



AmInvestment Bank

Company report

SCIENTEX

(SCI MK EQUITY, STIK.KL)

21 Sep 2020

Record FY20 earnings; proposes bonus, warrant issues

BUY

(Maintained)

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Rationale for report: Company results/update

Price	RM9.50
Fair Value	RM10.74
52-week High/Low	RM10.30/RM5.96

Key Changes

Fair value	↔
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,518.6	4,369.8	4,905.3	5,506.6
Core net profit (RM mil)	390.1	467.7	529.5	598.9
FD Core EPS (sen)	75.6	90.7	102.7	116.1
FD Core EPS growth (%)	13.4	19.9	13.2	13.1
Consensus Net Profit (RM mil)	-	416.5	465.6	-
DPS (sen)	23.0	27.2	30.8	34.8
PE (x)	12.6	10.5	9.3	8.2
EV/EBITDA (x)	8.4	7.1	6.3	5.5
Div yield (%)	2.4	2.9	3.2	3.7
ROE (%)	16.3	17.4	17.6	17.6
Net Gearing (%)	24.5	20.6	14.7	8.9

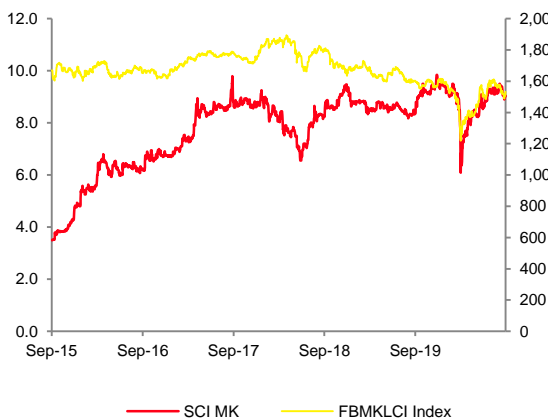
Stock and Financial Data

Shares Outstanding (million)	515.9
Market Cap (RM mil)	4,900.8
Book Value (RM/share)	6.29
P/BV (x)	1.5
ROE (%)	16.3
Net Gearing (%)	24.5

Major Shareholders	Scientex Holdings Sdn Bhd (21.1%)
	Scientex Leasing Sdn Bhd (9.2%)
	Scientex Infinity Sdn Bhd (8.1%)

Free Float	-
Avg Daily Value (RM mil)	2.3

Price performance	3mth	6mth	12mth
Absolute (%)	10.9	31.9	13.6
Relative (%)	10.7	8.5	20.6



Investment Highlights

- We maintain our BUY call, forecasts and fair value of RM10.74/share for Scientex based on sum-of-parts (SOP) valuation (Exhibit 2). This pegs its manufacturing segment to FY22F P/E of 15x, at a premium to its peer stretch film makers' average forward PE of 12.5x, to reflect its higher EPS growth rates of 21.6% and 13.2% in FY21–22F (vs. a weighted average of about 10% annually for its global peers). Maintain BUY.
- Scientex's FY20 core net profit of RM390.1mil came in within our forecast but beat the consensus estimates by 6%.
- Scientex's FY20 core net profit grew 17% YoY, driven largely by the manufacturing division. The unit's top line grew 8% YoY boosted by the first full-year contribution from 61.9%-owned Daiboichi. Its EBIT surged by a larger 43% thanks largely to an improved EBIT margin of 9.8% (vs. 7.4% previously) arising from: (1) a better product mix that was skewed towards the high-margin printing and lamination products; and (2) improved efficiency stemming from reduced wastage, better inventory controls, customised solutions and integration within its operating units.
- Despite the disruption from the pandemic and the movement control order, its property development unit still managed to register a 4% increase in EBIT YoY driven by: (1) FY20 sales of RM968mil underpinned by RM885mil of new launches, largely affordable residential units priced at an estimated average of RM275K/unit in Senai, Pulai, Kulai and Pasir Gudang in Johor and Melaka; and (2) progress billings from unbilled sales (that stood at RM600mil as at end-July 2020).
- Separately, Scientex has proposed a 2-for-1 bonus issue and a 1-for-5 (before the bonus issue) free warrant issue with an indicative exercise price of RM4.00. For illustration purposes, an investor who owns 1,000 Scientex shares prior to the ex-date shall end up with 3,000 Scientex shares plus 200 Scientex warrants after the ex-date. Ex-all, our fair value for Scientex shall adjust down to RM3.61.

- **Key highlights from the group's analyst briefing last Friday are:**
 1. **Scientex plans to shut down and demolish its automotive interior plant in Shah Alam, Selangor, by January 2021. It will then reconstruct, on the same site, a new robotic stretch film plant with an initial capex of RM150mil (4-line phase 1) and four more lines in another 3–4 years. The additional four lines will have an industrial stretch film capacity of 30.0K MT/year and it should be commissioned in end-CY21 or early CY22.**
 2. **There has been an ongoing effort to move up the value chain by upgrading the production facilities at Daibochi and Mega Printing to produce more downstream value-added products that fetch better margins, such as printing and lamination. In addition, Daibochi has earmarked RM100mil capex in FY20–21F which will boost its printing and laminating production capacity by 60% to an estimated 20.3K MT/year.**
 3. **For its property development business, Scientex has RM1.6bil new launches in FY21F in the pipeline, comprising largely 6,000 units of affordable housing units (with an average price of RM267K/unit) in Pulai, Johor and Durian Tunggal, Melaka. In our earnings forecasts, we conservatively assume FY21F new launches of only RM1.3bil.**
- **We continue to like Scientex for: (1) the strong prospects of the packaging industry due to consumer spending, a shift to the on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its above-trend earnings growth rates of 21.6% and 13.2% for FY21–22F (vs. a weighted average of about 10% annually for its global peers) thanks to extensive R&D, cost efficiency initiatives and an M&A pipeline; and (3) A robust property development business despite the soft market in general thanks to its right focus on predominantly landed affordable residential units in secondary suburbs.**
- **At about 10.5x forward earnings in its entirety, we think that this home-grown regional/global plastic packaging player is highly compelling given its strong foothold in a consumer-fuelled sector.**

EXHIBIT 1: RESULTS SUMMARY

YE July	3Q FY20	4Q FY20	QoQ	FY19	FY20	YoY
Revenue	772.2	954.6	24%	3247.4	3518.6	8%
Manufacturing	614.4	621.4	1%	2357.8	2551.1	8%
Property Development	157.8	333.2	111%	889.6	967.5	9%
EBIT	106.4	183.7	73%	461.8	549.5	19%
Manufacturing	59.3	71.1	20%	175.2	251.0	43%
Property Development	47.2	112.6	139%	286.5	298.4	4%
Profit Before Tax (PBT)	104.7	184.2	76%	450.6	544.3	21%
Taxation	-28.7	-35.4	23%	-104.7	-126.2	21%
Profit After Tax (PAT)	76.0	148.8	96%	345.9	418.0	21%
Minority Interest	6.4	6.7	5%	12.2	27.9	129%
Net Profit	69.6	142.1	104%	333.7	390.1	17%
EPS (sen)	13.50	27.54	104%	64.8	75.6	17%
<u>Margins</u>						
EBIT margin	14%	19%		14%	16%	
PBT margin	14%	19%		14%	15%	
Net Profit margin	9%	15%		14%	15%	
Effective Tax Rate	27%	19%		23%	23%	

Source: Bloomberg, AmlInvestment Bank Bhd.

EXHIBIT 2: SUM-OF-PARTS VALUATION

Sum-of-Parts (SOP) Valuations

	FY22F PAT	PE multiple	
Manufacturing Division	255.1	15	3826.4
Property Division			
	Outstanding GDV		NPV @ 10%
Developments	RM (mil)		
Taman Scientex Pasir Gudang	528.0		87.4
Taman Scientex Kulai	460.0		76.1
Taman Scientex Senai	2172.0		359.4
Taman Pulai Mutiara	4757.0		787.2
Taman Heights (Ayer Keroh)	621.0		102.8
Scientex Klebang & Scientex Meru (Ipoh)	860.0		142.3
Scientex Rawang	860.0		142.3
Taman Mutiara Mas (Skudai)	1285.0		212.7
Scientex Durian Tunggal	1400.0		231.7
	12943.0		2141.9
(-) Property Division Net Debt (estimate)			-234.6
RNAV			1907.4
(-) 10% Discount to Property RNAV			-190.7
Property Division Sub-Total			1716.6
Total			5543.0
Outstanding Shares			515.9
Fair Value/share (RM)			10.74

Source: Bloomberg, AmlInvestment Bank Bhd.

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,247.4	3,518.6	4,369.8	4,905.3	5,506.6
EBITDA	546.6	658.1	773.0	856.5	950.6
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	666.2	749.7	843.8
Other income & associates	(16.9)	-	(23.9)	(27.4)	(32.0)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
Exceptional items	-	-	-	-	-
Pretax profit	450.6	544.3	643.1	728.6	824.7
Taxation	(104.7)	(126.2)	(154.4)	(174.9)	(197.9)
Minorities/pref dividends	12.2	27.9	21.1	24.2	27.9
Net profit	333.7	390.1	467.7	529.5	598.9
Core net profit	333.7	390.1	467.7	529.5	598.9
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,247.8	1,322.6	1,634.2	1,827.4	2,020.6
Intangible assets	1,043.2	1,047.7	1,052.5	1,057.5	1,062.8
Other long-term assets	118.1	108.6	118.1	118.1	118.1
Total non-current assets	2,409.0	2,776.7	2,804.8	3,003.0	3,201.5
Cash & equivalent	257.6	413.2	293.7	354.7	454.1
Stock	321.2	354.0	432.2	485.1	544.6
Trade debtors	595.8	716.0	801.7	899.9	1,010.2
Other current assets	523.9	340.4	523.9	523.9	523.9
Total current assets	1,698.5	1,823.7	2,051.5	2,263.6	2,532.8
Trade creditors	438.2	624.5	589.7	662.0	743.1
Short-term borrowings	704.0	683.7	654.0	629.0	604.0
Other current liabilities	187.5	45.0	212.7	208.0	199.7
Total current liabilities	1,329.7	1,353.2	1,456.4	1,498.9	1,546.8
Long-term borrowings	269.8	357.3	219.8	194.8	169.8
Other long-term liabilities	109.0	134.2	109.0	109.0	109.0
Total long-term liabilities	378.8	491.6	328.8	303.8	278.8
Shareholders' funds	2,225.0	2,561.4	2,821.6	3,192.3	3,611.5
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	5.55	6.29	6.59	7.30	8.12
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	450.6	544.3	643.1	728.6	824.7
Depreciation/Amortisation	92.3	108.7	106.8	106.8	106.8
Net change in working capital	86.4	(52.9)	(97.5)	(109.5)	(122.9)
Others	(72.0)	(99.1)	(112.3)	(135.1)	(160.4)
Cash flow from operations	557.4	501.0	540.1	590.9	648.2
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(306.0)	(300.0)	(300.0)	(300.0)	(300.0)
Others	7.4	11.9	11.9	11.9	11.9
Cash flow from investing	(298.6)	(288.1)	(288.1)	(288.1)	(288.1)
Debt raised/(repaid)	(19.4)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(106.7)	(115.4)	(140.3)	(158.9)	(179.7)
Others	(46.9)	(87.0)	(85.0)	(83.0)	(81.0)
Cash flow from financing	(173.0)	(202.3)	(225.3)	(241.8)	(260.6)
Net cash flow	85.7	10.5	26.7	60.9	99.4
Net cash/(debt) b/f	170.8	256.5	267.0	293.7	354.7
Net cash/(debt) c/f	256.5	267.0	293.7	354.7	454.1
Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	23.6	8.3	24.2	12.3	12.3
EBITDA growth (%)	26.9	20.4	17.5	10.8	11.0
Pretax margin (%)	13.9	15.5	14.7	14.9	15.0
Net profit margin (%)	10.3	11.1	10.7	10.8	10.9
Interest cover (x)	123.5	107.7	28.8	35.5	44.2
Effective tax rate (%)	23.2	23.2	24.0	24.0	24.0
Dividend payout (%)	30.1	29.6	30.0	30.0	30.0
Debtors turnover (days)	61	68	63	63	63
Stock turnover (days)	33	35	33	34	34
Creditors turnover (days)	46	55	51	47	47

Source: Company, AmlInvestment Bank Bhd estimates

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