

23 Jun 2021

Hold

Price  
RM4.26

Target Price  
RM4.19

Bloomberg code  
SCI MK

Equity | Malaysia | Consumer  
**Flashnote**

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# Scientex

## 9MFY21: improving sales mix

### Financial Highlights

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	3,247.4	3,518.6	4,001.4	4,537.2	5,137.2
Core net profit (RMm)	352.7	423.6	472.6	529.3	614.5
Core EPS (Sen)	22.7	27.3	30.5	34.1	39.6
EPS growth (%)	23.9	20.1	11.6	12.0	16.1
DPS (Sen)	20.0	23.0	10.0	11.0	12.0
Core PE (x)	18.7	15.6	14.0	12.5	10.8
Div yield (%)	4.7	5.4	2.3	2.6	2.8
ROE (%)	14.7	15.4	16.0	15.9	16.3
Net Gearing (%)	32.2	24.5	39.6	42.5	40.8
PBV(x)	3.1	2.7	2.5	2.2	1.9

Source: Company, KAF

- Maintain Hold rating with TP of RM4.19 pegged to CY21F based SOP valuation.
- Scientex's 3QFY21 core earnings of RM303m (+10% YoY) came in at 64% and 71% of our and street's full-year forecasts respectively. We deem this within estimates in line with its historical trends.
- The group declared a single tier interim dividend of 4sen in 3QFY21 (vs 3sen in 3QFY20).
- Revenue for the group in 9MFY21 increased to RM3b (+5% YoY) on the back of steady construction progress and strong take up rates for new launches in Penang, Selangor, Melaka and Johor within the Property Segment (+28% YoY). This was partially offset by lower sales from the Packaging segment (-3% YoY) due to challenging overseas markets.
- Even then, operating profit improved to RM425m (+16% YoY) attributable to better sales mix from the Packaging segment (+9% YoY). This was supported by higher Property segment (+23% YoY) contributions due to the same reasons above.
- We are projecting Scientex's earnings to grow by three-year forward earnings CAGR of 13% between FY21-23F driven by CAPEX allocation of up to RM500m to enhance the capacities, efficiencies and capabilities of the Packaging segment to offer value adding solutions to domestic and export markets.
- Moreover, the group plans to launch RM1.6b in GDV in FY21F with 6,000 units across 24 projects in Johor, Melaka and Central Region of Peninsular Malaysia.
- We are positive on these initiatives as they are in-line with Scientex's long-term plans of becoming Regional leader in packaging solutions as well as building 50,000 affordable housing in the country.
- Risks to earnings growth includes 1) increasing transportation costs from high freight charges and increasing crude oil price; 2) increasing input costs from higher resin prices; 3) lower-than-expected Property take up rate due to challenging economic environment.
- The share price has been trading sideways now at 11x forward PE which is +1SD above its five-year forward mean mean PE of 10x. We find this to be approaching its fair value justified by its aggressive expansion plans across the Packaging and Property segments.
- With projected DPS of 10-12sen for FY21-23F, this implies a dividend yield of 2-3% currently.

**Exhibit 1: Quarterly financial results analysis**

FYE Jul RMm	Apr-20 3QFY20	Jul-20 4QFY20	Oct-20 1QFY21	Jan-21 2QFY21	Apr-21 3QFY21	Change (%)		Cumulative		Chg (%) YoY	KAF	
						QoQ	YoY	9MFY20	9MFY21		FY21	9M/F
Revenue	772	955	802	907	977	8	26	2,564	2,686	5	4,001	67%
~ Packaging	614	621	584	619	671	9	9	1,930	1,874	(3)	2,976	63%
~ Property	158	333	218	288	305	6	93	634	812	28	1,025	79%
Interest Expense	(4)	(3)	(2)	(2)	(3)	24	(25)	(14)	(8)	(44)		
Interest Income	2	3	1	1	3	>+100	46	8	10	21		
Depreciation	(27)	(29)	(26)	(28)	(28)	0	2	(82)	(83)	1		
<b>EBITDA</b>	<b>134</b>	<b>212</b>	<b>153</b>	<b>177</b>	<b>176</b>	<b>(0)</b>	<b>32</b>	<b>448</b>	<b>507</b>	<b>13</b>	<b>786</b>	<b>65%</b>
Operating Profit	106	184	127	149	149	(0)	40	366	425	16	669	63%
~ Packaging	59	71	69	63	65	2	9	180	196	9	395	50%
~ Property	47	113	58	86	84	(2)	78	186	228	23	274	83%
Reported PBT	105	184	128	150	149	(0)	42	360	426	18	658	65%
Taxation	(29)	(35)	(28)	(28)	(32)	14	13	(91)	(89)	(2)		
Minority Interest	(6)	(7)	(7)	(9)	(7)	(25)	5	(7)	(23)	>+100		
Exceptional items	(14)	(14)	5	1	(3)	nm	(77)	(14)	12	nm		
Reported Profit	70	142	93	112	110	(2)	58	262	315	20	473	67%
<b>Adj. Net Profit</b>	<b>84</b>	<b>156</b>	<b>88</b>	<b>111</b>	<b>113</b>	<b>2</b>	<b>35</b>	<b>276</b>	<b>303</b>	<b>10</b>	<b>473</b>	<b>64%</b>
EPS (sen)	4	9	6	7	7	(2)	58	17	20	20		
Adj EPS (sen)	5	10	6	7	7	2	35	18	20	10		
DPS (sen)	10	13	0	0	0			10	0			
						<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>		
Effective tax rate (%)	27	19	22	19	22	3	(6)	25	21	(4)		
EBITDA margin (%)	17	22	19	20	18	(1)	1	17	19	1		
Operating margin (%)	14	19	16	16	15	(1)	1	14	16	2		
~ Manufacturing (%)	10	11	12	10	10	(1)	(0)	9	10	1		
~ Property	30	34	27	30	49	19	19	29	28	(1)		
Pretax margin (%)	14	19	16	16	15	(1)	2	14	16	2		
Net margin (%)	11	16	11	12	12	(1)	1	11	11	0		

Source: Company, KAF

**Exhibit 2: Five-year forward PE band chart**



Source: Bloomberg, KAF

**Exhibit 3: Sum-of-Parts Valuation**

Segment	Based on CY21	Valuation
Manufacturing	23x PE	5,579
Property	0.5x PB	923
	Equity value (RMm)	6,502
	Outstanding shares (m)	1,551
	<b>Target Price (RM)</b>	<b>4.19</b>

Source: 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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