

21 September 2020

## Scientex Berhad

### FY20 Above Expectations

By Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my);

**FY20 core earnings of RM407.5m came in above our estimate at 116%, and 111% of consensus, due to stronger-than-expected top-line on lumpier-than-expected property recognition in 4QFY20 post the lull in 3QFY20. Dividend of 23.0 sen for FY20 is also above expectation (117%). All in, we increase our FY21E CNP by 3% post capacity expansion plans for its manufacturing segment in FY21 and backed by RM1.3-1.4b property sales in FY21-22. Maintain MARKET PERFORM on higher TP of RM10.00 (from RM9.70).**

**FY20 core net profit of RM407.5m came in above our expectation at 116%, and 111% of consensus.** We believe the deviation was due to our conservative top-line estimate that overly anticipated weaker contributions from both the property and plastic segments due to the Covid-19 pandemic. A 13.0 sen dividend was announced, bringing FY20 dividend to 23.0 sen which is also above our estimated 19.7 sen for FY20.

**Results' highlight.** YoY-Ytd, top-line was up by 8% driven by both the plastic manufacturing segment (+8%), propelled by higher sales and higher property segment revenue (+9%) on good take-up rates. Group EBIT margin improved by 1.4% on better product mix and improved efficiency for manufacturing segment, resulting in CNP increasing by 24% to RM407.5m. **QoQ**, top-line was up by 24% driven primarily by the property segment (+111%) due to increased progress billings post the MCO period. CNP jumped 119% on the abovementioned reason coupled with a lower effective tax rate of 19% vs. 27%.

**Outlook.** The Group is targeting affordable project launches going forward, with sales target of RM1.3-1.4b in FY21-22, while unbilled sales of RM650m provides less than one year's visibility. Its manufacturing segment is focused on ramping up utilisation, targeting c.75-80% over the next few years, mostly from its BOPP plant and Arizona plant in the United State on the back of RM150m capex on manufacturing segment in FY21, with another RM150m spread out over FY22-23.

SCIENTEX also proposed (i) a two-for-one bonus shares issuance, which we view positively as it will help enhance trading liquidity via more affordable share price, as well as (ii) an issuance of up to 103,372,974 free warrants on the basis of one free warrant for every 5 shares.

**Increase FY21E CNP by 3% to RM455m and introduce FY22E CNP of RM478m** on additional capacity increase in FY21 (estimated 3% of earnings) stable earnings growth from the property segment as the Group is active in the affordable homes market. FY21-22E dividend of 25.5-26.8 sen is based on pay-out ratio of 30%, implying yield of 2.7-2.8%.

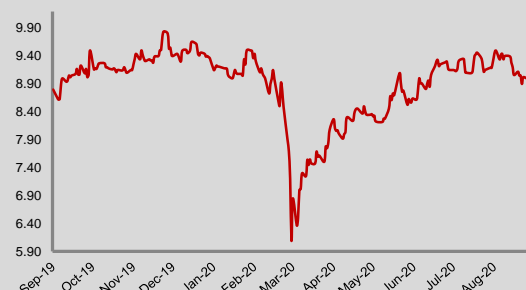
**Maintain MARKET PERFORM on an unchanged TP of RM10.00 (from RM9.70) and a post bonus adjusted TP of RM3.33.** Our TP is increased post adjusting our FY21E earnings but on SoP valuation with: (i) 10x PER for the Property segment, which is on par with mid-cap and Johor-based peers, and (ii) an 15x applied PER for the manufacturing segment which is at a premium to its industrial peer TGUAN (13.8x PER) given SCIENTEX's position as the largest plastic packager under our coverage, allowing it better economies of scale. We believe our MP rating still holds given the lack of strong re-rating catalyst while most downsides have been accounted for.

**Risks to our call include;** (i) higher-than-expected resin cost, (ii) weaker product demand from overseas, (iii) weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

## MARKET PERFORM ↔

Price : **RM9.50**  
Target Price : **RM10.00** ↑

### Share Price Performance



KLCI 1,506.63  
YTD KLCI chg -5.2%  
YTD stock price chg 0.5%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker SCI MK EQUITY  
Market Cap (RM m) 4,900.8  
Shares Outstanding 515.9  
52-week range (H) 10.30  
52-week range (L) 5.96  
3-mth avg daily vol: 287,152  
Free Float 36%  
Beta 0.8

### Major Shareholders

Scientex Holdings Sdn 21.0%  
Scientex Leasing Sdn 9.1%  
Scientex Infinity Sdn 8.6%

### Summary Earnings Table

FYE Jul (RM m)	2020E	2021E	2022E
Turnover	3518.6	4044.1	4076.9
EBIT	549.5	579.0	612.9
PBT	544.3	597.3	632.1
<b>Net Profit (NP)</b>	<b>390.1</b>	<b>454.6</b>	<b>477.7</b>
<b>Core NP*</b>	<b>407.5</b>	<b>454.6</b>	<b>477.7</b>
Consensus (NP)	n.m.	416.5	465.6
Earnings Revision	n.m.	+3%	n.m.
Core EPS (sen)	79.0	85.0	89.3
Core EPS growth (%)	28.4	7.5	5.1
NDPS (sen)	23.0	25.5	26.8
BVPS (RM)	4.97	5.56	6.18
Core PER (x)	14.5	11.2	10.6
PBV (x)	1.9	1.8	1.5
Net Gearing (x)	0.25	0.28	0.30
Net Div. Yield (%)	2.4	2.7	2.8

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**OTHER POINTS**

**Results Highlights**

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E: July (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	954.6	772.2	24%	938.8	2%	3518.6	3247.4	8%
EBIT	183.7	106.4	73%	179.2	3%	549.5	461.8	19%
Interest income	3.3	2.2	47%	1.8	78%	11.2	4.3	157%
Finance costs	(2.8)	(3.9)	-28%	(4.5)	-37%	(16.3)	(15.5)	5%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>184.2</b>	<b>104.7</b>	<b>76%</b>	<b>176.6</b>	<b>4%</b>	<b>544.3</b>	<b>450.6</b>	<b>21%</b>
Taxation	(35.4)	(28.7)	23%	(38.0)	-7%	(126.2)	(104.7)	21%
Profit after tax	148.8	76.0	96%	138.6	7%	418.0	345.9	21%
Minority interest	(6.7)	(6.4)	5%	(5.2)	29%	(27.9)	(12.2)	129%
<b>Net profit</b>	<b>142.1</b>	<b>69.6</b>	<b>104%</b>	<b>133.4</b>	<b>6%</b>	<b>390.1</b>	<b>333.7</b>	<b>17%</b>
<b>Core net profit</b>	<b>155.2</b>	<b>70.9</b>	<b>119%</b>	<b>130.7</b>	<b>19%</b>	<b>407.5</b>	<b>329.5</b>	<b>24%</b>
Core EPS (sen)	30.1	13.7	119%	25.4	19%	79.0	65.4	21%
NDPS (sen)	13.0	10.0	30%	10.0	30%	23.0	20.0	15%
EBIT margin	19.2%	13.8%	307.4%	19.1%		15.6%	14.2%	
Pretax margin	19.3%	13.6%	321.1%	18.8%		15.5%	13.9%	
Core net profit margin	16.3%	9.2%	504.2%	13.9%		11.6%	10.1%	
Effective tax rate	19.2%	27.4%	-30.7%	21.5%		23.2%	23.2%	

Source: Company, Kenanga Research

**Segmental Breakdown**

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>								
Manufacturing	621.4	614.4	1%	630.3	-1%	2551.1	2357.8	8%
Property	333.2	157.8	111%	308.5	8%	967.5	889.6	9%
<b>Group Turnover</b>	<b>954.6</b>	<b>772.2</b>	<b>24%</b>	<b>938.8</b>	<b>2%</b>	<b>3518.6</b>	<b>3247.4</b>	<b>8%</b>
<b>Segment Results</b>								
Manufacturing	71.1	59.3	20%	67.1	6%	251.0	175.2	43%
Property	112.6	47.2	139%	112.1	0%	298.4	286.5	4%
<b>Group EBIT</b>	<b>183.7</b>	<b>106.4</b>	<b>73%</b>	<b>179.2</b>	<b>3%</b>	<b>549.5</b>	<b>461.8</b>	<b>19%</b>
<b>EBIT Margin</b>								
Manufacturing	11.4%	9.6%		10.6%		9.8%	7.4%	
Property	33.8%	29.9%		36.3%		30.8%	32.2%	
<b>Group EBIT Margin</b>	<b>19.2%</b>	<b>13.8%</b>		<b>19.1%</b>		<b>15.6%</b>	<b>14.2%</b>	

Source: Company, Kenanga Research

**SoP Valuations**

Segment	Fair Value (RM'm)	PER (x)	Net Income (RM'm)
Property	2952	10	295.5
Manufacturing	2387	15	159
<b>Sum-of-Parts (RM m)</b>	<b>5338.7</b>		<b>454.6</b>
<b>No. of Shares (m)</b>	<b>535.1</b>		
<b>Target Price (RM)</b>	<b>10.00</b>		

Source: Company, Kenanga Research

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
SCGM BHD	2.87	549.7	Y	04/2021	13.6%	13.4%	79.0%	22.9%	31.9	17.9	14.4	3.3	2.9	17.5%	2.3%	3.45	MP
SCIENTEX BHD	9.50	4,900.8	Y	07/2021	14.9%	0.8%	11.6%	5.1%	14.5	11.2	10.6	1.9	1.8	15.9%	2.7%	10.00	MP
SLP RESOURCES BHD	0.950	301.1	Y	12/2020	19.4%	13.5%	-9.0%	28.5%	11.9	15.8	11.9	1.5	1.4	9.5%	5.8%	1.10	MP
THONG GUAN INDUSTRIES BHD	4.95	934.0	Y	12/2020	3.9%	6.9%	12.4%	12.3%	14.8	13.2	11.7	1.7	1.6	12.4%	1.8%	5.65	OP
TOMYPAK HOLDINGS	0.740	317.3	Y	12/2020	3.9%	6.7%	-84.8%	65.0%	N.A.	185.0	123.3	2.1	2.1	1.0%	0.0%	0.415	UP
<b>Simple Average</b>					<b>11.1%</b>	<b>8.3%</b>	<b>1.8%</b>	<b>26.8%</b>	<b>18.3</b>	<b>14.5</b>	<b>12.2</b>	<b>2.1</b>	<b>1.9</b>	<b>11.3%</b>	<b>2.5%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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