

COMPANY RESULTS

Scientex (SCI MK)

3QFY20: MCO Disruption Within Expectations, Better Times Ahead

Scientex's 3QFY20 net profit of RM82.7m (-17.1% qoq, -5.0% yoy) was largely in line. Earnings declined mainly due to disruptions from the MCO which temporarily disrupted its property construction and billing activities and reduced its manufacturing workforce by half. Nevertheless, we foresee a sharp earnings recovery post MCO while demand for its affordable homes should remain resilient despite the soft economy. Maintain **BUY** with an unchanged target price of RM9.90.

3QFY20 RESULTS

Year to 31 Jul (RMm)	3QFY20	qoq % chg	yoy % chg	9MFY20	yoy % chg
Turnover	772.2	(15.5)	(6.8)	2,564.0	11.1
Manufacturing	614.4	(6.8)	1.9	1,929.7	11.7
Property	157.8	(38.1)	(30.1)	634.3	9.2
EBIT	106.4	(24.4)	3.3	365.7	29.4
Manufacturing	59.3	(9.0)	77.5	180.0	66.4
Property	47.1	(37.6)	(32.3)	185.7	6.5
Finance costs	(3.9)	(9.0)	2.6	(13.5)	22.6
PBT	104.7	(24.9)	3.3	360.1	31.4
Core net profit	82.7	(17.1)	(5.0)	265.3	20.5

Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	13.8	(1.6)	1.3	14.3	2.0
-Manufacturing	9.7	(0.2)	4.1	9.3	3.1
-Property	29.9	0.2	(1.0)	29.3	(0.7)
PBT	13.6	(1.7)	1.3	14.0	2.2
Core net profit	10.7	(0.2)	0.2	10.3	0.8

Source: Scientex, UOB Kay Hian

RESULTS

- Within expectations.** Scientex's 3QFY20 core net profit came in at RM82.7m (-17.1% qoq, -5.0% yoy), bringing 9MFY20 core net profit to RM265.3m (+20.5% yoy). Although 9MFY19 core net profit accounts for only 68% of our full-year numbers, we deem the results to be in line as we expect a relatively stronger 4QFY20 mainly due to: a) higher progress billings from its property segment (supported by unbilled sales of RM730m as of 3QFY20), and b) increased utilisation rate at its existing manufacturing plants.

KEY FINANCIALS

Year to 31 Jul (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,603	3,247	3,629	4,272	5,303
EBITDA	429	554	602	691	825
Operating profit	357	462	507	584	707
Net profit (rep./act.)	285	334	388	447	543
Net profit (adj.)	284	353	388	447	543
EPS (sen)	58.8	72.9	80.2	92.5	112.4
PE (x)	14.9	12.0	10.9	9.5	7.8
P/B (x)	2.4	1.9	1.7	1.5	1.3
EV/EBITDA (x)	12.1	9.4	8.6	7.5	6.3
Dividend yield (%)	2.0	2.3	2.7	3.2	3.8
Net margin (%)	10.9	10.3	10.7	10.5	10.2
Net debt/(cash) to equity (%)	43.6	32.2	19.8	15.9	11.6
Interest cover (x)	39.9	35.7	38.4	44.7	53.3
ROE (%)	17.4	16.8	16.4	16.9	18.1
Consensus net profit	-	-	370	432	477
UOBKH/Consensus (x)	-	-	1.05	1.04	1.14

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM8.77
Target Price	RM9.90
Upside	+12.9%

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):	515.9
Market cap (RMm):	4,524.2
Market cap (US\$m):	1,058.3
3-mth avg daily t'over (US\$m):	0.9

Price Performance (%)

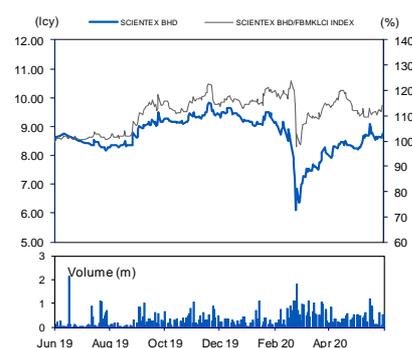
52-week high/low	RM9.84/RM6.09			
1mth	3mth	6mth	1yr	YTD
6.6	37.7	(7.1)	0.8	(7.2)

Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.04
Scientex Leasing Sdn Bhd	9.14
Scientex Infinity Sdn Bhd	8.39

FY20 NAV/Share (RM)	5.16
FY20 Net Debt/Share (RM)	1.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jack Goh
+603 2147 1983
jackgoh@uobkayhian.com

- Property: Top-line declined 30.1% yoy to RM157.8m**, as progress billings were hampered by disruption of construction activities and prohibition of site inspections by government agencies during the MCO period. Meanwhile, sale and purchase agreements execution were stagnant during the MCO period. In 3QFY20, Scientex further launched RM140m worth of new properties with unbilled sales standing at RM730m. While property sales are weaker in this quarter, we believe demand will recover strongly as Scientex's projects have a resilient track record of about 80% take-up rate. The group intends to launch RM1.1b worth of properties in FY20, fulfilling its vision to deliver 50,000 affordable homes by 2028.

- Manufacturing: Revenue increased 1.9% yoy marginally to RM614.4m**, despite a 50% workforce cut during MCO that resulted in utilisation rates falling to about 60% (2QFY20: 65%) across its packaging manufacturing plants. This was mainly due to: a) uninterrupted supply of flexible plastic packaging(FPP) products which are essential components in the F&B based packaging supply chain, as well as b) higher sales volume from its newly-acquired conversion businesses - Daiboichi and Mega Printing & Packaging (MPP). Daiboichi's resilient quarterly results were partly aided by its first-mover launch of ESG compliant packaging for the F&B market. Together with improved sales mix amid higher margins from converting services and lower resin costs (3QFY20: US\$820/MT), EBIT rose 77.5% yoy, bringing EBIT margin to 9.7% (+4.1ppt yoy).

STOCK IMPACT

- Manufacturing to recover from MCO's lower capacity.** We opine that demand for Scientex's manufacturing would recover gradually in 4QFY20 as its operations/workforces are fully back on track. Management alluded that the group intends to achieve utilisation rate of 70% in FY20 (FY19: 60%), driven by: a) full-year contribution from Daiboichi and MPP, and b) ramp-up at the biaxially-oriented polypropylene (BOPP) and new stretch film plant in Arizona. Meanwhile, the group is looking to diffuse production bottlenecks at some of its factories, primarily the stretch film (+10% of existing capacity), printing and laminating plants.

- Resin costs to remain low.** Resin prices have come off gradually due to: a) the COVID-19 pandemic, which has resulted in global growth coming to a halt, b) increase in global petrochemical refinery capacity, and c) a low oil price environment. Note that Scientex would partially benefit from lower resin prices, particularly for custom films which have a longer lead time of about 3 months vs stretch film's 4-6 weeks. Based on our back-of-the-envelope calculations, a 1% drop in resin cost will translate into savings of 0.4%.

- Resilient orders and supply chain amid COVID-19.** We gather that Scientex's supply chain has not been impacted by the COVID-19 pandemic thus far as the group does not buy raw materials from China, while resin which accounts for about 80% of its manufacturing raw material is considered an essential item to be produced. While orders from its Japanese and Korean customers have come off slightly, overall sales have been cushioned by the diversion of customers who had in the past purchased from China and Korea.

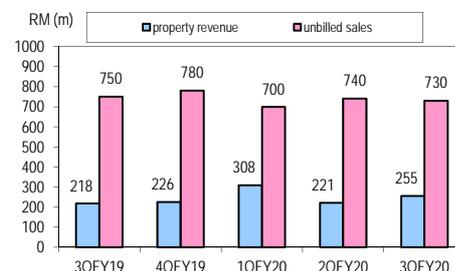
EARNINGS REVISION/RISK

- No change to net profit forecasts.** We still expect earnings to grow 4% yoy in FY20 supported by: a) stronger utilisation rate across manufacturing plants, b) consolidation of newly-acquired companies, and c) high unbilled sales at its property segment.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of RM9.90**, based on 12x FY20F PE. We still like the stock for its strong management team and track record, which enables the group to deliver record annual results year after year.

PROPERTY SEGMENT



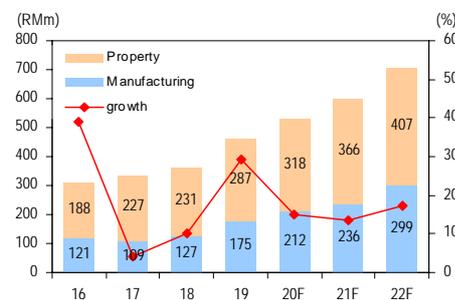
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Net turnover	3,247	3,629	4,272	5,303
EBITDA	554	602	691	825
Deprec. & amort.	92	95	107	119
EBIT	462	507	584	707
Associate contributions	4	4	4	4
Net interest income/(expense)	(16)	(16)	(15)	(15)
Pre-tax profit	451	496	573	695
Tax	(105)	(94)	(109)	(132)
Minorities	(12)	(14)	(16)	(20)
Net profit	334	388	447	543
Net profit (adj.)	353	388	447	543

BALANCE SHEET

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Fixed assets	1,248	1,483	1,676	1,858
Other LT assets	1,161	1,161	1,161	1,161
Cash/ST investment	258	456	503	581
Other current assets	1,441	1,289	1,489	1,810
Total assets	4,107	4,389	4,830	5,410
ST debt	704	650	650	650
Other current liabilities	626	646	757	934
LT debt	270	300	300	300
Other LT liabilities	109	109	109	110
Shareholders' equity	2,225	2,496	2,810	3,190
Minority interest	174	188	204	224
Total liabilities & equity	4,107	4,389	4,830	5,409

CASH FLOW

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Operating	557	452	482	540
Pre-tax profit	451	496	573	695
Tax	(88)	(94)	(109)	(132)
Deprec. & amort.	82	95	107	119
Working capital changes	86	(45)	(89)	(143)
Other operating cashflows	26	0	0	1
Investing	(299)	(330)	(300)	(300)
Capex (growth)	(217)	(330)	(300)	(300)
Investments	(80)	0	0	0
Proceeds from sale of assets	3	0	0	0
Others	(5)	0	0	0
Financing	(173)	76	(134)	(162)
Dividend payments	(107)	(116)	(134)	(163)
Issue of shares	0	0	0	1
Proceeds from borrowings	31	0	0	1
Loan repayment	(65)	(24)	0	0
Others/interest paid	(32)	216	0	(1)
Net cash inflow (outflow)	85	198	47	78
Beginning cash & cash equivalent	172	258	456	503
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	258	456	503	581

KEY METRICS

Year to 31 Jul (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	17.1	16.6	16.2	15.6
Pre-tax margin	13.9	13.7	13.4	13.1
Net margin	10.3	10.7	10.5	10.2
ROA	8.9	9.1	9.7	10.6
ROE	16.8	16.4	16.9	18.1
Growth				
Turnover	24.8	11.8	17.7	24.1
EBITDA	29.1	8.7	14.7	19.4
Pre-tax profit	27.0	10.1	15.4	21.4
Net profit	17.3	16.2	15.4	21.4
Net profit (adj.)	24.0	9.9	15.4	21.4
EPS	24.0	9.9	15.4	21.4
Leverage				
Debt to total capital	28.9	26.1	24.0	21.8
Debt to equity	43.8	38.1	33.8	29.8
Net debt/(cash) to equity	32.2	19.8	15.9	11.6
Interest cover (x)	35.7	38.4	44.7	53.3

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W