

12 March 2020

Scientex Berhad

1HFY20 Within Expectations

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1HFY20 core earnings of RM181.4m came in within our and consensus estimates at 47% and 46%, respectively. No dividends, as expected. All in, we lower FY20E CNP marginally by 2.5% imputing the challenging demand environment for manufacturing, and maintain FY21E CNP of RM474m. Maintain MARKET PERFORM but on a lower SoP-derived TP of RM8.90 (from RM9.45) on lower earnings and valuations.

1HFY20 core net profit of RM181.4m came in well within our and consensus estimates at 47% and 46%, respectively. No dividends, as expected.

Results' highlight. YoY-Ytd, top-line jumped by 21% from contribution in both segments with the plastic manufacturing segment (+17%), driven by higher sales, while the property segment revenue (+34%) was up on ongoing recognitions for projects in Johor, Melaka, Selangor and Perak. EBIT margin improved (+2.4ppt) for the manufacturing segment on increased product efficiency and better product mix. All in, CNP was up by 44%. QoQ, top-line was up by 4% mainly driven by stronger property segment (+15%) on higher recognitions while the manufacturing segment was rather flatish (+1%). However, due to EBIT margin improvement (+1.9ppt) due to reasons mentioned above, CNP was up by 22%.

Outlook. SCIENTEX's manufacturing segment is focused on ramping up utilisation, targeting c.75% over the next few years (vs. c.70% currently), mostly from its BOPP plant and Arizona plant in the United States. Growth is premised on gradual improvement in utilisation rate for the manufacturing segment, and on launches of RM1.1-1.3b in FY20-21 for the property segment.

Earnings largely unchanged. We lower FY20E CNP marginally by 2.5% for now to RM376m on lower manufacturing sales to be conservative in light of challenging market environment arising from the Covid-19 situation, while FY21E CNP remains unchanged at RM474m. Unbilled sales of RM750m provides <1 year of visibility. FY20-21 dividends of 21.1-26.6 sen are based on its payout ratio of 30% implying yields of 2.4-3.0%.

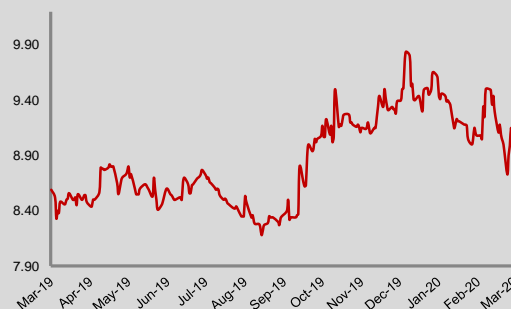
Maintain MARKET PERFORM but on a lower TP to RM8.90 (from RM9.45) on FY20E valuations Our TP is based on our FY20E SoP valuation with; (i) unchanged PER of 10.0x for the Property segment, which is on par with Johor-exposed peers given SCIENTEX's exposure in the challenging Johor market, and (ii) a lower 15x (from 16.0x) applied PER for the manufacturing segment which is at a 9% discount compared to SLP's applied PER given its lower margin of 9% vs. 15%, but above TGUAN (11.0x PER) given its strong earnings growth. We will continue to monitor the situation closely and may look to up our valuations for the manufacturing segment once concerns of Covid-19 and the challenging market conditions abate. Maintain MARKET PERFORM as we believe we have priced in most foreseeable risks for now.

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

MARKET PERFORM ↔

Price : RM8.92
Target Price : RM8.90 ↓

Share Price Performance



KLCI	1,443.83
YTD KLCI chg	-9.1%
YTD stock price chg	-5.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	4,601.6
Shares Outstanding	515.9
52-week range (H)	9.87
52-week range (L)	8.11
3-mth avg daily vol:	287,386
Free Float	36%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Leasing Sdn Bhd	9.1%
Scientex Infinity Sdn Bhd	8.4%

Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	3247.4	3733.6	4126.1
EBIT	461.8	486.3	610.4
PBT	450.6	499.8	628.6
Net Profit (NP)	333.7	376.0	473.9
Core NP*	331.2	376.0	473.9
Consensus (NP)	N.A.	391.7	444.3
Earnings Revision	N.A.	-2.5%	N.A.
Core EPS (sen)	61.9	70.3	88.6
Core EPS growth (%)	8.2	13.5	26.0
NDPS (sen)	20.0	21.1	26.6
BVPS (RM)	3.75	4.85	5.68
Core PER (x)	14.4	12.7	10.1
PBV (x)	2.4	1.8	1.6
Net Gearing (x)	0.44	0.45	0.32
Net Div. Yield (%)	2.5	2.4	3.0

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OTHER POINTS

*Our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.2m from the proposed Share Swap for DAIBOCI.

Results Highlights

Y/E : July (RM mn)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Turnover	914.4	877.4	4%	766.6	19%	1791.7	1480.2	21%
EBIT	140.8	118.5	19%	103.9	36%	259.3	179.5	44%
Interest income	3.0	2.6	17%	(0.4)	-816%	5.6	0.3	1733%
Finance costs	(4.3)	(5.3)	-18%	(3.4)	27%	(9.6)	(7.2)	33%
Associates	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	139.5	115.8	20%	100.0	39%	255.3	172.6	48%
Taxation	(33.7)	(28.4)	19%	(24.3)	39%	(62.1)	(41.5)	50%
Profit after tax	105.7	87.4	21%	75.8	40%	193.2	131.1	47%
Minority interest	(8.3)	(6.5)	28%	(2.0)	309%	(14.8)	(3.7)	299%
Net profit	97.5	81.0	20%	73.7	32%	178.4	127.4	40%
Core net profit	99.8	81.6	22%	73.7	35%	181.4	126.2	44%
Core EPS (sen)	19.4	15.8	22%	15.1	28%	35.2	25.8	36%
NDPS (sen)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
EBIT margin	15.4%	13.5%		13.6%		14.5%	12.1%	
Pretax margin	15.3%	13.2%		13.1%		14.3%	11.7%	
Core net profit margin	10.9%	9.3%		9.6%		10.1%	8.5%	
Effective tax rate	24.2%	24.5%		24.3%		24.3%	24.0%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : July (RM mn)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Turnover								
Manufacturing	659.4	655.9	1%	549.0	20%	1315.3	1124.8	17%
Property	255.0	221.5	15%	217.6	17%	476.5	355.4	34%
Group Turnover	914.4	877.4	4%	766.6	19%	1791.7	1480.2	21%
Segment Results								
Manufacturing	65.2	55.5	18%	39.0	67%	120.6	74.8	61%
Property	75.6	63.1	20%	64.9	16%	138.6	104.7	32%
Group EBIT	140.8	118.5	19%	103.9	36%	259.3	179.5	44%
EBIT Margin								
Manufacturing	9.9%	8.5%		7.1%		9.2%	6.6%	
Property	29.6%	28.5%		29.8%		29.1%	29.5%	
Group EBIT Margin	15.4%	13.5%		13.6%		14.5%	12.1%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	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.	Price (RM)	
STOCKS UNDER COVERAGE																	
SCGM BHD	1.38	264.3	Y	04/2020	17.4%	21.7%	45.8%	47.9%	N.A.	27.6	18.6	1.7	1.5	5.8%	1.4%	1.60	MP
SCIENTEX BHD	8.92	4,601.6	Y	07/2020	15.0%	10.5%	13.5%	26.0%	14.4	12.7	10.1	2.4	1.8	19.5%	2.4%	8.90	MP
SLP RESOURCES BHD	0.950	301.1	Y	12/2020	28.5%	5.6%	8.5%	7.8%	12.7	13.2	12.2	1.7	1.5	12.1%	5.4%	1.20	OP
THONG GUAN INDUSTRIES BHD	3.68	681.7	Y	12/2020	-2.0%	2.8%	3.1%	2.7%	9.6	9.2	8.9	1.4	1.3	12.3%	2.6%	4.10	MP
TOMYPAK HOLDINGS	0.445	186.1	Y	12/2020	6.8%	1.1%	-109.1%	-119.8%	N.A.	N.A.	N.A.	1.3	0.9	-5.3%	0.0%	0.270	UP
Simple Average					13.1%	8.3%	-7.6%	-7.1%	12.2	15.6	12.5	1.7	1.5	8.9%	2.4%		

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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