

# Scientex Berhad

Results Within Expectations

**TP: RM7.00 (+4.5%)**

Last Traded: RM6.70

**Hold**

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## Review

- Scientex Berhad's 9MFY18 earnings came in within our estimates at 75% but below consensus at 64% of full-year forecasts. For this quarter, the company declared a single tier interim dividend of 10sen/share, which was 4 sen higher than the previous year.
- Manufacturing.** 9MFY18 operating profit increased by 27.1% YoY to RM100.6mn due to better export sales performance. Note that export sales accounted for 77% of the Manufacturing division. QoQ, 3QFY18 operating profit improved by 8.6% to RM34.3mn despite revenue reduced slightly by less than 1.0% to RM452.1mn. This was due to better product mix. Note that Scientex has an utilisation rate of close to 65%. It aims to reach 70% by FY20 out of the total capacity of 455,000 tonnes/year.
- Property.** 9MFY18 operating profit declined by 3.0% YoY to RM155.6mn as revenue declined by 1.3% to RM516.0mn. The decline was mainly due to slower progress billing as those new projects were in early stages of construction progress. QoQ, operating profit declined by 18.1% to RM43.7mn as revenue reduced by 17.0% QoQ to RM148.1mn due to the same reasons above. Note that projects launched in Taman Scientex Durian Tunggal, Melaka and Scientex Meru were all in early stages of construction progress.

## Impact

- We make no change to our earnings forecasts.

## Outlook

- To recap, we believe that over 50% of Scientex's production costs come from fossil fuel resin for the Manufacturing division. Moving forward, industry experts believe that price of fossil fuel resin to rise in tandem with the increase in crude oil price as well as demand for resin. Based on our sensitivity analysis, every USD5/bbl increase in resin price would reduce our earnings forecasts by 18.5% for FY18 ceteris paribus.
- Within the Property division, Scientex recorded property sales of RM413.8mn as of 9MFY18. The group has launched project worth GDV of RM222.5mn in 3QFY18. Management has guided that the group will continue to look for opportunities to acquire land and hope to expand to new areas while still focusing on the affordable housing segment.
- With the newly elected government, zero-rated Goods and Services Tax is expected to reduce the costs of operations for the group. While the increase in minimum wage is expected to have minimal impact on the group's staff costs, which account for approximately 6.5% of cost of sales within the Manufacturing division.

## Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	488.9
Market Cap (RMmn)	3,280.5
Par value (RM)	0.50
52-wk Hi/Lo (RM)	9.85/6.51
12-mth Avg Daily Vol ('000 shrs)	237.6
Estimated Free Float (%)	40.0
Beta	0.9
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	9.7
Lim Teck Meng Sdn Bhd	7.9
TM Lim Sdn Bhd	5.1

## Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	267.8	281.1
Consensus	312.8	366.8
TA's / Consensus (%)	85.6	76.6
Previous Rating	Hold (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)	1.8	1.7

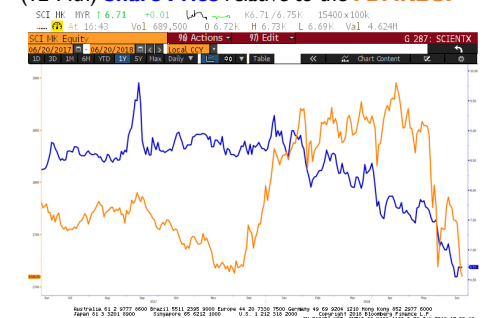
## Scorecard

	% of FY18	
vs. TA	75	Within
vs. Consensus	64	Below

## Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(12.9)	(7.8)
3 mth	(17.4)	(8.4)
6 mth	(23.3)	(2.4)
12 mth	(19.6)	(3.7)

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



Source: Bloomberg

### Valuation

- We roll forward our valuation base year to CY19. Using a lower PE of 17x (19x previously) for the manufacturing division, we arrive at a SOP valuation of RM7.00/share (see Table 3). We believe that the stock is fairly valued after considering increase in demand for flexible packaging products, rising cost pressure and slowdown in progress billing.

**Maintain Hold**

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

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
Adj. PBT	312.0	322.0	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/Diluted 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
PER	(x) 6.3	12.2	12.3	11.7	10.8
Net Dividend	(sen) 16.0	17.0	18.0	19.0	20.0
Dividend Yield	(%) 2.4	2.5	2.7	2.8	3.0

**Table 2: 9MFY18 Results Analysis (RMmn)**

FYE July (RM'mn)	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	636.2	634.8	600.2	(5.4)	(5.7)	1,757.1	1,893.6	7.8
~ Manufacturing	442.8	456.4	452.1	(0.9)	2.1	1,234.4	1,377.6	11.6
~ Property	193.4	178.3	148.1	(17.0)	(23.4)	522.7	516.0	(1.3)
Interest Expense	(3.8)	(2.3)	(2.1)	(5.0)	(43.1)	(10.9)	(6.7)	(38.0)
Interest Income	1.0	2.7	1.3	(50.4)	29.1	5.0	5.7	14.4
Depreciation	15.8	17.1	17.1	0.1	8.3	46.4	51.5	11.0
EBITDA	104.0	102.0	94.7	(7.1)	(8.9)	285.9	306.2	7.1
Operating Profit	88.2	84.9	77.6	(8.6)	(12.0)	239.6	254.8	6.3
~ Manufacturing	25.2	31.6	34.3	8.6	36.4	79.1	100.6	27.1
~ Property	63.0	53.3	43.7	(18.1)	(30.7)	160.4	155.6	(3.0)
Reported PBT	85.4	85.4	76.8	(10.0)	(10.1)	233.7	254.8	9.0
Taxation	(18.0)	(16.5)	(14.3)	(13.0)	(20.5)	(47.0)	(50.0)	6.4
MI	(0.9)	(0.9)	(1.4)	46.9	47.4	(3.0)	(3.3)	10.1
Reported Profit	66.5	68.0	62.5	(8.1)	(6.0)	183.7	204.8	11.5
Adj. Net Profit	65.6	67.1	61.1	(8.8)	(6.8)	180.8	201.5	11.5
EPS (sen)	14.3	14.1	12.5	(11.0)	(12.8)	39.8	41.5	4.5
Adj EPS (sen)	14.1	13.9	12.2	(11.8)	(13.5)	39.1	40.9	4.5
DPS (sen)	6.0	-	10.0	nm	nm	6.0	10.0	66.7
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.9	13.4	12.9	(0.4)	(0.9)	13.6	13.5	(0.2)
~ Manufacturing	5.7	6.9	7.6	0.7	1.9	6.4	7.3	0.9
~ Property	32.6	29.9	29.5	(0.4)	(3.1)	30.7	30.2	(0.5)
PBT Margin (%)	13.4	13.5	12.8	(0.7)	(0.6)	13.3	13.5	0.2
Net Margin (%)	10.3	10.6	10.2	(0.4)	(0.1)	10.3	10.6	0.4
Tax rate (%)	21.1	19.3	18.6	(0.6)	(2.4)	20.1	19.6	(0.5)

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

Sum-of-Parts	PAT (RMmn)			Target PER	Segment Value
	FY19	FY20	CY19	(x)	(RMmn)
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>

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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, June 21, 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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