

21 Sep 2020

**Hold**

Price  
RM9.90

Target Price  
RM10.00

Bloomberg code  
SCI MK

Equity | Malaysia | Consumer  
**Flashnote**

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# Scientex

## Adding landbanks in Pulai, Johor

### Financial Highlights

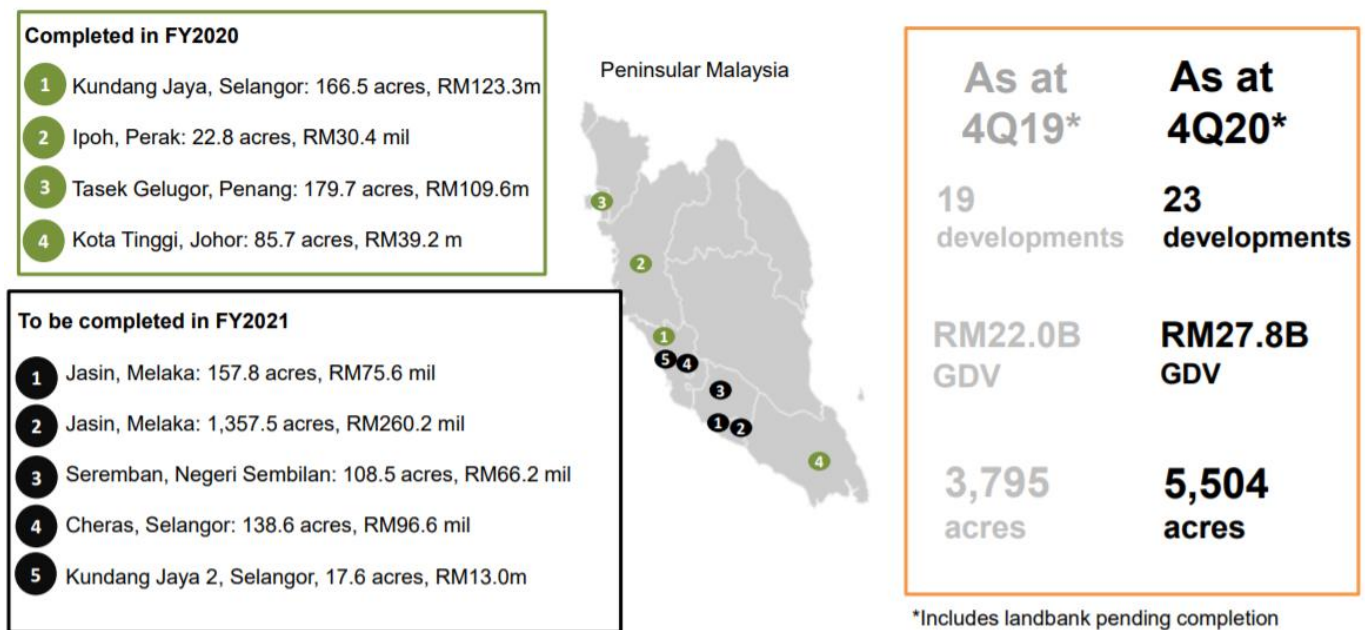
FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	3,247.4	3,518.6	3,998.6	4,543.6	5,262.2
Core net profit (RMm)	352.7	423.6	473.7	529.2	616.8
Core EPS (Sen)	68.4	82.2	91.9	102.7	119.7
EPS growth (%)	17.0	20.1	11.8	11.7	16.6
DPS (Sen)	20.0	23.0	24.0	25.0	26.0
Core PE (x)	14.5	12.0	10.8	9.6	8.3
Div yield (%)	2.0	2.3	2.4	2.5	2.6
ROE (%)	13.9	14.2	15.2	15.0	15.4
Net Gearing (%)	32.2	24.5	38.2	44.9	45.8
PBV(x)	2.4	2.1	1.8	1.6	1.4

Source: Company, KAF

- Maintain Hold rating with TP of RM10.00 pegged to CY21F based on SOP valuation.
- Scientex proposed to acquire eight parcels of freehold lands located in the District of Pulai, State of Johor with an aggregate area of around 202 acres for a total purchase consideration of RM185m.
- The group entered into the Sales and Purchase Agreement (SPA) with Lee Pineapple Company (Pte) Limited.
- Based on our back of the envelope calculation, the purchase price is expected to value the lands at RM21.00/sqf. This was arrived on a willing-buyer willing-seller basis.
- Note that Scientex has existing two sets of landbanks in the Mukim of Pulai with total area of 661 acres.
- The first set of lands were bought in 2015 and the second set were bought in 2017 with approximate land price of RM15.40/sqf and RM19.40/sqf respectively.
- These lands currently have an existing Scientex development called Taman Pulai Mutiara (launched in 2016) and Taman Pulai Mutiara 2 (launched in Dec-2019) with total completed GDV of RM854m.
- Within these projects, Scientex has received 85% in take-up rates due to increasing demand for affordable housing.
- The balance projected GDV for the existing two sets of lands is expected to be around RM4.4b.
- The newly proposed lands to be acquired are strategically located within the local authority area of Majlis Bandaraya Iskandar Puteri situated about 33KM away from Johor Bahru city center with excellent connectivity.
- Apart from situated nearby Scientex's existing Taman Pulai Mutiara developments, the lands are also surrounded by other existing developments like Sri Pulai Perdana 2 and Bandar Pulai Jaya.
- The acquisition is expected to be completed by 2HFY21 pending Estate Land Board approval.
- Management guided that it is too early to ascertain the potential GDV of the lands but plans for a mixed development project.
- As part of Scientex's growth strategies, the group continues to explore opportunities to expand its landbank to sustain contributions from the Property segment in the next ten years.

- Furthermore, the group is on track to deliver 50,000 affordable homes as to date, it has developed over 21,500 units in its portfolio.
- Currently the group has ongoing property developments across Johor, Melaka, Selangor and Perak with total GDV of RM1.8b.
- Management expects demand for affordable housing to be resilient despite the challenging economic climate. Moreover, the recent interest rate cuts by the Central Bank are expected to support homebuying activities in the near term.
- Following the completion of the acquisition, the group's net gearing is expected to be at a comfortable level of 38% for FY21F (from 25% in FY20).
- Since the FY20 financial results announcement last Friday, share price has increased by 8% even touching an all-time high level of RM10.26 today following its stellar results.
- It is currently trading near to its five-year forward mean PE of 10x which we believe is approaching its fair value.

Exhibit 1: Land-banking progress as of FY20



Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



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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