

Scientex Berhad

Acquiring Landbank in Melaka

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SCIENTX entered into a SPA with Real Golden Development Sdn Bhd to acquire 208.9ac freehold agricultural land in Melaka for RM68.2m. Project details are minimal with development plans and GDV pending finalisation, but we estimate a GDV of RM1.0b (6.8% land cost to GDV ratio). We are neutral in the near term on minimal impact to earnings, but mildly positive in the longer run. Maintain UNDERPERFORM but increase TP to RM7.40.

Acquiring land in Melaka. SCIENTX via Scientex Heights Sdn Bhd (a wholly-owned subsidiary of Scientex Quatari Sdn Bhd which is a wholly-owned subsidiary of SCIENTX) entered into an SPA with Real Golden Development Sdn Bhd (RGSB) to acquire two pieces of freehold agricultural land measuring 208.9ac for RM68.2m, implying a price of RM7.50 psf. The land is slated for a mixed development project, but further details such as total GDV, development cost, commencement and completion dates are too preliminary to ascertain. The acquisition will be funded by internally generated funds or bank borrowings, and is expected to be completed in 1HCY19 (FY19).

Neutral in the near term, mild positive in the longer run. We were fairly surprised by the management's move to further increase landbank in Melaka, but we are neutral on the exercise as we do not expect a significant impact to earnings in the near term. We are unable to derive a direct comparable for the said land due to minimal historical references. However, historical transactions for mixed land titles (i.e. a combination of agricultural, industrial and commercial) in Melaka ranges from RM23-49psf. Based on our assumptions of affordable residential units and a mixed development township, price per unit of RM400k on 12 units per acre, we derive a potential GDV of RM1.0b (<10% of Group's total GDV of c.RM11b), and land cost to GDV of 6.8% which we deem as decent. However, note that land cost could increase on re-zoning and conversion premiums (from agricultural land to commercial). As project details are still pending finalisation of development plans and potential GDV, land cost to GDV may change subject to the residential to commercial mix and pricing strategies.

Outlook. SCIENTX's is focused on ramping up utilisation, targeting 70% over the next few years (vs. c.60% currently), mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. FY18 CNP growth will be driven by increased manufacturing capacity (+44% YoY) to 455k MT p.a. While we do not expect additional capacity in FY19, growth is premised on; (i) increased utilisation rates for the manufacturing segment in FY18-19 of 62-65%, and (ii) full-year contribution from KHPI in FY19. All in, we are expecting launches of RM700-800m in FY18-19.

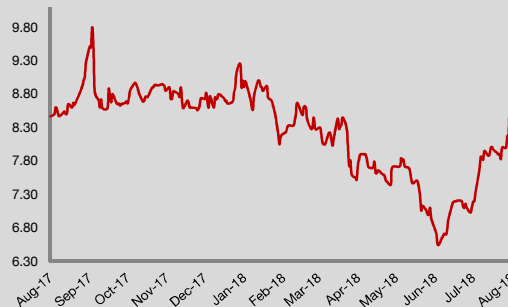
Maintain FY18-19E CNP of RM256-293m. As the project details and date are yet to be finalised, we anticipate launching by FY20-21. As such, we leave FY18-19E numbers unchanged. FY18E net gearing will be maintained at 0.19x while FY19 net gearing will increase marginally to 0.15x (from 0.14x).

Maintain UNDERPERFORM but increase TP to RM7.40 (from RM6.40) on increased property sector valuations in tandem with peers. Our TP is based on our Sum-of-Parts (SoP) FY19E valuations with; (i) a higher PER of 10.0x (from 6.8x PER) for the Property segment, which is at a 15% discount to small-mid-cap property players and Johor exposed peers under our coverage PER due to SCIENTX's exposure in the challenging Johor market after taking into consideration recent recovery in overall share prices, and (ii) an unchanged 14.0x applied PER for the manufacturing segment. We are comfortable with our UNDERPERFORM call as foreseeable upsides have been accounted for.

UNDERPERFORM ↔

Price : RM8.40
Target Price : RM7.40 ↑

Share Price Performance



KLCI	1,785.94
YTD KLCI chg	-0.6%
YTD stock price chg	-3.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,107.0
Shares Outstanding	488.9
52-week range (H)	9.85
52-week range (L)	6.51
3-mth avg daily vol:	227,582
Free Float	61%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	21.4%
Scientex Leasing Sdn Bhd	9.7%
Scientex Infinity Sdn Bhd	8.4%

Summary Earnings Table

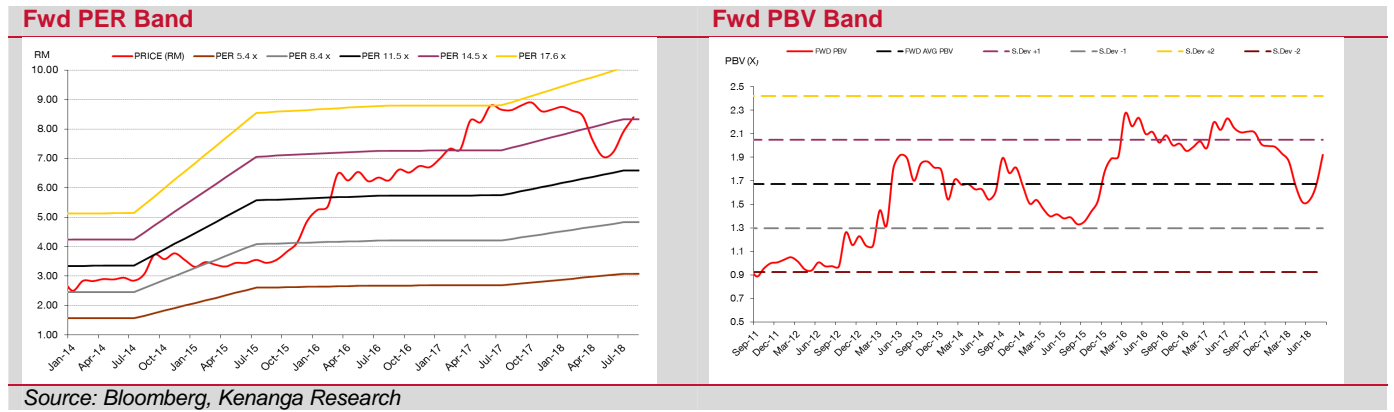
FYE Jul (RM m)	2017A	2018E	2019E
Turnover	2403.2	2540.5	3216.1
EBIT	325.1	329.8	377.6
PBT	318.0	327.5	374.7
Net Profit (NP)	255.9	255.7	292.7
Core NP*	255.2	255.7	292.7
Consensus (NP)	n.a.	273.5	318.3
Earnings Revision	n.a.	n.a	n.a
Core EPS (sen)	50.0	50.1	57.4
Core EPS growth (%)	2.9	0.2	14.5
NDPS (sen)	15.2	15.0	17.2
BVPS (RM)	3.00	4.03	4.77
Core PER	16.8	16.8	14.6
PBV (x)	2.8	2.1	1.8
Net Gearing (x)	0.21	0.19	0.15
Net Div. Yield (%)	1.8	1.8	2.1

OTHER POINTS

Risks to our call include; (i) lower-than-expected resin cost, (ii) stronger product demand from overseas, and (iii) stronger-than-expected property sales, (iv) foreign currency risk from weakening Ringgit.

Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2015A	2016A	2017A	2018E	2019E	FY Jul (RMm)	2015A	2016A	2017A	2018E	2019E
Revenue	1801.7	2201.0	2403.2	2540.5	3216.1	Growth (%)					
EBITDA	268.8	367.1	388.3	438.2	546.7	Turnover	13.3	22.2	9.2	5.7	26.6
Depreciation	-43.8	-54.5	-63.2	-108.4	-169.1	EBITDA	17.1	36.6	5.8	12.8	24.8
Operating Profit	225.0	312.6	325.1	329.8	377.6	Operating	18.6	38.9	4.0	1.4	14.5
Interest Exp	-8.3	-13.7	-14.0	-9.2	-14.6	PBT	18.6	38.6	3.8	3.0	14.4
Associate	4.2	7.4	6.9	6.9	11.7	Net Profit	6.6	52.3	6.2	-0.1	14.5
Exceptionals	9.0	-7.1	4.0	0.0	0.0	Core Net	0.5	66.2	2.9	0.2	14.5
PBT	221.0	306.3	318.0	327.5	374.7						
Taxation	-58.9	-59.8	-58.0	-65.5	-74.8						
Minority Interest	-3.9	-5.7	-4.1	-6.3	-7.2	Profitability					
Net Profit	158.2	240.9	255.9	255.7	292.7	EBITDA	14.9	16.7	16.2	17.2	17.0
Core Net Profit	149.2	248.0	251.9	255.7	292.7	Operating	12.5	14.2	13.5	13.0	11.7
						PBT Margin	12.3	13.9	13.2	12.9	11.7
						Net Margin	8.8	10.9	10.6	10.1	9.1
						Core Net	8.3	11.3	10.6	10.1	9.1
						Eff. Tax Rate	26.6	19.5	18.2	20.0	20.0
						ROA	10.4	10.5	10.2	8.0	8.3
						ROE	19.1	20.0	18.9	14.2	13.0
						DuPont					
						Net Margin	8.3	11.3	10.6	10.1	9.1
						Assets T/O (x)	1.1	1.0	0.8	0.8	0.8
						Leverage Fac	2.0	2.1	1.9	1.8	1.7
						ROE (%)	18.0	23.4	18.9	14.2	13.0
						Leverage					
						Debt/Asset (x)	0.1	0.2	0.2	0.2	0.1
						Debt/Equity	0.2	0.4	0.4	0.2	0.2
						N.Cash/(Debt)	134.8	371.0	275.8	384.3	369.1
						Net Debt/Eq	0.14	0.32	0.16	0.19	0.15
						Valuations					
						EPS (sen)	29.3	48.6	50.0	50.1	57.4
						NDPS (sen)	22.0	16.0	15.2	15.0	17.2
						BV (RM)	1.85	2.55	3.00	4.03	4.77
						PER	28.7	17.3	16.8	16.8	14.6
						Net Div. Yield	2.5	2.6	1.9	1.8	1.8
						PBV	4.5	3.3	2.8	2.1	1.8
						EV/EBITDA	16.9	13.8	10.3	10.9	8.7

Source: Kenanga Research



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16 August 2018

Peer Comparison

Name	Last Price	Market	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)				Cap (RM'm)	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.66	320.0	Y	04/2019	9.3%	13.8%	-29.9%	39.8%	23.0	32.7	23.4	1.8	1.3	5.1%	1.5%	1.30	UP
SCIENTEX BHD	8.40	4,107.0	Y	07/2018	5.7%	26.6%	0.2%	14.5%	16.8	16.8	14.6	2.8	2.1	14.2%	1.8%	7.40	UP
SLP RESOURCES BHD	1.32	418.4	Y	12/2018	16.5%	8.6%	16.2%	8.8%	22.6	19.5	17.9	2.5	2.3	12.3%	2.1%	1.20	MP
THONG GUAN INDUSTRIES BHD	2.96	403.2	Y	12/2018	0.2%	2.9%	-20.6%	3.1%	11.3	14.2	13.8	1.1	1.2	8.7%	2.4%	1.85	UP
TOMYPAK HOLDINGS	0.775	325.0	N	12/2018	26.1%	23.8%	-19.8%	40.9%	37.3	46.7	33.0	2.2	1.7	4.2%	1.5%	0.510	UP
Simple Average					11.6%	15.1%	-10.8%	21.4%	22.2	26.0	20.6	2.1	1.7	8.9%	1.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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