

21 September 2020

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Neutral (Maintained)

Synergistic Effect Drives Earnings

Target Price (Return): MYR10.30 (+8%)
 Price: MYR9.50
 Market Cap: USD1,191m
 Avg Daily Turnover (MYR/USD): 2.49m/0.59m

- **Stay NEUTRAL with new SOP-derived MYR10.30 TP from MYR9.80, 8% upside implying 11.1x P/E vs 12x historical average P/E.** FY20F (Jul) earnings beat at MYR390m (+17% YoY), driven by the manufacturing unit's margins improvement and property division's earnings recovery. The manufacturing unit's sales growth was mainly driven by Daibochi (DPP MK, NR), while organic growth remained muted. Even with the property division improving, some new launches will be delayed to FY21. We believe Scientex is fairly valued despite the positive results.
- **4QFY20 earnings were above our and Street expectations** at MYR142m (+6.5% YoY, +104% QoQ), bringing FY20 earnings to MYR390m (+17% YoY) – 110% and 107% of our and Street's estimates. The positive variance was mainly attributed to an improvement in the manufacturing division's margins and faster-than-expected recovery of the property unit post the Movement Control Order (MCO). A 4QFY20 DPS of 13 sen was declared vs 4QFY19's 10 sen, with cumulative FY20 DPS of 23 sen vs FY19's 20 sen. The company also proposed the undertaking of a bonus issue and to issue free warrants (see Figure 3 for further details).
- **Scientex-Daibochi integration has resulted in margins expansion** of the manufacturing unit through better product mix and operating efficiencies. The current EBIT margin of c.10% (Scientex's internal target: 8-10%) is likely to be sustainable, as the company is planning to progressively invest in automation to improve productivity and reduce dependency on foreign labour. The 8% sales growth was mainly due to the inclusion of Daibochi with minimal organic growth. The latter has allocated MYR100m capex for FY20F-21F to progressively expand capacity (+60% of current capacity) by FY22. As at FY20, Daibochi contributed c.8% to Scientex's PATAMI.
- **The property division managed to catch up post MCO.** The latter unit's earnings rebounded sequentially as construction activity resumed. Scientex has had to delay some of its new launches because of the MCO. As such, it has set an ambitious GDV target of MYR1.6bn for FY21 vs MYR885m in launches in FY20. It is planning to reduce ASP to c.MYR270,000 from c.MYR300,000 to ensure its products remain affordable and competitive. The impact to margins from the lower ASP should be neutralised by the lower land costs.
- **We revise upwards our FY21F-22F earnings by 12-13%** to reflect higher margins assumption for the manufacturing division and elevated revenue from the property wing – in line with Scientex's higher projected launch.
- **Maintain NEUTRAL with MYR10.30 TP** (Figure 4) to reflect the earnings revision. Despite its robust earnings, we believe Scientex is fairly valued at current levels and do not foresee any immediate catalysts for a change in our call. Our current TP implies 11.1x P/E – in line with its 12x historical average P/E. There are no changes to our earnings forecasts post results.
- **Risks.** A sharp decline/surge in raw material prices could pose upside/downside risks to our earnings.

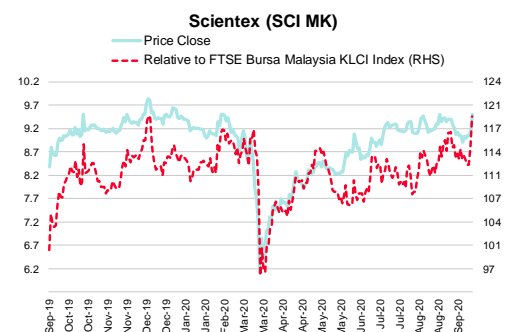
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.5	3.4	10.9	31.9	13.6
Relative	5.7	7.9	10.8	10.3	19.4
52-wk Price low/high (MYR)	6.09 – 9.84				



Source: Bloomberg

Forecasts and Valuation	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Total turnover (MYRm)	3,247	3,519	3,868	4,123	4,313
Recurring net profit (MYRm)	343	390	437	486	522
Recurring net profit growth (%)	26.5	13.7	12.1	11.1	7.4
Recurring P/E (x)	13.86	12.19	10.87	9.79	9.11
P/B (x)	2.1	1.9	1.7	1.5	1.3
P/CF (x)	8.54	6.65	8.25	7.47	7.03
Dividend Yield (%)	2.1	2.4	2.8	3.1	3.3
EV/EBITDA (x)	9.87	8.38	7.41	6.54	5.73
Return on average equity (%)	17.3	16.3	16.1	16.0	15.4
Net debt to equity (%)	29.9	22.8	16.4	9.7	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
Malaysia	Recurring EPS	0.69	0.78	0.87	0.97	1.04
Consumer Non-cyclical	DPS	0.20	0.23	0.26	0.29	0.31
Scientex	BVPS	4.44	5.12	5.73	6.41	7.14
SCI MK	Return on average equity (%)	17.3	16.3	16.1	16.0	15.4
Neutral						
	Valuation metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Recurring P/E (x)	13.86	12.19	10.87	9.79	9.11
	P/B (x)	2.1	1.9	1.7	1.5	1.3
	FCF Yield (%)	10.7	13.4	5.8	7.1	12.1
	Dividend Yield (%)	2.1	2.4	2.8	3.1	3.3
	EV/EBITDA (x)	9.87	8.38	7.41	6.54	5.73
	EV/EBIT (x)	11.81	10.02	8.77	7.77	6.79
	Income statement (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Total turnover	3,247	3,519	3,868	4,123	4,313
	Gross profit	684	3,519	955	1,039	1,065
	EBITDA	563	657	729	803	850
	Depreciation and amortisation	(92)	(107)	(113)	(128)	(133)
	Operating profit	471	549	616	676	717
	Net interest	(16)	(16)	(14)	(9)	(3)
	Pre-tax profit	460	544	613	678	725
	Taxation	(105)	(126)	(147)	(163)	(170)
	Reported net profit	343	390	437	486	522
	Recurring net profit	343	390	437	486	522
	Cash flow (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Change in working capital	86	150	(6)	(4)	(3)
	Cash flow from operations	557	715	576	637	676
	Capex	(48)	(79)	(300)	(300)	(100)
	Cash flow from investing activities	(299)	(481)	(311)	(311)	(111)
	Dividends paid	(107)	(116)	(131)	(146)	(157)
	Cash flow from financing activities	(173)	(79)	(109)	(150)	(159)
	Cash at beginning of period	172	258	413	570	746
	Net change in cash	85	156	157	176	406
	Ending balance cash	258	413	570	746	1,151
	Balance sheet (MYRm)	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Total cash and equivalents	258	413	570	746	1,151
	Tangible fixed assets	1,969	2,296	2,482	2,655	2,621
	Total investments	84	71	82	93	105
	Total assets	4,107	4,600	5,034	5,454	5,885
	Short-term debt	704	684	720	725	725
	Total long-term debt	270	357	357	357	357
	Total liabilities	1,709	1,845	1,943	1,993	2,027
	Total equity	2,399	2,756	3,091	3,460	3,858
	Total liabilities & equity	4,107	4,600	5,034	5,454	5,885
	Key metrics	Jul-19	Jul-20	Jul-21F	Jul-22F	Jul-23F
	Revenue growth (%)	24.8	8.3	9.9	6.6	4.6
	Recurrent EPS growth (%)	22.9	13.7	12.1	11.1	7.4
	Gross margin (%)	21.1	100.0	24.7	25.2	24.7
	Operating EBITDA margin (%)	17.3	18.7	18.9	19.5	19.7
	Net profit margin (%)	10.6	11.1	11.3	11.8	12.1
	Dividend payout ratio (%)	29.2	29.5	30.0	30.0	30.0
	Capex/sales (%)	1.5	2.3	7.8	7.3	2.3
	Interest cover (x)	30.3	33.6	45.2	76.2	254.7

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Jul (MYRm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Revenue	938.8	772.2	954.6	23.6	1.7	3,247.4	3,518.6	8.3	Sales higher due to inclusion of Daibochi's Contributions.
EBITDA	204.4	133.1	211.0	58.6	3.2	554.1	656.9	18.6	
Depreciation	(25.2)	(26.6)	(27.3)	2.4	8.2	(92.3)	(107.4)	16.4	
EBIT	179.2	106.4	183.7	72.6	2.5	461.8	549.5	19.0	
<i>EBIT Margin (%)</i>	19.1	13.8	19.2			14.2	15.6		Margins improved due to a better product mix and better operating efficiencies.
Interest expense	(4.5)	(3.9)	(2.8)	(28.5)	(37.4)	(15.5)	(16.3)	5.2	
Interest income	1.8	2.2	3.3	46.9	78.0	4.3	11.2	>100	
Pretax profit	176.6	104.7	184.2	75.9	4.3	450.6	544.3	20.8	
<i>Pretax Margin (%)</i>	18.8	13.6	19.3			13.9	15.5		
Tax	(38.0)	(28.7)	(35.4)	23.3	(6.8)	(104.7)	(126.2)	20.6	
<i>Effective tax rate (%)</i>	21.5	27.4	19.2			23.2	23.2		
Minority Interest	5.2	6.4	6.7	5.3	29.4	12.2	27.9	>100	
Net Profit	133.4	69.6	142.1	>100	6.5	333.7	390.1	16.9	Above our and consensus expectations
<i>Net Margin (%)</i>	14.2	9.0	14.9			10.3	11.1		

Source: Company, RHB

Figure 2: Segmental breakdown

FYE Jul (MYRm)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments
Revenue									
Manufacturing	630.3	614.4	621.4	1.1	-1.4	2,357.8	2,551.1	8.2	
Property	308.5	157.8	333.2	111.1	8.0	889.6	967.5	8.7	QoQ, sales rebounded after the resumption of constructions activities.
Total	938.8	772.2	954.6	23.6	1.7	3247.4	3518.6	8.3	
EBIT									
Manufacturing	67.1	59.3	71.1	20.0	6.0	175.2	251.0	43.2	
Property	112.1	47.2	112.6	138.6	0.4	286.5	298.4	4.2	
Total	179.2	106.4	183.7			461.8	549.5	8.2	
EBIT Margin (%)									
Manufacturing	10.6	9.6	11.4			7.4	9.8		Margins improved due to the better product mix and operating efficiencies.
Property	36.3	29.9	33.8			32.2	30.8		

Source: Company data, RHB

Figure 3: Bonus issue and free warrants

Scientex proposes to undertake the following:

- i) A bonus issue of up to 1,033,729,744 new ordinary shares in Scientex on the basis of two bonus shares for every one existing Scientex share held on an entitlement date to be determined and announced at a later date;
- ii) An issuance of up to 103,372,974 free warrants in Scientex on the basis of one warrant for every five existing Scientex shares held on the same entitlement date as the proposed bonus issue of shares. The exercise price will be determined and fixed at a later date after it receives all relevant approvals. Proceeds raised, as and when the warrants are exercised, shall be utilised for working capital and future expansion of manufacturing and property divisions.

Source: Company, Bursa Malaysia

Figure 4: SOP valuation

Divisions	Method	Valuation (MYRm)	Implied 2021F P/E (x)
Manufacturing	DCF (WACC:6.7%, TG:1.0%)	3,357.2	16.3
Property	RNAV (Discount of 55%)	1,822.9	7.3
Total Equity Value		5,180.1	
No. of shares (m)		500.6	
TP per share (MYR)		10.30	11.1

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-07-24	Neutral	9.80	9.31
2018-09-21	Neutral	7.40	8.74
2018-03-23	Neutral	8.69	8.15
2018-02-26	Neutral	9.07	8.49

Source: RHB, Bloomberg

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