

# Scientex Berhad

**TP: RM7.00** (-16.6%)

*Expands Its Footprints in Melaka*
*Last Traded: RM8.40*
**Sell**

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Yesterday, Scientex Berhad announced a propose acquisition of two pieces of freehold agriculture lands in Durian Tunggal, Melaka with a total area of 209 acres for a total cash consideration of RM68.2mn (RM7.50/sq.ft.). We are positive long term as this is expected to strengthen its existing market presence as a property developer in Melaka. We make no change to earnings forecasts. Maintain Sell on Scientex with unchanged target price of RM7.00/share based on SOP valuation.

## Projects in Durian Tunggal

To recap, Scientex has an existing property development project in Durian Tunggal with total area of 209 acres. in Durian Tunggal. Since its maiden township launch in end-2017, Scientex has launched 660 units of affordable landed homes including the recently launched 116 units of affordable landed homes under the Malacca Affordable Housing (RMM) programme in mid-2018. We believe the estimated Gross Development Value in the existing Durian Tunggal township is RM400mn with RM200mn available for future developments.

The proposed lands in Durian Tunggal are located opposite of existing Scientex Durian Tunggal township. Furthermore, the lands are in close proximity to major highways in the area and various famous tourists' spots. The land is also 9KM away from Ayer Keroh Toll.

## Plans for Mixed Development

Management guided that Scientex plans to build mixed development projects in the new Durian Tunggal lands. For the time being, there is no GDV guided by management as the acquisition is still at a preliminary stage. However, we believe that the GDV will be similar to its existing Durian Tunggal developments. Hence, the acquisition is expected to increase Scientex's Durian Tunggal development projects to a total of RM800mn in GDV.

## Price is Fairly Valued

According to various online resources, current market price of freehold agricultural lands in Durian Tunggal are priced at RM9.00/sq.ft. Hence, we find that Scientex acquisition price of RM7.50/sq.ft. which is a 16.8% discount to retail market value is fair given the huge landbank size.

## Impact

We make no change to earnings forecasts. We believe the acquisition will be financed by internally generated funds and 80% from borrowings. With an estimated gearing of 0.4x for FY18, we believe that Scientex will be able to bear the costs to finance the land.

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	488.9
Market Cap (RMmn)	4,107.0
Par value (RM)	0.5
52-wk Hi/Lo (RM)	9.85/6.51
12-mth Avg Daily Vol ('000 shrs)	239.1
Estimated Free Float (%)	31.6
Beta	0.82
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	9.7
Lim Teck Meng Sdn Bhd	8.4
TM Lim Sdn Bhd	7.9

### Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	267.8	281.1
Consensus	273.5	318.3
TA's / Consensus (%)	97.9	88.3
Previous Rating	Sell (Maintained)	

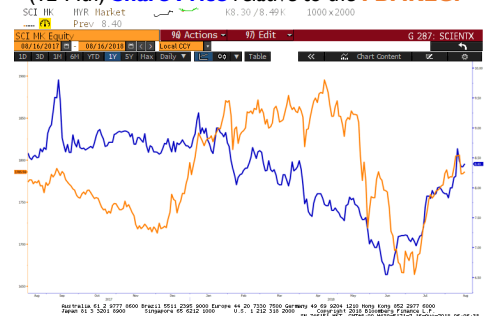
### Financial Indicators

	FY18	FY19
Net debt/ equity (%)	41.2	41.6
ROE (%)	14.9	14.5
ROA (%)	8.8	8.5
NTA/Share (RM)	3.6	3.9
Price/ NTA (x)	2.3	2.1

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	9.5	3.4
3 mth	7.7	(3.9)
6 mth	0.8	(2.9)
12 mth	(2.1)	0.6

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



Source: Bloomberg

**Recommendation**

Maintain our Sell call on Scientex with unchanged target price of RM7.00/share based on SOP valuation.

**Table 1 : Valuation Method**

Sum-of-Parts	PAT (RMmn)		CY19	Target PER (x)	Segment Value (RMmn)
	FY19	FY20			
Manufacturing	140.6	151.2	145.0	17	2,502.0
Property	140.6	151.2	145.0	6	922.2
					Equity value (RMmn)
					3,424.2
					Share cap (mn)
					488.9
					<b>Target Price (RM)</b>
					<b>7.00</b>

**Earnings Summary**

**PROFIT & LOSS**

FYE July (RMmn)	FY16	FY17	FY18E	FY19F	FY20F
Revenue	2,201.0	2,403.2	2,525.1	2,680.6	2,953.6
Gross Profit	440.2	493.2	538.7	567.4	586.5
EBITDA	367.1	388.3	446.0	481.0	508.0
EBIT	312.6	325.1	375.1	396.9	408.8
Reported PBT	306.3	318.0	327.6	343.9	370.0
Reported net profit	240.9	255.9	267.8	281.1	302.5
Adj. net profit	240.9	255.9	267.8	281.1	302.5
Basic EPS (sen)	106.0	54.8	54.8	57.5	61.9
Adj. EPS (sen)	49.3	52.3	54.8	57.5	61.9
GDPS (sen)	16.0	17.0	18.0	19.0	20.0

**CASH FLOW**

FYE July (RMmn)	FY16	FY17	FY18E	FY19F	FY20F
PBT	306.3	318.0	327.6	343.9	370.0
Adjustments for:					
Depreciation of PPE	54.5	63.2	70.9	84.1	99.2
Finance costs	13.7	14.0	53.9	59.1	44.4
Others	16.7	2.2	-	-	-
Op profit before WC	391.3	397.4	452.4	487.0	513.6
(+/-) in inventories	(6.7)	(31.5)	(8.6)	(10.9)	(19.2)
(+/-) in receivables	(34.9)	(68.9)	(21.6)	(27.6)	(48.4)
+/- in payables	68.0	16.5	21.3	27.1	47.7
Income Tax Paid	(65.4)	(69.6)	(59.8)	(62.8)	(67.5)
<b>CFO</b>	<b>380.3</b>	<b>322.8</b>	<b>425.7</b>	<b>412.9</b>	<b>426.1</b>
Purchase of PPE	(281.4)	(127.2)	(260.0)	(300.0)	(300.0)
Others	(279.1)	(126.2)	-	-	-
<b>CFI</b>	<b>(560.6)</b>	<b>(253.4)</b>	<b>(260.0)</b>	<b>(300.0)</b>	<b>(300.0)</b>
Net term loans	117.6	(7.8)	270.0	70.0	(200.0)
Dividend paid	(49.8)	(103.0)	(122.2)	(132.0)	(141.8)
Finance costs paid	(17.4)	(18.6)	(53.9)	(59.1)	(44.4)
Others	139.7	151.2	-	-	-
<b>CFF</b>	<b>190.2</b>	<b>21.8</b>	<b>93.8</b>	<b>(121.1)</b>	<b>(386.2)</b>
Net Cash Flow	10.0	91.3	259.5	(8.2)	(260.1)

**BALANCE SHEET**

FYE July (RMmn)	FY16	FY17	FY18E	FY19F	FY20F
PPE	952.5	1,012.6	1,201.7	1,417.6	1,618.3
Deferred tax assets	2.7	18.9	18.9	18.9	18.9
Goodwill	12.1	12.1	12.1	12.1	12.1
Others	520.7	581.1	581.1	581.1	581.1
<b>Non-current assets</b>	<b>1,488.0</b>	<b>1,624.7</b>	<b>1,813.8</b>	<b>2,029.7</b>	<b>2,230.5</b>
Property dev. costs	174.7	165.1	165.1	165.1	165.1
Inventories	137.0	168.8	177.3	188.3	207.4
Trade & Other receivables	349.1	426.4	448.1	475.7	524.1
Tax recoverable	1.7	0.9	0.9	0.9	0.9
Cash and equivalents	100.6	191.9	451.4	443.3	183.2
<b>Current Assets</b>	<b>763.1</b>	<b>953.1</b>	<b>1,242.8</b>	<b>1,273.2</b>	<b>1,080.7</b>
<b>Assets</b>	<b>2,251.1</b>	<b>2,577.8</b>	<b>3,056.6</b>	<b>3,302.9</b>	<b>3,311.2</b>
Borrowings	238.9	166.5	436.5	606.5	406.5
Retirement benefits	23.8	27.8	27.8	27.8	27.8
Deferred tax liabilities	35.0	35.9	35.9	35.9	35.9
<b>Non Current Liabilities</b>	<b>297.7</b>	<b>230.2</b>	<b>500.2</b>	<b>670.2</b>	<b>470.2</b>
Borrowings	232.7	301.2	301.2	201.2	201.2
Trade & other payables	431.4	419.4	440.7	467.9	515.5
Others	47.6	23.0	23.0	23.0	23.0
<b>Current liabilities</b>	<b>711.8</b>	<b>743.7</b>	<b>764.9</b>	<b>692.1</b>	<b>739.7</b>
Share capital	115.0	411.8	453.8	453.8	453.8
Reserves	1,060.2	1,123.6	1,269.2	1,418.3	1,579.0
Shareholders' Funds	1,175.2	1,535.5	1,723.0	1,872.1	2,032.8
MI	66.5	68.4	68.4	68.4	68.4
<b>Equity</b>	<b>1,241.7</b>	<b>1,603.9</b>	<b>1,791.5</b>	<b>1,940.6</b>	<b>2,101.2</b>
<b>Equity &amp; Liabilities</b>	<b>2,251.1</b>	<b>2,577.8</b>	<b>3,056.6</b>	<b>3,302.9</b>	<b>3,311.2</b>

**FINANCIAL RATIOS**

FYE July (RMmn)	FY16	FY17	FY18E	FY19F	FY20F
P/E (x)	17.1	16.1	15.3	14.6	13.6
P/BV (x)	3.3	2.6	2.3	2.1	2.0
Dividend yield (%)	1.9	2.0	2.1	2.3	2.4
ROE (%)	19.4	16.0	14.9	14.5	14.4
ROA (%)	10.7	9.9	8.8	8.5	9.1
EBIT margin (%)	14.2	13.5	14.9	14.8	13.8
Net margin (%)	10.9	10.6	10.6	10.5	10.2
Gearing (x)	0.4	0.3	0.4	0.4	0.3

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### **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.

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As of Thursday, August 16, 2018, the analyst, Damia Othman, 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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