

# Scientex Berhad

**TP: RM5.45** (+19.3%)

*FY21: Another Record Earnings*

Last Traded: RM4.57

**Buy (ESG: ★★★)**

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

### Review

- Scientex Berhad's FY21 core net profit of RM453.5mn (+7.5% YoY) came in above our expectation at 108% of our estimates. The positive surprise was largely due to higher-than-expected Property segment's contribution as the group's billing picked up across multiple newly launched sites.
- The group declared a final dividend of 5.0sen/share in 4QFY21, bringing FY21 DPS to 9.0sen/share (FY20 DPS: 7.7sen/share).
- Manufacturing.** FY21 operating profit increased by 1.0% YoY to RM253.6mn despite a 2.3% YoY slip in revenue. This was mainly due to favourable sales mix through value-added products, which offset the increase in operating and compliance cost for containing covid-19 pandemic. The operating margin improved 0.3%-pts YoY to 10.2%.
- Property.** 4QFY21 operating profit (+5.1% YoY to RM118.4mn) was strong as the group saw robust contribution from newly launched projects in Penang, Selangor and Melaka. Cumulatively, FY21 operating profit jumped to RM346.8mn (+16.2% YoY) supported by revenue growth of 20.4% YoY to RM1.16bn.

### Impact

- We raise FY22/23 earnings forecasts by 9/12% primarily to account for the acceleration in launches and robust Property's progress billing correspond to pick up in economy. Specifically, our estimated FY22/23 Property launches have been raised from RM1.4/1.4bn to RM1.9/2.0bn. Meanwhile, we introduce our FY24 earnings forecast of RM581.8mn.

### Outlook

- Manufacturing.** With close to 100% of Scientex's Malaysian workforce fully vaccinated, the plant is expected to operate at full capacity. This would allow Scientex to better serves its customers amid lingering challenges from heightened volatility in raw material prices, logistics cost and freight availability. Separately, the take-over exercise of Diabochi is expected to be completed by 4QCY21. If the exercise is completed successfully, our back-of-envelope calculation indicates the increment of c.38% stake in Daibochi is expected to increase Scientex's manufacturing annual profit by c.RM25mn (exclude interest rate).
- Property.** During FY21, Scientex has launched properties worth c.RM1.5bn, a tad lower than initial targeted GDV launch of RM1.6bn owing to covid-led disruptions to constructions sites. Nonetheless, the group intends to expand more aggressively in FY22 as domestic economy picks up. Scientex targets to launch RM2.0bn worth of properties (c.7.0k units) in FY22 supported by various landbank across Peninsula which the group acquired at competitive prices. Moreover, the progress billing is expected to be more robust in FY22 supported by unbilled sales of RM950mn (+46% YoY).

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	7,072.7
52-wk Hi/Lo (RM)	4.87/3.37
12-mth Avg Daily Vol ('000 shrs)	1,385.0
Estimated Free Float (%)	35.3
Beta	0.6
<b>Major Shareholders (%)</b>	
Scientex Holdings & Related	55.7

### Forecast Revision

	FY22	FY23
Forecast Revision (%)	8.8	12.2
Net profit (RMmn)	508.0	557.2
Consensus	503.1	579.5
TA's / Consensus (%)	101.0	96.2
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY22	FY23
Net debt/ equity (%)	31.6	26.5
ROE (%)	16.5	16.1
ROA (%)	9.3	9.2
NTA/Share (RM)	1.9	2.1
Price/ NTA (x)	2.4	2.1

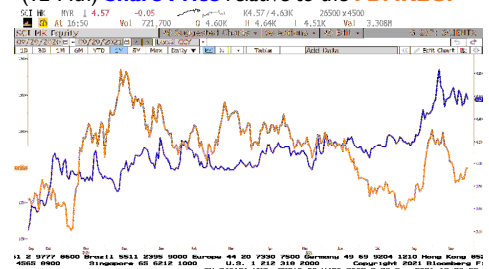
### Scorecard

	% of FY21	
vs TA	108	Above
vs Consensus	103	Within

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	2.7	(2.7)
3 mth	9.3	0.0
6 mth	13.4	(3.9)
12 mth	31.3	2.9

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

### Valuation

- We increase Scientex's TP to RM5.45/share (previously: RM5.05/share) based on unchanged 20x Manufacturing earnings and 14x Property earnings. Reiterate Buy.

**Table 1: Earnings Summary (RMmn)**

FYE July (RMmn)	FY20	FY21	FY22E	FY23F	FY24F
Revenue	3,518.6	3,656.0	4,163.7	4,577.1	4,892.2
EBITDA	656.9	707.2	824.1	894.3	928.8
EBIT	549.5	600.3	702.4	767.3	802.0
Reported PBT	544.3	601.0	692.9	761.3	798.5
Adj. PBT	576.2	597.2	692.9	761.3	798.5
Reported Net Profit	390.1	457.2	508.0	557.2	581.8
Adj. Net profit	422.0	453.5	508.0	557.2	581.8
Basic EPS (sen)	25.2	29.5	32.8	36.0	37.6
Adj. EPS (sen)	27.3	29.3	32.8	36.0	37.6
PER (x)	18.1	15.5	13.9	12.7	12.2
Net Dividend (sen)	7.7	9.0	10.0	11.0	12.0
Dividend Yield (%)	1.7	2.0	2.2	2.4	2.6

**Table 2: 4QFY21 Results Analysis (RMmn)**

FYE July (RMmn)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)	FY20	FY21	YoY (%)
Revenue	954.6	976.8	970.4	(0.7)	1.6	3,518.6	3,656.0	3.9
~ Manufacturing	621.4	671.5	617.4	(8.0)	(0.6)	2,551.1	2,491.5	(2.3)
~ Property	333.2	305.3	352.9	15.6	5.9	967.5	1,164.5	20.4
Interest Expense	(2.8)	(3.0)	(3.5)	19.3	24.9	(16.3)	(11.1)	(31.9)
Interest Income	1.9	3.3	2.2	(32.3)	17.7	5.4	11.8	>100
Depreciation	(27.3)	(26.6)	(26.7)	0.4	(2.2)	(107.4)	(106.8)	(0.5)
EBITDA	212.4	175.2	202.5	15.6	(4.7)	656.9	707.2	7.7
Operating Profit	185.1	148.6	175.8	18.3	(5.0)	549.5	600.3	9.3
~ Manufacturing	71.1	64.5	57.4	(11.0)	(19.2)	251.0	253.6	1.0
~ Property	112.6	84.0	118.4	40.9	5.1	298.4	346.8	16.2
EI	(14.6)	(3.1)	(8.4)	>100	(42.6)	(31.9)	3.7	nm
Reported PBT	184.2	148.9	174.5	17.2	(5.3)	544.3	601.0	10.4
Taxation	(35.4)	(32.3)	(26.3)	(18.6)	(25.7)	(126.2)	(115.2)	(8.8)
Minority Interest	(6.7)	(6.7)	(5.6)	(17.2)	(17.7)	(27.9)	(28.5)	2.3
Reported Profit	142.1	109.9	142.7	29.8	0.4	390.1	457.2	17.2
Adj. Net Profit	156.7	113.0	151.1	33.7	(3.6)	422.0	453.5	7.5
EPS (sen)	9.2	7.1	9.2	29.8	0.2	25.2	29.5	17.0
Adj EPS (sen)	10.1	7.3	9.7	33.6	(3.8)	27.3	29.3	7.3
DPS (sen)	4.3	4.0	5.0	25.0	15.4	7.7	9.0	17.4
				%-pts	%-pts			%-pts
EBIT Margin (%)	19.4	15.2	18.1	2.9	(1.3)	15.6	16.4	0.8
~ Manufacturing	11.4	9.6	9.3	(0.3)	(2.1)	9.8	10.2	0.3
~ Property	33.8	27.5	33.5	6.0	(0.3)	30.8	29.8	(1.1)
PBT Margin (%)	19.3	15.2	18.0	2.7	(1.3)	15.5	16.4	1.0
Net Margin (%)	16.4	11.6	15.6	4.0	(0.8)	12.0	12.4	0.4
Tax rate (%)	19.2	21.7	15.1	(6.6)	(4.1)	23.2	19.2	(4.0)

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

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY22 EPS PER 20x	3,841.9
Property	CY22 EPS PER 14x	4,709.4
Equity value (RMmn)		8,551.3
+ Proceed from Warrant Conversion (RMmn)		443.7
<b>Total Equity Value (RMmn)</b>		<b>8,994.9</b>
Share cap (mn)		1,547.6
+ Warrant Conversion (mn)		103.2
Enlarged Share Cap (mn)		1,650.8
<b>Target Price (RM)</b>		<b>5.45</b>

### 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
<b>Scoring</b>	★★★★	★★★★★	★★★★	★★★★
<b>Remark</b>	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, September 30, 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**

TA SECURITIES HOLDINGS BERHAD (14948-M)  
A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my