

Scientex Berhad

TP: RM11.80 (+24.2%)

Ex-Bonus TP: RM3.93

Last Traded: RM9.50

Buy
Record Earnings Cum Bonuses

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

Review

- Scientex Berhad's FY20 core earnings of RM418.7mn (+18.0% YoY) came in above ours and consensus estimates at 109% and 114% respectively. The positive surprise was largely due to higher-than-expected contribution from the Property segment as the progress billing picked up stream in 4QFY20.
- The group declared a final dividend of 13.0sen/share for this quarter, bringing FY20 DPS to 23.0sen/share (FY19 DPS: 20.0sen/share).
- Manufacturing.** FY20 revenue increased 8.2% YoY to RM2.55bn supported by: i) full-year contribution from its converting business, which acquired in 3QFY19 alongside ii) higher sales volume. Meanwhile, FY20 operating profit jumped to RM251.0mn (+43.2% YoY) underpinned by favourable sales mix alongside improved efficiency from automation and tight cost control.
- Property.** 4QFY20 operating profit (+0.4% YoY to RM112.6mn) was strong despite some disruption to construction activities in early May-2020. This was because the group expedited construction progress upon resumption of operations under CMCO and managed to achieve strong billing by securing certificate of completion and compliance. Cumulative FY20 operating profit was strong at RM298.4mn (+4.2% YoY) supported by revenue growth of 8.7% YoY to RM967.5mn.

Impact

- We make no change to our earnings forecasts. Meanwhile, we introduce our FY23 earnings forecast of RM517.9mn, representing an earnings growth of 9.9% YoY.

Outlook

- Manufacturing.** The group expects the demand for flexible plastic packaging products to be strong. As such, capacity expansion and process automation enhancements would remain as the group's long-term priority to boost efficiency, cost effectiveness alongside capacity. Meanwhile, the group also aims to improve its product mix by focusing on value-added products. It is understood that aggressive expansion is made to enhance its printing, lamination and bagging process.
- Property.** FY21 target GDV launches are RM1.6bn (c.6.0k units), nearly double of FY20 launches of RM885mn (c.3.0k units) as some of the planned FY20 launches were postponed to FY21 due to MCO disruptions. Management remains optimistic on the outlook for affordable housing and is keen to launch projects for its recently acquired Tasek Gelugor, Penang and Kundang, Selangor lands alongside scaling up projects over Melaka and Johor.
- The group proposed to undertake a bonus issue exercise on the basis of

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	515.2
Market Cap (RMmn)	4,894.6
52-wk Hi/Lo (RM)	10.30/5.96
12-mth Avg Daily Vol ('000 shrs)	355.4
Estimated Free Float (%)	35.7
Beta	0.7
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	21.0
Scientex Leasing Sdn Bhd	9.1
Scientex Infinity Sdn Bhd	8.6
LIM Teck Meng Sdn Bhd	7.5

Forecast Revision

	FY21	FY22
Forecast Revision (%)	-	-
Net profit (RMm)	437.7	471.4
Consensus	416.5	465.6
TA's / Consensus (%)	105.1	101.2
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY21	FY22
Net debt/ equity (%)	22.7	17.8
ROE (%)	16.4	15.7
ROA (%)	9.3	9.1
NTA/Share (RM)	4.9	5.6
Price/ NTA (x)	1.9	1.7

Scorecard

	% of FY20
vs TA	109 Above
vs Consensus	114 Above

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	0.0	(4.5)
3 mth	10.0	0.0
6 mth	38.7	15.6
12 mth	8.0	(5.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

2 Bonus Share for every 1 existing Scientex Shares and 1 Bonus Warrant for every 5 existing Scientex Shares.

Valuation

- Reiterate Buy call on Scientex with unchanged target price of RM11.80/share, and ex-bonus TP of RM3.93/share based on SOP valuation.

Table 1: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY21 EPS PER 20x	3,707.0
Property	CY21 EPS PER 9x	2,397.6
Total Equity value (RMmn)		6,104.6
Share cap (mn)		515.9
Target Price (RM)		11.80

Table 2: Earnings Summary (RMmn)

FYE July (RMmn)		FY19	FY20	FY21E	FY22F	FY23F
Revenue		3,247.4	3,518.6	4,178.1	4,558.8	4,891.5
EBITDA		554.1	656.9	716.6	779.6	855.2
EBIT		461.8	549.5	605.3	650.4	709.5
Reported PBT		450.6	544.3	599.7	645.7	707.2
Adj. PBT		471.8	578.1	599.7	645.7	707.2
Reported Net Profit		333.7	390.1	437.7	471.4	517.9
Adj. Net profit		354.9	418.7	437.7	471.4	517.9
Basic/Diluted EPS	(sen)	64.7	75.7	84.9	91.4	100.4
Adj. EPS	(sen)	68.8	81.2	84.9	91.4	100.4
PER	(x)	14.7	11.7	11.2	10.4	9.5
Net Dividend	(sen)	20.0	23.0	27.0	30.0	30.0
Dividend Yield	(%)	2.1	2.4	2.8	3.2	3.2

Table 3: 4QFY20 Results Analysis (RMmn)

FYE July (RMmn)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)
Revenue	938.8	772.2	954.6	23.6	1.7	3,247.4	3,518.6	8.3
~ 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	>100	8.0	889.6	967.5	8.7
Interest Expense	(4.5)	(3.9)	(2.8)	(28.5)	(37.4)	(15.5)	(16.3)	5.2
Interest Income	2.0	1.0	1.9	87.0	(4.2)	3.9	5.4	37.6
Depreciation	(25.2)	(26.6)	(27.3)	2.4	8.2	(92.3)	(107.4)	16.4
EBITDA	204.3	134.3	212.4	58.1	4.0	554.5	656.9	18.5
Operating Profit	179.1	107.7	185.1	71.9	3.4	462.2	549.5	18.9
~ Manufacturing	67.1	59.3	71.1	20.0	6.0	175.2	251.0	43.2
~ Property	112.1	47.2	112.6	>100	0.4	286.5	298.4	4.2
EI	(1.4)	(13.1)	(11.4)	(13.3)	>100	(21.2)	(28.6)	34.8
Reported PBT	176.6	104.7	184.2	75.9	4.3	450.6	544.3	20.8
Taxation	(38.0)	(28.7)	(35.4)	23.3	(6.8)	(104.7)	(126.2)	20.6
Minority Interest	(5.2)	(6.4)	(6.7)	5.3	29.4	(12.2)	(27.9)	>100
Reported Profit	133.4	69.6	142.1	>100	6.5	333.7	390.1	16.9
Adj. Net Profit	134.8	82.7	153.4	85.4	13.8	354.9	418.7	18.0
EPS (sen)	25.9	13.5	27.5	>100	6.4	66.7	75.7	13.5
Adj EPS (sen)	26.2	16.0	29.7	85.4	13.7	70.9	81.2	14.5
DPS (sen)	10.0	10.0	13.0	30.0	30.0	20.0	23.0	15.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	19.1	13.9	19.4	5.4	0.3	14.2	15.6	1.4
~ Manufacturing	10.6	9.6	11.4	1.8	0.8	7.4	9.8	2.4
~ Property	36.3	29.9	33.8	3.9	(2.6)	32.2	30.8	(1.4)
PBT Margin (%)	18.8	13.6	19.3	5.7	0.5	13.9	15.5	1.6
Net Margin (%)	14.4	10.7	16.1	5.4	1.7	10.9	11.9	1.0
Tax rate (%)	21.5	27.4	19.2	(8.2)	(2.3)	23.2	23.2	(0.0)

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Monday, September 21, 2020, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my