

COMPANY RESULTS

Scientex (SCI MK)

3QFY21: Record-high Quarterly Results

Scientex's 3QFY21 results came in within our expectations with record-high revenue. The outstanding performance was attributed to higher sales volumes and improved sales mix of its manufacturing segment, as well as decent take-up rates and stable progress billings for the property segment. We expect resilient earnings momentum in the coming quarters, buoyed by the swift recovery of the global economy and consumer sentiment. Maintain BUY with a higher target price of RM4.60.

3QFY21 RESULTS

Year to 31 Jul (RMm)	3QFY21	qoq % chg	yoy % chg	9MFY21	yoy % chg
Turnover	976.8	7.7	26.5	2,685.6	4.7
Manufacturing	671.5	8.5	9.3	1,874.1	(2.9)
Property	305.3	6.1	93.4	811.5	27.9
EBIT	148.6	(0.4)	39.6	424.5	16.1
Manufacturing	64.5	2.4	8.8	196.1	8.9
Property	84.0	(2.6)	78.2	228.4	23.0
Finance costs	(3.0)	23.8	(25.1)	(7.6)	(43.7)
PBT	148.9	(0.4)	42.2	426.5	18.4
Core net profit	113.0	10.4	36.6	302.5	14.0

Margins (%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	15.2	(1.2)	1.4	15.8
-Manufacturing	9.6	(0.6)	(0.0)	10.5
-Property	27.5	(2.4)	(2.4)	28.1
PBT	15.2	(1.2)	1.7	15.9
Core net profit	11.6	0.3	0.9	11.3

Source: Scientex, UOB Kay Hian

RESULTS

- **Within expectations.** Scientex's 3QFY21 core net profit came in at RM113m (+10.4% qoq, +36.6% yoy), bringing 9MFY21 core net profit to RM302.5m (+14% yoy). This accounted for 73% and 69% of our and consensus estimates respectively. This excludes RM3.1m forex loss and RM98,000 gain on disposal of property, plant and equipment.
- **Declares interim dividend of 4 sen.** Meanwhile, the group has announced an interim dividend of 4 sen, implying a dividend yield of 0.9%. This represents a payout ratio of 56%, in line with the group's minimum dividend policy of 30%.

KEY FINANCIALS

Year to 31 Jul (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	3,247	3,519	3,693	4,091	4,381
EBITDA	554	660	671	785	842
Operating profit	462	549	564	666	712
Net profit (rep./act.)	334	390	415	510	545
Net profit (adj.)	353	390	415	510	545
EPS (sen)	22.8	25.2	26.8	32.9	35.2
PE (x)	18.7	16.9	15.9	13.0	12.1
P/B (x)	3.0	2.6	2.2	1.9	1.7
EV/EBITDA (x)	13.0	10.9	10.7	9.2	8.5
Dividend yield (%)	4.7	1.8	1.9	2.3	2.5
Net margin (%)	10.3	11.1	11.2	12.5	12.4
Net debt/(cash) to equity (%)	32.2	24.5	12.4	7.0	(1.0)
Interest cover (x)	35.7	40.4	39.6	46.3	49.7
ROE (%)	16.8	16.3	14.8	15.9	15.2
Consensus net profit	-	-	441	508	584
UOBKH/Consensus (x)	-	-	0.94	1.00	0.93

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.26
Target Price	RM4.60
Upside	+8.0%
(Previous TP	RM4.43)

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,550.6
Market cap (RMm):	6,605.5
Market cap (US\$m):	1,586.0
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

52-week high/low RM4.30/RM2.94

1mth	3mth	6mth	1yr	YTD
7.0	4.7	2.6	45.7	0.8

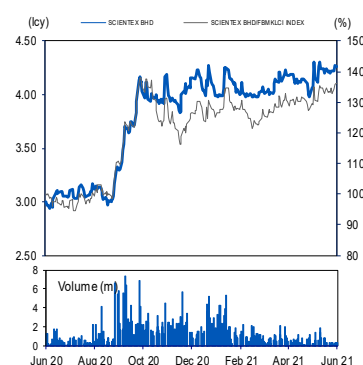
Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.99
Scientex Infinity Sdn Bhd	9.21
Scientex Leasing Sdn Bhd	9.12

FY21 NAV/Share (RM) 1.96

FY21 Net Debt/Share (RM) 0.24

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Property: Top-line surged 93.4% yoy from low base.** Scientex's property segment revenue came in at RM305.3m (+6.1% qoq, +93.4% yoy) on the back of steady progress billings and higher sales from five new launches across Melaka, Selangor and Penang. The much stronger yoy performance (+93.4% yoy) was mainly due to progress billings being hampered by disruption of construction activities and prohibition of site inspections during the MCO period in 3QFY20. Meanwhile, Scientex has launched RM425m worth of new properties in 3QFY21 with unbilled sales standing at RM920m (2QFY21: RM900m). Management alluded that demand for property launches has been strong in the quarter with take-up rate of about 80%. Moving forward, the group intends to launch a total of 6,000 property units across 24 launches worth about RM1.6b within FY21. This fulfills its vision to deliver 50,000 affordable homes by 2028.

- Manufacturing: Stronger revenue and operating profit on better sales mix.** In 3QFY21, manufacturing revenue was relatively higher (+9.3% yoy) at RM672m and EBIT surged 8.8% yoy to RM65m. This was thanks to: a) higher sales margins from its newly-acquired conversion businesses (Daibochi and Mega Printing & Packaging); and b) improved sales mix from its diverse range of packaging solutions and better production efficiency. Despite much higher resin cost (+53% yoy), EBIT margin remained flattish in the quarter on better sales mix.

STOCK IMPACT

- Manufacturing segment to deliver resilient growth in coming quarters.** Moving forward, Scientex will continue to maintain its dominant position in the plastic packaging industry and exhibit robust growth potential, underpinned by: a) better sales mix of value-added products (custom film and converting businesses) which will sustain profit margins at 8-10% from the previous 6-8%; b) ramping up utilisation rate of existing manufacturing lines to >70% (FY20: 60-65%); c) organic capacity expansion (construction of new robotic stretch film plant); and d) gradual shift of production lines to automation which would potentially increase output by several folds.

- Property division anchoring group's future growth.** In 3QFY21, Scientex launched five property development projects across Penang, Selangor, and Melaka. While oversupply persists in Malaysia's property scene, Scientex will stand as an outlier and deliver resilient growth in 2HFY21, backed by: a) its ability to keep prices low with above 60% of its affordable housing units priced below RM200,000, b) aggressive landbank acquisition with lower-than-market costs; and c) standardisation of designs which enables it to launch projects within one year from signing of the land sales and purchase agreement, and completion of projects within 18 months.

- Resin prices recovered to pre-COVID-19 levels amid higher oil prices.** While oil prices have recovered to a two-year high ytd from the bottom, we see little correlation between oil and resin prices as resin prices have been trending sideways in a narrow range even when oil prices surged to as high as US\$85/bbl in late-18. This is on the back of global increase in petrochemical refinery capacity, which capped any potential rise in resin costs. We also note that any benefits from lower resin prices are temporary as the cost savings will be passed on to customers albeit with some time lag.

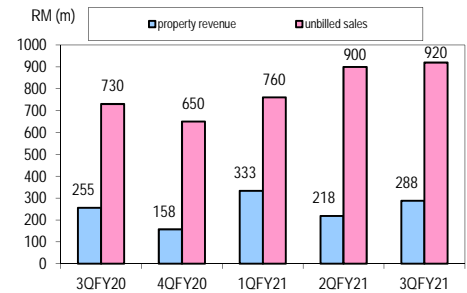
EARNINGS REVISION/RISK

- We raise our FY22 net profit forecast by 3% on the back of some house-keeping adjustments as well as higher property progress billings.

VALUATION/RECOMMENDATION

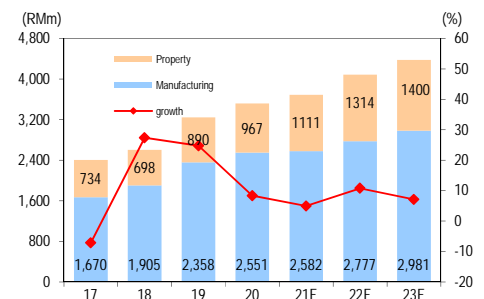
- Maintain BUY with a higher target price of RM4.60.** Our target price implies 14x 2022F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5-year net earnings CAGR of 20%). We continue to like the stock for its strong management team and track record, which enables the group to deliver record annual results year after year. With Scientex's Vision 2028 aim remaining intact, we believe the group will be able to continue its growth impetus moving forward.

PROPERTY SEGMENT



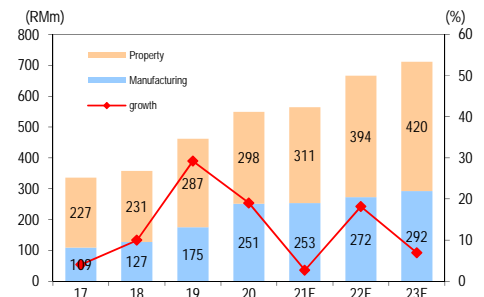
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Net turnover	3,519	3,693	4,091	4,381
EBITDA	660	671	785	842
Deprec. & amort.	111	107	119	129
EBIT	549	564	666	712
Associate contributions	11	11	11	11
Net interest income/(expense)	(16)	(17)	(17)	(17)
Pre-tax profit	544	558	661	706
Tax	(126)	(128)	(132)	(141)
Minorities	(28)	(15)	(19)	(20)
Net profit	390	415	510	545
Net profit (adj.)	390	415	510	545

CASH FLOW

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Operating	526	470	592	738
Pre-tax profit	544	558	661	706
Tax	(126)	(128)	(132)	(141)
Deprec. & amort.	95	107	119	129
Working capital changes	13	(67)	(55)	43
Other operating cashflows	0	0	0	0
Investing	(330)	(300)	(300)	(300)
Capex (growth)	(330)	(300)	(300)	(300)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	166	(124)	(153)	(164)
Dividend payments	(117)	(124)	(153)	(164)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	67	0	0	0
Others/interest paid	216	0	0	0
Net cash inflow (outflow)	362	46	139	274
Beginning cash & cash equivalent	258	620	666	805
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	413	666	805	1,079

BALANCE SHEET

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,323	1,676	1,858	2,028
Other LT assets	1,454	1,447	1,447	1,447
Cash/ST investment	413	666	805	1,079
Other current assets	1,410	1,309	1,433	1,330
Total assets	4,600	5,097	5,542	5,884
ST debt	684	684	684	684
Other current liabilities	670	682	750	689
LT debt	357	357	357	357
Other LT liabilities	134	129	130	131
Shareholders' equity	2,561	3,036	3,392	3,775
Minority interest	194	209	228	248
Total liabilities & equity	4,600	5,097	5,542	5,884

KEY METRICS

Year to 31 Jul (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.8	18.2	19.2	19.2
Pre-tax margin	15.5	15.1	16.1	16.1
Net margin	11.1	11.2	12.5	12.4
ROA	9.0	8.6	9.6	9.5
ROE	16.3	14.8	15.9	15.2
Growth				
Turnover	8.3	4.9	10.8	7.1
EBITDA	19.1	1.6	17.0	7.2
Pre-tax profit	20.8	2.6	18.3	6.9
Net profit	16.9	6.3	22.9	6.9
Net profit (adj.)	10.6	6.3	22.9	6.9
EPS	10.6	6.3	22.9	6.9
Leverage				
Debt to total capital	27.4	24.3	22.3	20.6
Debt to equity	40.6	34.3	30.7	27.6
Net debt/(cash) to equity	24.5	12.4	7.0	(1.0)
Interest cover (x)	40.4	39.6	46.3	49.7

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