<b>340.4</b>	<b>523.9</b>	<b>523.9</b>	<b>523.9</b>
Total current assets	1,698.5	1,823.7	2,042.8	2,245.2	2,503.5
Trade creditors	438.2	624.5	589.7	662.0	743.1
Short-term borrowings	704.0	683.7	654.0	629.0	604.0
<b>Other current liabilities</b>	<b>187.5</b>	<b>45.0</b>	<b>212.7</b>	<b>208.0</b>	<b>199.7</b>
Total current liabilities	1,329.7	1,353.2	1,456.4	1,498.9	1,546.8
Long-term borrowings	269.8	357.3	219.8	194.8	169.8
<b>Other long-term liabilities</b>	<b>109.0</b>	<b>134.2</b>	<b>109.0</b>	<b>109.0</b>	<b>109.0</b>
<b>Total long-term liabilities</b>	<b>378.8</b>	<b>491.6</b>	<b>328.8</b>	<b>303.8</b>	<b>278.8</b>
Shareholders' funds	2,225.0	2,561.4	2,813.0	3,173.9	3,582.3
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	1.79	2.09	2.19	2.42	2.68
<b>Cash Flow (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	450.6	544.3	626.9	710.4	804.2
Depreciation/Amortisation	92.3	108.7	106.8	106.8	106.8
Net change in working capital	86.4	(52.9)	(97.5)	(109.5)	(122.9)
<b>Others</b>	<b>(72.0)</b>	<b>(99.1)</b>	<b>(108.4)</b>	<b>(130.7)</b>	<b>(155.5)</b>
Cash flow from operations	557.4	501.0	527.7	577.0	632.7
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(306.0)	(300.0)	(300.0)	(300.0)	(300.0)
<b>Others</b>	<b>7.4</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>
Cash flow from investing	(298.6)	(288.1)	(288.1)	(288.1)	(288.1)
Debt raised/(repaid)	(19.4)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(106.7)	(115.4)	(136.6)	(154.7)	(175.0)
<b>Others</b>	<b>(46.9)</b>	<b>(87.0)</b>	<b>(85.0)</b>	<b>(83.0)</b>	<b>(81.0)</b>
<b>Cash flow from financing</b>	<b>(173.0)</b>	<b>(202.3)</b>	<b>(221.6)</b>	<b>(237.7)</b>	<b>(256.0)</b>
<b>Net cash flow</b>	<b>85.7</b>	<b>10.5</b>	<b>18.0</b>	<b>51.2</b>	<b>88.5</b>
<b>Net cash/(debt) b/f</b>	<b>170.8</b>	<b>256.5</b>	<b>267.0</b>	<b>285.1</b>	<b>336.3</b>
Net cash/(debt) c/f	256.5	267.0	285.1	336.3	424.8
<b>Key Ratios (YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	23.6	8.3	24.2	12.3	12.3
EBITDA growth (%)	26.9	20.4	15.0	10.8	11.0
Pretax margin (%)	13.9	15.5	14.3	14.5	14.6
Net profit margin (%)	10.3	11.1	10.4	10.5	10.6
Interest cover (x)	123.5	107.7	28.1	34.7	43.1
Effective tax rate (%)	23.2	23.2	24.0	24.0	24.0
Dividend payout (%)	30.1	29.6	30.0	30.0	30.0
Debtors turnover (days)	61	68	63	63	63
Stock turnover (days)	33	35	33	34	34
Creditors turnover (days)	46	55	51	47	47

Source: Company, AmlInvestment Bank Bhd estimates

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