

Scientex Berhad

Strength Across Manufacturing and Property

TP: RM5.05 (+18.5%)

Last Traded: RM4.26

Buy (ESG: ★★★)

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Review

- Scientex Berhad's 9MFY21 core net profit of RM302.5mn (+14.0% YoY) came in within expectation at 72% and 69% of ours and consensus' full-year estimates.
- The group declared a first interim single-tier dividend of 4.0sen/share in 3QFY21, higher than 3.3sen/share declared in corresponding quarter last year.
- Manufacturing.** 9MFY21 operating profit increased by 9.0% YoY despite a 2.9% YoY slip in revenue mainly due to favourable sales mix through value-added products. Sequentially, 3QFY21 operating profit was up 2.5% QoQ underpinned by 7.7% QoQ increase in revenue. The operating margin slipped 0.6%-pts due to hike in resin price and surge in freight charges.
- Property.** 9MFY21 operating profit improved to RM228.4mn (+22.9% YoY) on the back of 28.0% YoY growth in revenue to RM811.5mn. This was driven by steady progress billings and strong take-up rates for new launches in Tasek Gelugor, Kundang Jaya, Durian Tunggal and Pulau Mutiara.

Impact

- We make no change to our earnings forecasts.

Outlook

- Manufacturing.** Capacity expansion and process automation enhancements would remain as the group's long-term priority to enhance cost efficiencies. Meanwhile, in the short term, the resin price has started to ease from April and is currently c.15% lower than the recent peak. As such, we expect the Manufacturing margin to improve in the upcoming quarter.
- Property.** The group has been seizing opportunities to acquire competitively priced landbanks and started planning new launches on its recently-acquired land in Sungai Petani, Kedah and Jasin, Melaka (targeted for launch in FY22). During 9MFY21, Scientex has launched properties worth c.RM1.2bn, on track to achieve the group's FY21 targeted GDV launch of RM1.6bn. Demands and take-up for Scientex's properties have been overwhelming but the progress billing is expected to be slow in 4QFY21 owing to disruptions to construction sites during FMCO.

Valuation

- Maintain Buy call with an unchanged target price of RM5.05/share based on SOP valuation.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	6,592.9
52-wk Hi/Lo (RM)	4.45/2.86
12-mth Avg Daily Vol ('000 shrs)	1,494.0
Estimated Free Float (%)	35.3
Beta	0.6
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMmn)	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)	2.6	2.3

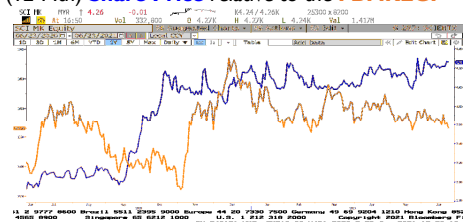
Scorecard

	% of FY21	
vs TA	72	Within
vs Consensus	69	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	7.0	0.2
3 mth	4.7	(1.9)
6 mth	2.6	(5.0)
12 mth	45.7	3.8

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary (RMmn)

FYE July (RMmn)	FY19	FY20	FY21E	FY22F	FY23F
Revenue	3,247.4	3,518.6	3,872.1	4,380.9	4,775.9
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
Adj. PBT	471.8	572.9	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
PER (x)	19.8	16.9	15.7	14.1	13.3
Net Dividend (sen)	6.7	7.7	8.3	9.0	10.0
Dividend Yield (%)	1.6	1.8	2.0	2.1	2.3

Table 2: 3QFY21 Results Analysis (RMmn)

FYE July (RMmn)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	772.2	906.5	976.8	7.7	26.5	2,564.0	2,685.6	4.7
~ Manufacturing	614.4	618.8	671.5	8.5	9.3	1,929.7	1,874.1	(2.9)
~ Property	157.8	287.8	305.3	6.1	93.5	634.3	811.5	28.0
Interest Expense	(3.9)	(2.4)	(3.0)	23.8	(25.1)	(13.5)	(7.6)	(43.7)
Interest Income	1.0	2.7	3.3	19.4	224.9	3.5	9.6	>100
Depreciation	(26.6)	(26.8)	(26.6)	(0.7)	(0.2)	(80.1)	(80.1)	0.0
EBITDA	134.3	176.0	175.2	(0.4)	30.4	445.9	504.7	13.2
Operating Profit	107.7	149.2	148.6	(0.4)	38.0	365.7	424.5	16.1
~ Manufacturing	59.3	63.0	64.5	2.5	8.9	179.9	196.1	9.0
~ Property	47.2	86.2	84.0	(2.5)	78.1	185.8	228.4	22.9
EI	(13.1)	9.8	(3.1)	nm	(76.2)	(17.2)	12.1	nm
Reported PBT	104.7	149.5	148.9	(0.4)	42.2	360.1	426.5	18.4
Taxation	(28.7)	(28.4)	(32.3)	13.6	12.6	(90.8)	(88.9)	(2.2)
Minority Interest	(6.4)	(8.9)	(6.7)	(24.8)	4.7	(21.2)	(23.0)	8.6
Reported Profit	69.6	112.2	109.9	(2.0)	57.8	248.1	314.6	26.8
Adj. Net Profit	82.7	102.3	113.0	10.4	36.6	265.3	302.5	14.0
EPS (sen)	4.5	7.2	7.1	(1.9)	57.6	16.0	20.3	26.6
Adj EPS (sen)	5.3	6.6	7.3	10.6	36.4	17.2	19.5	13.8
DPS (sen)	3.3	0.0	4.0	nm	20.0	3.3	4.0	20.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.9	16.5	15.2	(1.2)	1.3	14.3	15.8	1.5
~ Manufacturing	9.6	10.2	9.6	(0.6)	(0.0)	9.3	10.5	1.1
~ Property	29.9	29.9	27.5	(2.4)	(2.4)	29.3	28.1	(1.2)
PBT Margin (%)	13.6	16.5	15.2	(1.2)	1.7	14.0	15.9	1.8
Net Margin (%)	10.7	11.3	11.6	0.3	0.9	10.3	11.3	0.9
Tax rate (%)	27.4	19.0	21.7	2.7	(5.7)	25.2	20.8	(4.4)

Table 3: Sum-of-Parts Valuation

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

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 Thursday, June 24, 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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