

COMPANY RESULTS

Scientex (SCI MK)

4QFY18: Ending The Year On A High Note

4QFY18 core net profit grew 79.7% qoq and 45.5% yoy on the maiden contribution from KHPI and normalisation of its property division. We lift our FY19-20 forecasts by 4% and 2% respectively to reflect its manufacturing unit's margin improvement and property unit's huge revenue jump. We now expect Scientex to fetch a better valuation in tandem with the re-rating of sizeable growth stocks with good earnings visibility and proven execution. Maintain BUY and lift our target price to RM10.41.

4QFY18 RESULTS

Year to 31 Jul (RMm)	4QFY18	qoq % chg	yoy % chg	FY18	yoy % chg
Turnover	733.2	22.2	13.5	2,626.8	9.3
Manufacturing	527.0	16.6	21.1	1,904.6	14.1
Property	206.2	39.3	(2.2)	722.2	(1.6)
EBIT	108.2	38.7	26.5	364.4	12.1
Manufacturing	26.3	(23.3)	39.6	126.9	29.5
Property	81.9	87.4	22.8	237.5	4.6
Finance costs	(4.0)	86.9	27.3	(10.8)	(23.4)
PBT	106.9	39.2	26.8	361.7	13.7
Core net profit	100.4	79.7	45.5	287.4	13.8
Margins (%)	+/- ppt	+/- ppt	(%)	+/- ppt	
EBIT	14.8	1.8	1.5	13.9	0.3
-Manufacturing	5.0	(2.6)	0.7	6.7	0.8
-Property	39.7	10.2	8.1	32.9	1.9
PBT	14.6	1.8	1.5	13.8	0.5
Core net profit	13.7	4.4	3.0	10.9	0.4

Source: Scientex, UOB Kay Hian

RESULTS

• **Results in line with expectations.** Excluding RM12.1m of net forex loss arising from higher export sales and a weaker ringgit, 4QFY18 core net profit came in at RM100.4m (+79.7% qoq, 45.5% yoy). This brings full-year FY18 core profit to RM287.4m (+13.8% yoy), accounting for 99% and 105% of our and street's forecasts respectively. The strong set of results can be primarily attributed to: a) improved manufacturing division amid maiden contribution from Klang Hock Plastic Industries (KHPI) of RM5.7m and better product mix, and b) an exceptionally high margin at the property division, making up for the previous quarter's weaker-than-expected margins (timing recognition).

KEY FINANCIALS

Year to 31 Jul (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,043	2,627	3,647	4,180	4,630
EBITDA	388	436	568	619	686
Operating profit	325	364	494	546	614
Net profit (rep./act.)	256	290	378	419	474
Net profit (adj.)	267	287	378	419	474
EPS (sen)	55.2	59.5	78.2	86.7	98.0
PE (x)	15.5	14.4	11.0	9.9	8.7
P/B (x)	2.7	2.3	2.0	1.8	1.9
EV/EBITDA (x)	12.9	11.5	8.8	8.1	7.3
Dividend yield (%)	1.9	2.1	2.7	3.0	14.9
Net margin (%)	12.5	11.0	10.4	10.0	10.2
Net debt/(cash) to equity (%)	18.0	43.2	14.7	10.4	17.3
Interest cover (x)	27.7	40.6	20.1	21.7	24.1
ROE (%)	18.9	17.6	19.9	19.3	21.1
Consensus net profit	-	-	318	364	-
UOBKH/Consensus (x)	-	-	1.19	1.15	-

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM8.57
Target Price	RM10.41
Upside	+21.4%
(Previous TP	RM8.60)

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):	488.9
Market cap (RMm):	4,190.1
Market cap (US\$m):	1,012.6
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

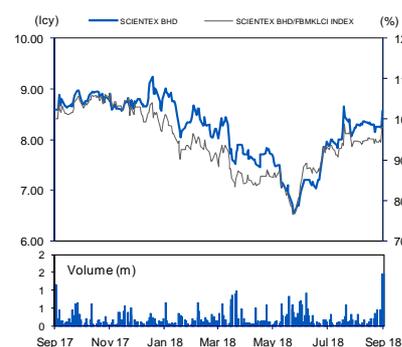
52-week high/low	RM9.25/RM6.55			
1mth	3mth	6mth	1yr	YTD
4.4	27.7	4.3	(1.7)	(1.0)

Major Shareholders

Scientex Holdings Sdn Bhd	21.37
Scientex Leasing Sdn Bhd	9.65
Scientex Infinity Sdn Bhd	8.39

FY19 NAV/Share (RM)	4.19
FY19 Net Debt/Share (RM)	0.62

PRICE CHART



Source: Bloomberg

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- 4QFY18 manufacturing EBIT surged 39.6% yoy** to RM26.3m on the back of: a) maiden contribution from the newly-acquired KHPI, which began contributing from May 18, b) higher utilisation rate of about 60% (excluding KHPI) in FY18 (FY17: 55%), and c) better product mix and margin amid higher export sales and ASP fetched. Consequently, manufacturing EBIT margin rose marginally by 0.7ppt yoy to 5.0%. Note that KHPI generated RM5.7m in profit for the quarter. Separately, the utilisation rate at the new biaxially-oriented polypropylene (BOPP) plant reached over 50% in 4QFY18, and we believe that ASP has also improved as management has embarked on an evolved strategy to focus on margins rather than volume. We understand that the BOPP plant has broken even.

- Outperformance at property segment post last quarter's dismay.** Property EBIT rose 22.8% yoy to RM81.9m mainly on: a) spillover from sales which could not be recognised in 3QFY18 due to the longer-than-expected timeframe in attaining regulatory approvals for some property projects (due to distractions during GE14), and b) improved efficiency that led to lower material costs. Scientex launched new properties worth RM1,215m in GDV in FY18 with 85% of it comprising affordable housing that costs less than RM500k. Moving forward, management intends to maintain its property EBIT margin of approximately 30%.

STOCK IMPACT

- Manufacturing utilisation rate expected to improve to 70% in FY19.** The company targets to raise utilisation rate to around 70% in FY19 from FY18's 60%, mainly attributed to the expected higher utilisation from both consumer and industrial packaging. We understand that the utilisation rates of stretch film and custom film (excluding BOPP) stood at approximately 85% and 70% respectively as of end-Apr 18.

- BOPP plant has started to break even.** Positively, after some delays from its original plan to breakeven by end-FY17, we gather that the new BOPP plant has begun to breakeven in 1QFY19 with utilisation rate at >50%. Essentially, the delay was due to Scientex's change of strategy to focus on higher-margin orders and forgo some high volume and penetrative pricing orders. Recall that the BOPP plant saw its 60,000MT capacity fully installed after the second line came on board in Dec 16, with one-third of production supplied to Futamura Japan (which owns a stake in Scientex), one-third to the domestic market, and the rest to Southeast Asia.

- Property division's FY19 revenue to be lifted by strong sales achieved in FY18.** As FY19 should replicate FY18's achievement of having 70% take-up rates for RM1.2b worth of property launches, revenue recognised in FY19 is bound to jump from RM722m in FY18 to above RM900m in FY19. However, we conservatively forecast EBIT margin to ease to around 30% from FY18's exceptionally high 32.9%.

EARNINGS REVISION/RISK

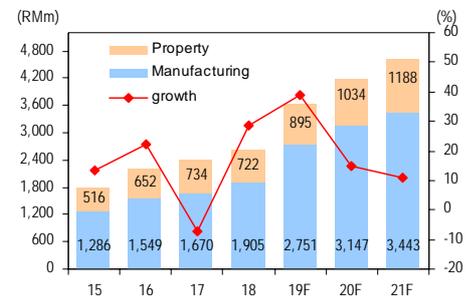
- We have raised our FY19-20 earnings forecasts by 4% and 2% respectively as we take into account better utilisation rate at its manufacturing division. We also introduce FY21 numbers.

VALUATION/RECOMMENDATION

- Maintain BUY with higher target price of RM10.41** (previously RM8.60) as we roll forward our valuation to FY20 from FY19 and switch our valuation methodology to PE based. Our target price implies 12x FY20F PE. This valuation methodology acknowledges the likely valuation re-rating of sizeable growth stocks with good earnings visibility and proven execution.

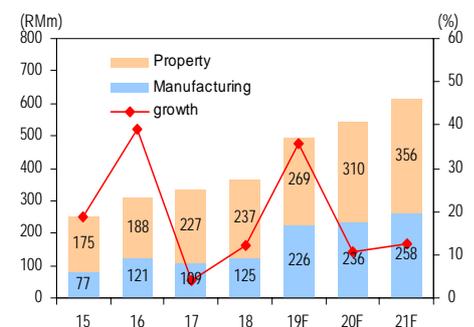
- Scientex's solid long-term prospects** can be attributed to its proven execution power which is reflected in its earnings growth over the years. Moving forward, it intends to achieve a long-term aspiration of increasing its manufacturing capacity to 1m MT p.a. (currently approximately 230k MT) and build 50,000 homes (currently 17,000) by FY28.

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

5 YEAR FORWARD PE BAND



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Net turnover	2,627	3,647	4,180	4,630
EBITDA	436	568	619	686
Deprec. & amort.	72	73	73	72
EBIT	364	494	546	614
Associate contributions	8	8	8	8
Net interest income/(expense)	(11)	(28)	(29)	(29)
Pre-tax profit	362	474	526	594
Tax	(68)	(90)	(100)	(113)
Minorities	(4)	(6)	(6)	(7)
Net profit	290	378	419	474
Net profit (adj.)	287	378	419	474

BALANCE SHEET

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,151	1,150	1,137	1,126
Other LT assets	1,018	1,015	1,016	1,017
Cash/ST investment	172	652	709	572
Other current assets	1,023	1,002	1,237	1,318
Total assets	3,364	3,819	4,099	4,032
ST debt	610	650	650	650
Other current liabilities	514	683	663	732
LT debt	324	300	300	300
Other LT liabilities	82	82	82	82
Shareholders' equity	1,764	2,028	2,322	2,180
Minority interest	70	76	82	89
Total liabilities & equity	3,364	3,819	4,099	4,033

CASH FLOW

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Operating	392	578	243	542
Pre-tax profit	362	474	526	594
Tax	(80)	(90)	(100)	(113)
Deprec. & amort.	72	73	73	72
Working capital changes	31	121	(255)	(12)
Other operating cashflows	8	0	0	1
Investing	(703)	(80)	(60)	(60)
Capex (growth)	(65)	(80)	(60)	(60)
Investments	(147)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(491)	0	0	0
Financing	291	(18)	(127)	(619)
Dividend payments	(58)	(113)	(126)	(616)
Issue of shares	0	0	0	1
Proceeds from borrowings	365	0	0	1
Loan repayment	0	16	0	0
Others/interest paid	(16)	79	(1)	(5)
Net cash inflow (outflow)	(20)	480	56	(137)
Beginning cash & cash equivalent	192	172	652	709
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	172	652	709	572

KEY METRICS

Year to 31 Jul (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	16.6	15.6	14.8	14.8
Pre-tax margin	13.8	13.0	12.6	12.8
Net margin	11.0	10.4	10.0	10.2
ROA	9.8	10.5	10.6	11.7
ROE	17.6	19.9	19.3	21.1
Growth				
Turnover	28.6	38.8	14.6	10.8
EBITDA	12.3	30.2	9.0	10.9
Pre-tax profit	13.7	31.1	10.9	13.0
Net profit	13.3	30.5	10.9	13.0
Net profit (adj.)	7.7	31.5	10.9	13.0
EPS	7.7	31.5	10.9	13.0
Leverage				
Debt to total capital	33.8	31.1	28.3	29.5
Debt to equity	53.0	46.8	40.9	43.6
Net debt/(cash) to equity	43.2	14.7	10.4	17.3
Interest cover (x)	40.6	20.1	21.7	24.1

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