Ahead of expectations; reaffirm BUY

Scientex reported a strong set of results: 9MFY20 core net profit grew by 22% yoy to RM266m on better property sales and higher manufacturing profit margins. As expected, the 3QFY20 results were sequentially weaker, following the disruption caused by the Covid-19 pandemic. Overall, the results were in line with consensus but above our expectations. We raise our FY20-22E earnings by 10-14%, and our 12-month TP to RM11.20 (from RM10). Reaffirm BUY.

As expected, earnings were sequentially weaker due to MCO

Scientex's 3QFY20 core earnings fell by 17% qoq to RM83m on weaker revenue, a result of the halt in operations caused by the Covid-19 Movement Control Order (MCO), as well as a higher effective tax rate. On a segmental basis, the **property's 3QFY20 EBIT dropped by 38% qoq** to RM47m due to disruption of business operations during the MCO period. The **manufacturing's 3QFY20 EBIT was also weaker by 9% qoq** as the Group's manufacturing entities were allowed to operate at only minimal capacity during the MCO period to comply with the stringent conditions imposed by the authorities.

9MFY20 core net profit rose by 22% yoy

Despite the softer 3QFY20 results, Scientex's 9MFY20 core net profit rose by 22% yoy to RM266m on better performance from both manufacturing (+66% yoy, thanks to the contribution from Daibochi's converting business) as well as its property division (+7% yoy, due to new launches in Melaka and Johor). Notably, the **9MFY20 blended EBITDA margin improved by 2ppts yoy to 18.1%,** attributable to the favourable sales mix and cheaper resin cost from the manufacturing segment. All in all, the results were within street expectations but ahead of ours, accounting for 72% and 85% of the respective full-year forecasts. The earnings surprise was due to better-than-expected contribution from the manufacturing segment. Scientex has declared an interim dividend of 10 sen (3QFY19: 10 sen).

Property: development activities have restarted post-MCO

Per the 3QFY20 results announcement, the Group expects its sequential results to be better with the relaxation of the movement control – constructional and property development activities have restarted for the property segment, and we think the near-term property numbers will be supported by the current unbilled sales of RM730m and target GDV of RM1bn (from previous target of RM1.1bn). The Group has also increased the use of digital platforms to reach out to potential buyers, in addition to its traditional sales platform/showrooms.

Earnings & Valuation Summary

FYE 31 July	2018	2019	2020E	2021E	2022E
Revenue	2,602.8	3,247.4	3,274.2	3,393.5	3,718.8
EBITDA	429.1	573.1	595.3	626.3	695.0
Pretax profit	354.7	450.6	476.1	504.6	567.3
Net profit	284.5	333.7	351.4	372.5	418.7
EPS (sen)	55.2	64.8	68.2	72.3	81.3
PER (x)	15.9	13.5	12.9	12.1	10.8
Core net profit	284.5	352.7	355.6	372.5	418.7
Core EPS (sen)	55.9	68.5	69.8	73.1	82.2
Core EPS growth (%)	12.6	22.5	2.0	4.7	12.4
Core PER (x)	15.7	12.8	12.6	12.0	10.7
Net DPS (sen)	20.0	20.0	20.7	21.9	24.7
Dividend yield (%)	2.3	2.3	2.4	2.5	2.8
EV / EBITDA (x)	12.7	9.4	9.0	8.3	6.9
Chg in EPS (%)			14.3	12.0	10.3
Affin/Consensus (x)			1.0	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecast

Results Note

Scientex

SCI MK
Sector: Plastic packaging

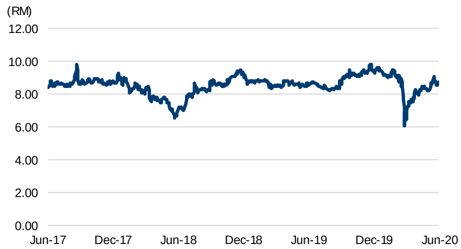
RM8.77 @ 23 June 2020

BUY (maintain)

Upside: 27.7%

Price Target: RM11.20

Previous Target: RM10.00



Price Performance

	1M	3M	12M
Absolute	6.6%	37.7%	0.8%
Rel to KLCI	1.6%	15.1%	12.5%

Stock Data

Issued shares (m)	515.9
Mkt cap (RMm)/(US$m)	4524.2/1058.5
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	5.96-9.87
Est free float	35.8%
BV per share (RM)	4.72
P/BV (x)	1.86
Net cash/(debt) (RMm)	(771.75)
ROE (2020E)	13.4%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.1%
Scientex Infinity SB	8.6%
Lim Teck Meng	7.5%

Source: Affin Hwang, Company, Bloomberg

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Manufacturing: ramping up utilisation

We learnt that demand for flexible plastic packaging was fairly resilient during the MCO as these products are essential items in the food and beverage-based packaging supply chain. Moving ahead, Scientex is focused on gradually ramping up the utilisation rate and targeting higher process automation at its respective plants.

Maintain BUY with higher TP of RM11.20

We raise our FY20-22E earnings by 10-14%, after incorporating higher output assumptions for the manufacturing segment. In tandem, we raise our 12-month SOTP-based price target to RM11.20. At a 13x FY20E PER, Scientex's valuation looks attractive, considering its solid earnings delivery and execution. Maintain BUY. Key downside risks: i) higher-than-expected resin costs, ii) weaker-than-expected export sales and iii) weaker-than-expected property sales.

Fig 1: Results comparison

FYE 31 July (RMm)	3Q19	2Q20	3Q20	qoq % chg	yoy % chg	9MFY19	9MFY20	yoy % chg	Comments
Revenue	828.5	914.4	772.2	(15.5)	(6.8)	2,308.7	2,564.0	11.1	9MFY20 revenue grew by 11% yoy due to growth in its property division (+9% yoy), while manufacturing grew 12% yoy (including the consolidation of Daibochi from 3Q19).
Op costs	(687.5)	(744.4)	(625.5)	(16.0)	(9.0)	(1,940.6)	(2,099.7)	8.2	
EBITDA	**141.0**	**170.0**	**146.7**	(13.7)	4.0	**368.1**	**464.3**	26.1	
EBITDA (%)	17.0	18.6	19.0	*0.4ppt*	*2.0ppt*	15.9	18.1	*2.2ppt*	9MFY20 EBITDA margin improved by 2ppts yoy to 18.1%, attributable to a favourable sales mix and cheaper resin cost from the manufacturing segment.
Depn&amort	(24.0)	(26.7)	(26.6)	(0.3)	10.8	(67.1)	(80.8)	20.4	
EBIT	117.0	143.3	120.0	(16.2)	2.6	301.0	383.5	27.4	
Int exp	(3.8)	(4.3)	(3.9)	(9.0)	2.6	(11.0)	(13.5)	22.6	
Associates	2.2	3.0	2.2	(26.3)	2.2	2.5	7.9	>100	Higher contribution from 30%-owned Cosmo and JV partner, MCTI Scientex Solar SB.
EI	(13.9)	(2.5)	(13.6)	451.1	(2.0)	(18.5)	(17.7)	(3.8)	Largely forex items in 3QFY20.
PBT	**101.4**	**139.5**	**104.7**	(24.9)	3.3	**274.0**	**360.1**	31.4	
Tax	(25.3)	(33.7)	(28.7)	(14.9)	13.7	(66.7)	(90.8)	36.2	Higher effective tax rate on 3QFY20 due to non-deductible expenses.
Tax rate (%)	24.9	24.2	27.4	*3.2ppt*	*2.5ppt*	24.4	25.2	*0.9ppt*	
MI	(3.3)	(8.3)	(6.4)	(22.5)	94.4	(7.0)	(21.2)	>100	Higher MI due to better performance from 62%-owned Daibochi which has been consolidated since 3Q19.
Net profit	**72.9**	**97.5**	**69.6**	(28.6)	(4.5)	**200.3**	**248.1**	23.8	
EPS (sen)	14.1	18.9	13.5	(28.6)	(4.5)	38.9	48.1	23.8	
Core profit	**86.8**	**99.9**	**83.2**	(16.7)	(4.1)	**218.7**	**265.8**	21.5	Within street expectations but above our full-year estimates.

Source: Company, Affin Hwang estimates

Fig 2: Segmental breakdown

FYE 31 July (RMm)	3Q FY19	2Q FY20	3Q FY20	qoq % chg	yoy % chg	9M FY19	9M FY20	yoy % chg
Revenue								
-Manufacturing	602.8	659.4	614.4	(6.8)	1.9	1,727.5	1,929.7	11.7
-Property	225.7	255.0	157.8	(38.1)	(30.1)	581.1	634.3	9.1
Total	**828.5**	**914.4**	**772.2**	(15.5)	(6.8)	**2,308.7**	**2,564.0**	11.1
EBIT								
-Manufacturing	33.4	65.2	59.3	(9.1)	77.6	108.1	179.9	66.4
- Property	69.7	75.6	47.2	(37.6)	(32.3)	174.4	185.8	6.6
Total*	**103.1**	**140.8**	**106.4**	(24.4)	3.3	**282.5**	**365.7**	29.4
EBIT margins (%)								
-Manufacturing	5.5	9.9	9.6	*-0.2ppt*	*4.1ppt*	6.3	9.3	*3.1ppt*
-Property	30.9	29.6	29.9	*0.3ppt*	*-1.0ppt*	30.0	29.3	*-0.7ppt*
Overall	12.4	15.4	13.8	*-1.6ppt*	*1.3ppt*	12.2	14.3	*2.0ppt*

Source: Company
**not adjusted for EI*

Fig 3: Revised SOTP of RM11.20 (rounded down)

Segmental	Equity value	multiple	Share base	Equity value per	Comment
Plastic packaging	2,994.2	**PE 15.0x**	515.6	5.81	Pegged to 15x FY20E (+0.5x 5-year sector forward PER)
Property			515.6	5.42	30% discount to RNAV
SOP (RM)				**11.20**	

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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