

Scientex Berhad

The Seventh Township in Johor

TP: RM5.05 (+22.3%)

Last Traded: RM4.13

Buy (ESG: ★★★)

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Last Friday, Scientex Berhad proposed to acquire eight parcels of freehold lands in Tebrau, Johor, measuring 960 acres for a total cash consideration of RM518.1mn (RM12.4/sf.). We are positive on the long-term prospect of building its seventh township in Johor to leverage on Scientex's strong branding in Johor's affordable home space. Maintain Buy call with an unchanged target price of RM5.05/share based on SOP valuation.

Buy Land in Tebrau

Scientex has signed a sale and purchase agreement to acquire eight parcels of freehold lands measuring 960 acres in Tebrau, Johor from S P Setia Berhad for a total cash consideration of RM518.1mn. The proposed lands are within reasonable distance from Scientex's existing development in Senai (c.25km apart) and c.25km away from Johor Bahru city centre. Moreover, the lands have accessibility to Senai Desaru Expressway via Ulu Tiram (approximately 8km in distance). The proposed acquisition will be completed in 3 phases in entirety as per below schedule:

Figure 1: Acquisition Schedule

Phase	Estimated Completion	Land Area (Acres)	Purchase Price (RM)
Phase 1 Lands	1QCY22	452	236.1
Phase 2 Lands	2QCY23	259	141.3
Phase 3 Lands	2QCY24	249	140.8
Total		960	518.1

Source: Company, Bursa Announcement, TA Securities

Prepping for the Seventh Township in Johor

The proposed Tebrau lands are earmarked to be the base for Scientex's seventh township in Johor with residential and commercial developments. Recall that Scientex's recently-acquired 87-acres lands in Kota Tinggi, Johor have a potential GDV of RM280mn (equivalent RM3.2mn GDV per acre), while its other 371-acres lands in Senai have a potential GDV of RM2.9bn (equivalent RM7.8mn GDV per acre). No GDV guidance was provided by management in view that the lands acquisition is still at a preliminary stage. Nevertheless, we reckon the potential GDV per acre for the Tebrau lands is likely to be higher than Kota Tinggi's development given that Tebrau is nearer to Johor Bahru city centre, yet could be lower against Senai's project due to the latter's close proximity to Senai International Airport, which provides immense convenience. As such, we estimate the potential GDV of the proposed Tebrau land to be c.RM5.0bn, based on estimated RM5.5mn GDV per acre of land.

Fairly-Priced Acquisition

According to a separate announcement by S P Setia, City Valuers & Consultants Sdn Bhd (an independent registered valuer) derived the current market value of the proposed lands at RM480.8mn after accessing it using

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	6,391.7
52-wk Hi/Lo (RM)	4.45/2.72
12-mth Avg Daily Vol ('000 shrs)	1,558.2
Estimated Free Float (%)	35.3
Beta	0.6
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	Buy (Maintained)	

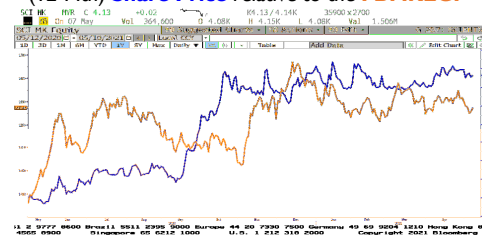
Financial Indicators

	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	(1.5)
3 mth	(2.8)	(0.6)
6 mth	3.9	0.8
12 mth	47.5	14.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

comparison method of valuation. As such, we deem the purchase consideration of RM518.1mn fair after taking into account the valuation derived by the independent valuer alongside time value considering that the balance payment for the lands would be spread over 3 years. Meanwhile, the land cost of RM518.1mn which makes up c.10% of potential GDV are also considered reasonable.

Impact

We make no change to our earnings forecasts. With the group's robust operating cash flow and current low gearing ratio of 0.2x, we reckon Scientex's financial position will remain healthy post completion of the lands acquisition.

Recommendation

With Scientex's strong branding in the affordable home space, particularly in Johor, we expect the planned township in Tebrau, Johor to generate overwhelming traction should the development take-off. Maintain Buy call with an unchanged target price of RM5.05/share based on SOP valuation.

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)	18.0	15.3	15.2	13.7	12.9
P/BV (x)	3.3	2.9	2.5	2.2	2.0
Dividend yield (%)	1.6	1.9	2.0	2.2	2.4
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 Monday, May 10, 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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