MANUFACTURING

AmInvestment Bank

Company report

SCIENTEX

(SCI MK EQUITY, STIK.KL)

24 June 2021

9MFY21 net profit increases 27% YoY

BUY

(Maintained)

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Rationale for report: Company results

Price	**RM4.26**
Fair Value	**RM5.01**
52-week High/Low	RM4.45/RM2.86

Key Changes

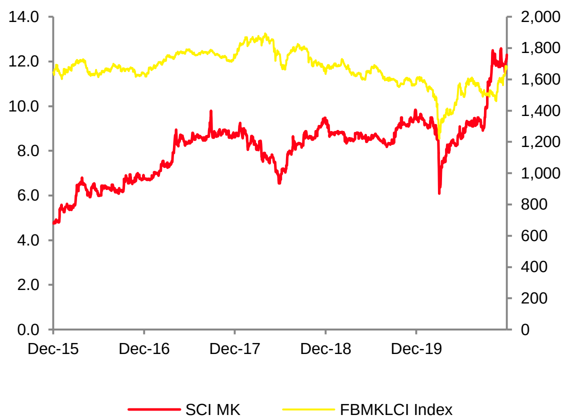
Fair value	⬄
EPS	⬄

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)	16.9	14.8	13.1	11.6
EV/EBITDA (x)	11.0	9.5	8.5	7.5
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)	6,605.5
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)	2.7

Price performance	3mth	6mth	12mth
Absolute (%)	4.7	2.6	45.7
Relative (%)	6.7	8.0	40.3



Investment Highlights

- **We maintain our BUY call, forecasts, and fair value (FV) of RM5.01/share for Scientex based on sum-of-parts (SOP) valuation (Exhibit 1). We peg Scientex's manufacturing segment to an FY23F PE of 18x, at a premium compared to its peer stretch film makers' average forward PE of 12.5x, 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 based on our 4-star ESG rating as appraised by us (Exhibit 3).**

- **Scientex's 9MFY21 net profit came in at only 70% of our full-year forecasts and full-year consensus estimates. However, we consider the results within expectations, underpinned largely by a seasonally strong 4Q property profits.**

- **Scientex's 9MFY21 net profit grew 27% YoY, driven largely by both its core segments. Its manufacturing unit's EBIT surged by 9% thanks largely to an improved EBIT margin of 10.5% (vs. 9.3% previously). We believe that the stronger performance arose from: (1) a better product mix that was skewed towards the high-margin downstream printing and lamination products (produced by 61.9%-owned Daibochi); and (2) improved efficiency stemming from reduced wastage, better inventory controls, customised solutions and integration within its operating units.**

- **Despite the disruption from the movement control order, Scientex's property division unit managed to register an impressive 28% YoY increase in EBIT to RM228.4mil in 9MFY21, driven largely by RM811.5mil sales largely underpinned by RM1.2bil of new launches, mainly from its developments in Tasek Gelugor in Seberang Perai, Kundang Jaya in Rawang, Selangor and Durian Tunggal 2 in Melaka.**

- **We expect its property profits to continue improving in the coming quarters driven by: (1) progress billings from unbilled sales that stood at RM920mil as at end-April 2021; and (2) RM1.6bil new launches in FY21F, comprising largely 6,000 units of affordable housing units (with an average price of c.RM267k/uniK) in Pulai, Johor and Durian Tunggal. In our earnings forecasts, we conservatively assume FY21F new launches of only RM1.3bil.**

- **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) due to extensive R&D, cost efficiency initiatives and an M&A pipeline; and (3) a robust property development business despite the soft market in general thanks to its right focus on predominantly landed affordable residential units in secondary suburbs.**
- **At about 11–12x 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-fuelled sector.**

EXHIBIT 1: SUM-OF-PARTS VALUATION

Sum-of-Parts (SOP) Valuation				
	FY23F PAT	*PE multiple*		
Manufacturing Division	**271.9**	**18**		**4,894.5**
Property Division				
	Outstanding GDV		**NPV @ 10%**	
Developments	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*	
	24,254		**4013.8**	
(-) Property Division Net Debt (estimate)			**-1008.6**	
RNAV			**3005.2**	
(-) 10% Discount to Property RNAV			**-300.5**	
Property Division Sub-Total				**2,704.7**
Total				**7,599.3**
(+) Cash proceeds from full conversion of warrants				444.5
				8,043.8
Fully Diluted Outstanding Share Base				1,654.0
Fair Value/share (RM)				**4.86**
(+) 3% premium for 4-star ESG rating				0.15
Fair Value/share (RM) + ESG Premium				**5.01**

Source: Bloomberg, AmInvestment Bank Bhd.

EXHIBIT 2: RESULTS SUMMARY

YE July	1Q FY21	2Q FY21	3Q FY21	QoQ	9M20	9M21	YoY
Revenue	**802.3**	**906.5**	**976.8**	**13%**	**2564.0**	**2685.6**	**5%**
Manufacturing	583.8	618.8	671.5	6%	1929.7	1874.1	-3%
Property Development	218.4	287.8	305.3	32%	634.3	811.5	28%
EBIT	**126.8**	**149.2**	**148.6**	**18%**	**365.7**	**424.5**	**16%**
Manufacturing	68.6	63.0	64.5	-8%	179.9	196.1	9%
Property Development	58.2	86.2	84.0	48%	185.8	228.4	23%
Profit Before Tax (PBT)	**128.0**	**149.5**	**148.9**	**17%**	**360.1**	**426.5**	**18%**
Taxation	-28.1	-28.4	-32.3	1%	-90.8	-88.9	-2%
Profit After Tax (PAT)	**99.9**	**121.1**	**116.6**	**21%**	**269.2**	**337.6**	**25%**
Minority Interest	7.4	8.9	6.7	21%	21.2	23.0	9%
Net Profit	**92.5**	**112.2**	**109.9**	**21%**	**248.1**	**314.6**	**27%**
Margins							
EBIT margin	16%	16%	15%		14%	16%	
PBT margin	16%	16%	15%		14%	16%	
Net Profit margin	12%	12%	11%		14%	16%	
Effective Tax Rate	22%	19%	22%		25%	21%	

Source: Bloomberg, AmInvestment 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)
Exceptional items	**-**	**-**	**-**	**-**	**-**
Pretax profit	450.6	544.3	626.9	710.4	804.2
Taxation	(104.7)	(126.2)	(150.4)	(170.5)	(193.0)
Minorities/pref dividends	**12.2**	**27.9**	**21.1**	**24.2**	**27.9**
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

Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
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
Other long-term assets	**118.1**	**108.6**	**118.1**	**118.1**	**118.1**
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
Other current assets	**523.9**	**340.4**	**523.9**	**523.9**	**523.9**
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
Other current liabilities	**187.5**	**45.0**	**212.7**	**208.0**	**199.7**
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
Other long-term liabilities	**109.0**	**134.2**	**109.0**	**109.0**	**109.0**
Total long-term liabilities	**378.8**	**491.6**	**328.8**	**303.8**	**278.8**
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

Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
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)
Others	**(72.0)**	**(99.1)**	**(108.4)**	**(130.7)**	**(155.5)**
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)
Others	**7.4**	**11.9**	**11.9**	**11.9**	**11.9**
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)
Others	**(46.9)**	**(87.0)**	**(85.0)**	**(83.0)**	**(81.0)**
Cash flow from financing	**(173.0)**	**(202.3)**	**(221.6)**	**(237.7)**	**(256.0)**
Net cash flow	**85.7**	**10.5**	**18.0**	**51.2**	**88.5**
Net cash/(debt) b/f	**170.8**	**256.5**	**267.0**	**285.1**	**336.3**
Net cash/(debt) c/f	256.5	267.0	285.1	336.3	424.8

Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
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, AmInvestment Bank Bhd estimates

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