

20 Apr 2020

## Buy

**Price**  
 RM8.27

**Target Price**  
 RM9.59 (from RM10.85)

### Market Data

Bloomberg Code	SCI MK
No. of shares (m)	515.3
Market cap (RMm)	4,266.3
52-week high/low (RM)	9.74 / 6.09
Avg daily turnover (RMm)	2.4
KLCI (pts)	1,413.12

Source: Bloomberg, KAF

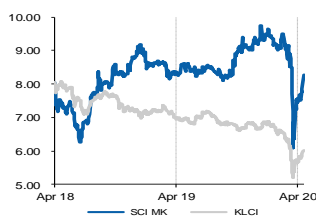
### Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.0%)
Scientex Leasing Sdn Bhd	(9.1%)
Scientex Infinity Sdn Bhd	(8.6%)
Free Float	35.8

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	20.7	(9.6)	(3.6)
Rel Market (%)	11.3	1.6	10.7



Source: Bloomberg, KAF

### Analyst

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# Scientex

## Manufacturing segment allowed to operate during MCO period

Maintain Buy rating with lower TP of RM9.59 (from RM10.85) pegged to SOP valuation based on CY20. Scientex confirms that its Manufacturing segment is able to operate during the Movement Control Order (MCO) period. Given its production is fully automated, we find marginal impact to sales contributions from Manufacturing segment to the group. However, its Property segment is expected to experience delay in progress billing due to inactivity during the MCO period due to not being part of essential services. Hence, this is expected to reduce sales recognized by the Property segment in FY20F. Share price is currently recovering from a four-year low since a month ago and is currently trading at 10x forward PE which is -0.5SD below its five-year forward mean PE of 11x. Given the limited risks from the Manufacturing segment, we find the stock to be undervalued.

### Financial Highlights

FYE Jul	2018	2019	2020F	2021F	2022F
Revenue (RMm)	2,603	3,247	3,442	3,912	4,126
Core net profit (RMm)	284.6	352.7	323.1	402.2	474.0
Core EPS (Sen)	58.5	68.4	62.7	78.0	92.0
EPS growth (%)	2.7	17.0	(8.4)	24.5	17.9
DPS (Sen)	20.0	20.0	20.0	22.0	24.0
Core PE (x)	14.1	12.1	13.2	10.6	9.0
Div yield (%)	2.4	2.4	2.7	2.9	3.1
ROE (%)	15.6	13.9	12.3	13.8	14.5
Net Gearing (%)	43.6	32.2	34.7	33.8	28.4
PBV(x)	2.3	2.0	1.8	1.6	1.4

Source: Company, KAF

### Maintain Hold rating with lower TP of RM9.59 (from RM10.85)

This is pegged to SOP valuation based on 20x PE and 1.0x PB of CY20 EPS and BV respectively. TP was reduced as our earnings forecasts were lowered by 5-19% for FY20-22F on the back of lower sales contributions from Property segment.

### Manufacturing segment earmarked as essential service

Scientex shared that its Manufacturing segment is considered as an essential service as it produces flexible plastic packaging for the food and beverages industry on top of products for various industries. Hence it is able to continue its operations throughout the MCO period albeit with split-teams' arrangements. Even then, given the Manufacturing segment is almost fully-automated, we believe there is limited disruption to operations hence we made no change to our sales forecasts for FY20F. Note that management advised that the group will continue to prioritise domestic demands to ensure continued sustenance of the consumers in Malaysia.

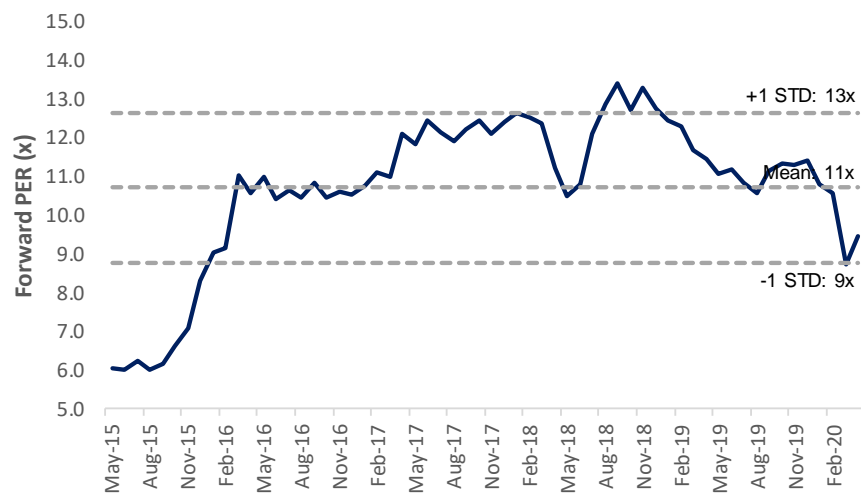
### Possible delay in progress billing for Property segment

On the other hand, its Property segment does not fall within the essential services category hence we believe there has been no operations during the MCO period. Therefore, we believe this may delay its progress billing recognition so we project sales in FY20F to reduce by 14% YoY to RM762m. However, the delay is expected to be recognised in FY21F hence we project sales to rebound by 22% YoY to RM932m. Note that in 1HFY20, Property segment reported RM478m in revenue accounting for 63% of our FY20F sales forecast.

### Stock is undervalued

Share price is recovering from a four-year low of RM6.09 since a month ago currently trading at 10x forward PE. This is -0.5SD below its five-year forward mean PE of 11x. Given the expectation of strong Manufacturing segment contribution, we believe current level is undervalued. With projected DPS of 20-24sen for FY20-22F, current share price implies a decent dividend yield of ~3%.

**Exhibit 1: Five-year forward PE band chart**



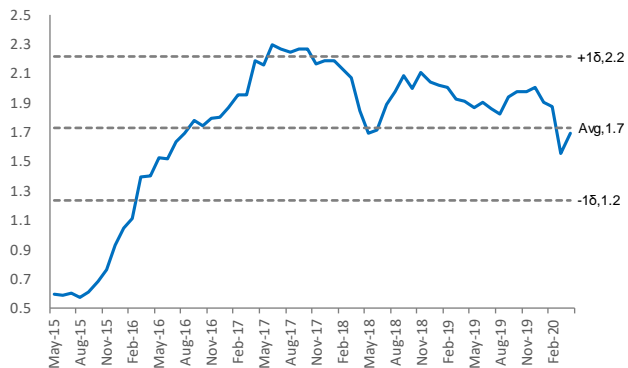
Source: Bloomberg, KAF

**Exhibit 2: Sum-of-parts valuation**

Segment	Based on CY20	Equity Value (RMm)
Manufacturing	20x PE	3,274
Property	1x PB	1,668
Equity value (RMm)		4,942
Outstanding shares (m)		515
<b>Target Price (RM)</b>		<b>9.59</b>

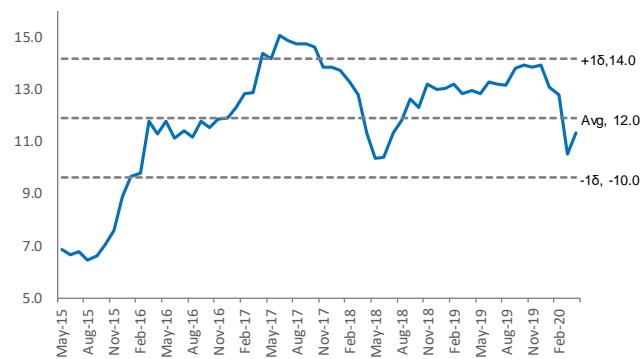
Source: KAF

**Exhibit 3: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 4: PE Band chart**



Source: Company, KAF, Bloomberg

**Income Statement**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue	2,603	3,247	3,442	3,912	4,126
EBITDA	429	575	550	688	809
Depreciation/Amortisation	(72)	(92)	(100)	(126)	(150)
Operating income (EBIT)	357	483	450	562	659
Other income & associates	8	4	5	5	5
Net interest	(11)	(16)	(17)	(19)	(21)
Exceptional items	(0)	(19)	0	0	0
<b>Pretax profit</b>	<b>355</b>	<b>451</b>	<b>438</b>	<b>549</b>	<b>644</b>
Taxation	(66)	(105)	(102)	(132)	(155)
Minorities/pref dividends	(4)	(12)	(13)	(15)	(16)
<b>Net profit</b>	<b>285</b>	<b>334</b>	<b>323</b>	<b>402</b>	<b>474</b>
Core net profit	285	353	323	402	474

**Balance Sheet**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Fixed assets	1,151	1,248	1,572	1,870	2,144
Intangible assets	59	294	294	294	294
Other long-term assets	963	868	868	868	868
<b>Total non-current assets</b>	<b>2,173</b>	<b>2,409</b>	<b>2,733</b>	<b>3,031</b>	<b>3,305</b>
Cash & equivalent	172	258	126	101	97
Stock	264	321	340	387	408
Trade debtors	543	735	779	885	934
Other current assets	233	385	385	385	385
Total current assets	1,212	1,698	1,630	1,758	1,823
Trade creditors	526	597	633	719	759
Short-term borrowings	610	704	604	554	504
Other current liabilities	24	29	29	29	29
<b>Total current liabilities</b>	<b>1,160</b>	<b>1,330</b>	<b>1,266</b>	<b>1,302</b>	<b>1,291</b>
Long-term borrowings	324	270	370	470	470
Other long-term liabilities	82	109	109	109	109
<b>Total long-term liabilities</b>	<b>406</b>	<b>379</b>	<b>479</b>	<b>579</b>	<b>579</b>
<b>Shareholders' funds</b>	<b>1,750</b>	<b>2,225</b>	<b>2,445</b>	<b>2,734</b>	<b>3,084</b>
Minority interests	70	174	174	174	174

**Cash flow Statement**

<b>FYE Jul (RMm)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Pretax profit	355	451	438	549	644
Depreciation/Amortisation	72	92	100	126	150
Net change in working capital	38	86	(28)	(66)	(30)
Others	(72)	(72)	(85)	(113)	(134)
<b>Cash flow from operations</b>	<b>392</b>	<b>557</b>	<b>426</b>	<b>495</b>	<b>630</b>
Capital expenditure	(65)	(48)	(150)	(150)	(150)
Net investments & sale of fixed assets	(646)	(258)	(274)	(274)	(274)
Others	7	7	(13)	(15)	(16)
<b>Cash flow from investing</b>	<b>(703)</b>	<b>(299)</b>	<b>(437)</b>	<b>(439)</b>	<b>(439)</b>
Debt raised/(repaid)	365	(35)	0	50	(50)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(58)	(107)	(103)	(113)	(124)
Others	(16)	(32)	(17)	(19)	(21)
<b>Cash flow from financing</b>	<b>291</b>	<b>(173)</b>	<b>(120)</b>	<b>(82)</b>	<b>(194)</b>
<b>Net cash flow</b>	<b>(20)</b>	<b>85</b>	<b>(131)</b>	<b>(25)</b>	<b>(4)</b>
<b>Net cash/(debt) b/f</b>	<b>192</b>	<b>172</b>	<b>258</b>	<b>126</b>	<b>101</b>
<b>Net cash/(debt) c/f</b>	<b>172</b>	<b>258</b>	<b>126</b>	<b>101</b>	<b>97</b>

**Key Ratios**

<b>FYE Jul</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Revenue growth (%)	8.3	24.8	6.0	13.6	5.5
EBITDA growth (%)	7.5	34.1	(4.4)	25.1	17.6
Pretax margins (%)	13.6	13.9	12.7	14.0	15.6
Net profit margins (%)	10.9	10.3	9.4	10.3	11.5
Interest cover (x)	33.2	31.1	26.3	29.9	31.9
Effective tax rate (%)	18.6	23.2	23.2	24.0	24.0
Net dividend payout (%)	34.2	30.9	35.1	30.8	28.3
Debtors turnover (days)	4.8	4.4	4.4	4.4	4.4
Stock turnover (days)	9.9	10.1	10.1	10.1	10.1
Creditors turnover (days)	4.9	5.4	5.4	5.4	5.4

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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