

17 Dec 2019

Buy

Price
RM9.53

Target Price
RM10.70

Market Data

Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,910.8
52-week high/low (RM)	9.87 / 8.11
Avg daily turnover (RMm)	2.9
KLCI (pts)	1,577.0

Source: Bloomberg, KAF

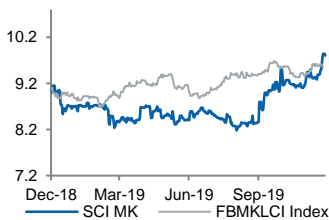
Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.1%)
Scientex Leasing Sdn Bhd	(9.2%)
Scientex Infinity Sdn Bhd	(8.2%)
Free Float	38.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	14.3	11.9	2.3
Rel Market (%)	16.3	16.2	6.4



Source: Bloomberg, KAF

Analyst

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Scientex

1QFY20: Acquiring lands in Kota Tinggi

Maintain Buy rating with TP of RM10.70 – pegged to CY20F SOP valuation. 1QFY20 core earnings came in within our and consensus estimates. Earnings growth came from both Manufacturing and Property segments. Manufacturing segment saw higher sales across domestic and exports fronts due to better product mix, while Property segment experienced steady progress billing with higher sales. On another note, the group announced that it plans to purchase 4mn sqft area of land with purchase consideration of RM39m in Kota Tinggi, Johor. Management guided the projected GDV for this land is expected to be RM250-300m focusing on building affordable housing. Share price is now trading slightly below +1SD of long-term mean PE, however given continuous expansion plans across both segments, we find the stock to still have further upside potential.

Financial Highlights

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue (RMm)	2,603	3,247	3,578	3,898	4,078
Core net profit (RMm)	285	353	389	428	480
Core EPS (Sen)	58.5	68.4	75.4	83.1	93.2
EPS growth (%)	2.7	17.0	10.2	10.3	12.0
DPS (Sen)	20.0	20.0	22.0	24.0	26.0
Core PE (x)	16.3	13.9	12.6	11.5	10.2
Div yield (%)	2.1	2.1	2.3	2.5	2.7
ROE (%)	17.3	16.8	16.4	16.1	16.0
Net Gearing (%)	43.6	32.2	26.6	20.3	12.7
PBV(x)	2.6	2.2	2.0	1.7	1.5

Source: Company, KAF

Maintain Buy rating with TP of RM10.70

Pegged our SOP valuation based on CY20F. Scientex 1QFY20 core earnings of RM83m (+46% YoY) came in within our and consensus estimates at 21% of full-year forecasts. No dividend was declared during the quarter under review. We have tweaked our earnings slightly to be in-line with FY19 annual report.

Domestic sales boosted Manufacturing segment contribution

Within the manufacturing segment, revenue increased by 14% YoY to RM656m attributable to expansion in domestic revenue by 27% YoY from higher Flexible Plastic Packaging (FPP) sales contributions following the acquisition of Daibochi and its subsidiary, Mega Plastics Packaging. This is coupled with stronger exports revenue which improved by 9% YoY on the back of increasing demand for stretch films as well as better translations from weaker Ringgit rate. Moreover, with increasing operational efficiencies through improvement in automation processes as well as better product mix, operating margin expanded by 2%-pts YoY to 8% in 1QFY20.

Resilient demand for affordable housing

Property segment revenue increased by 61% YoY to RM222m on the back of better sales and steady progress billing from development projects in Melaka and Senai. Operating margin has also expanded by 23%-pts YoY to 52% due to continuous core principles of speed, cost and quality through standardisation of buildings when completing the projects. During the quarter, the group has completed 375 units of houses across two launches with GDV worth RM99m.

Plans to increase Manufacturing segment operating margin

Growth from the Manufacturing segment is expected to be driven by ramping up of production, hence targeting utilisation rate of 70% (from 65% currently) across 460,000 MT of annual capacity. Management guided that the group is focused on improving operating margin through better utilization of capacity with products of higher profitability. Scientex is also currently rolling out new products which are more environmentally friendly thus closing

the wastage loop within the plastics economy. The new fully-recyclable FPP products are expected to be launched by 2QFY20.

Expanding presence in Johor

Today, Scientex announced that it has entered into Agreement of Sale to acquire 18-parcels of 989-year leasehold agricultural land with approximate area of 4m sqft in Kota Tinggi, Johor for a purchase consideration of RM39m. The lands are situated 25Km from Johor Bahru City and surrounded by well-established neighbourhoods like Taman Sri Lalang, Taman Sri Saujana and Kota Tinggi Town. Note that the group currently has a net gearing of 0.27x and assuming 80% of the purchase is funded through borrowings, net gearing is expected to marginally increase to a comfortable level of 0.28x. Management guided that the projected GDV for this land is expected to be around RM250-300m still focused on building affordable housing. This is in line with its long-term plan to deliver 50,000 affordable homes by 2028.

Valuation supported by strong earnings growth

YTD share price has increased by a respectable 18% after reaching an all-time high of RM9.84 last week. Since then, investors have started to take profit in light of year-end window dressing and currently the stock is trading a tad below its +1SD to its long-term forward mean PE of 12x. We still find further upside potential for the stock considering its continuous expansion plans across Manufacturing and Property segments, therefore expecting a robust earnings growth in the near-term.

Exhibit 1: Quarterly financial results

FYE Jul RMm	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	Change (%)		KAF	
	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19	QoQ	YoY	FY20F	3M/F
Revenue	714	767	828	939	877	(7)	23	3,911	22%
~ Manufacturing	576	549	603	630	656	4	14	2,651	25%
~ Property	138	218	226	308	222	(28)	61	933	24%
Interest Expense	(4)	(3)	(4)	(5)	(5)	17	39		
Interest Income	1	0	2	2	3	40	254		
Depreciation	22	21	24	25	27	9	27		
EBITDA	97	125	127	204	146	(29)	50	641	23%
Operating Profit	76	104	103	179	119	(34)	57	541	22%
~ Manufacturing	36	39	33	67	55	(17)	55	210	26%
~ Property	40	65	70	112	63	(44)	58	331	19%
Reported PBT	73	100	101	177	116	(34)	60	529	22%
Taxation	(17)	(24)	(25)	(38)	(28)	(25)	65		
Minority Interest	(2)	(2)	(3)	(5)	(6)	24	287		
Exceptional items	(3)	(0)	(14)	(1)	(3)	357	(26)		
Reported Profit	54	74	73	133	81	(39)	51	393	21%
Adj. Net Profit	57	74	87	134	83	(38)	46	393	21%
EPS (sen)	11	15	14	26	16	(39)	43		
Adj EPS (sen)	11	14	17	26	16	(38)	46		
DPS (sen)	0	0	10	10	0				
						%-pts	%-pts		
Effective tax rate (%)	24	24	25	21	25	3	1		
EBITDA margin (%)	14	16	15	22	17	(5)	3		
Operating margin (%)	11	14	12	19	14	(6)	3		
~ Manufacturing (%)	6	7	6	11	8	(2)	2		
~ Property	29	30	31	36	52	16	23		
Pretax margin (%)	10	13	12	19	13	(6)	3		
Net margin (%)	8	10	10	14	10	(5)	2		

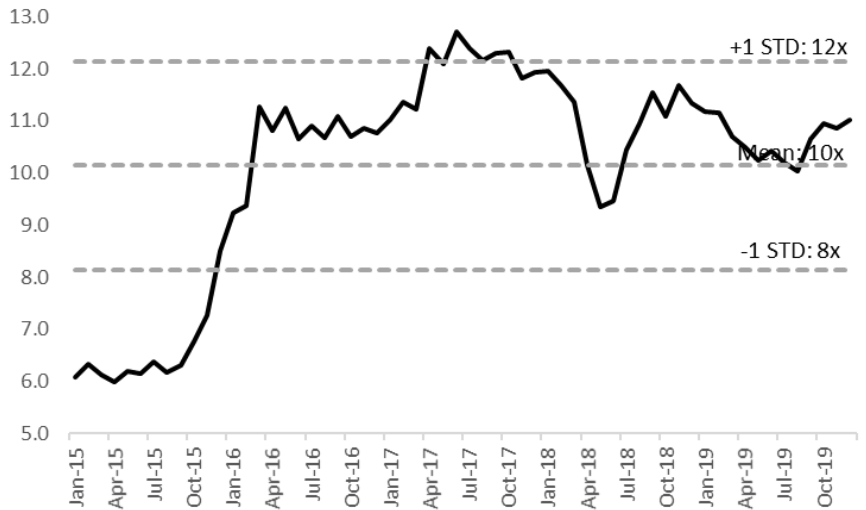
Source: Company, KAF

Exhibit 2: Sum-of-parts valuation

Segment	Based on CY20F	Valuation
Manufacturing	25x PE	3,794
Property	1.0x PB	1,717
	Equity value (RMm)	5,511
	Outstanding shares (m)	515
	Target Price (RM)	10.70

Source: KAF

Exhibit 3: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 4: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 5: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Revenue	2,603	3,247	3,578	3,898	4,078
EBITDA	429	575	636	712	796
Depreciation/Amortisation	(72)	(92)	(100)	(115)	(129)
Operating income (EBIT)	357	483	536	597	667
Other income & associates	8	(17)	5	5	5
Net interest	(11)	(16)	(17)	(19)	(21)
Exceptional items	0	(19)	0	0	0
Pretax profit	355	432	524	583	652
Taxation	(66)	(105)	(122)	(140)	(156)
Minorities/pref dividends	(4)	(12)	(13)	(15)	(15)
Net profit	285	334	389	428	480
Core net profit	285	353	389	428	480

Balance Sheet

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	1,151	1,248	1,439	1,614	1,776
Intangible assets	59	294	294	294	294
Other long-term assets	902	784	784	784	784
Total non-current assets	2,173	2,409	2,600	2,775	2,937
Cash & equivalent	172	258	306	300	319
Stock	264	321	354	386	403
Trade debtors	543	735	810	882	923
Other current assets	233	385	385	385	385
Total current assets	1,212	1,698	1,854	1,952	2,030
Trade creditors	526	597	658	717	750
Short-term borrowings	610	704	604	504	354
Other current liabilities	24	29	29	29	29
Total current liabilities	1,160	1,330	1,291	1,249	1,133
Long-term borrowings	324	270	370	370	370
Other long-term liabilities	82	109	109	109	109
Total long-term liabilities	406	379	479	479	479
Shareholders' funds	1,750	2,225	2,511	2,826	3,182
Minority interests	70	174	174	174	174

Cash flow Statement

FYE Jul (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	355	432	524	583	652
Depreciation/Amortisation	72	92	100	115	129
Net change in working capital	38	86	(47)	(45)	(25)
Others	(72)	(53)	(105)	(121)	(136)
Cash flow from operations	392	557	472	532	620
Capital expenditure	(65)	(48)	(48)	(48)	(48)
Net investments & sale of fixed assets	(146)	(89)	(93)	(93)	(93)
Others	(492)	(161)	(163)	(165)	(165)
Cash flow from investing	(703)	(299)	(304)	(306)	(306)
Debt raised/(repaid)	365	15	0	(100)	(150)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(56)	(100)	(103)	(113)	(124)
Others	(18)	(88)	(17)	(19)	(21)
Cash flow from financing	291	(173)	(120)	(232)	(294)
Net cash flow	(20)	85	48	(6)	19
Net cash/(debt) b/f	192	172	258	306	300
Net cash/(debt) c/f	172	258	306	300	319

Key Ratios

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue growth (%)	8.3	24.8	10.2	8.9	4.6
EBITDA growth (%)	7.5	34.1	10.6	11.9	11.9
Pretax margins (%)	13.6	13.3	14.6	15.0	16.0
Net profit margins (%)	10.9	10.3	10.9	11.0	11.8
Interest cover (x)	33.2	31.1	31.4	31.7	32.3
Effective tax rate (%)	18.6	24.3	23.2	24.0	24.0
Net dividend payout (%)	34.2	30.9	29.2	28.9	27.9
Debtors turnover (days)	63	65	69	76	78
Stock turnover (days)	30	33	34	35	35
Creditors turnover (days)	66	63	64	64	66

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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