

COMPANY RESULTS

Scientex (SCI MK)

4QFY20: Above Expectations; Registered Record Quarterly Results

Scientex's 4QFY20 results came in within our expectations with record high revenue and net profit, marking its 12th consecutive yoy earnings growth. The outstanding performance was attributed to higher sales volumes, an improved sales mix and efficiency of its manufacturing segment as well as decent take-up rates and stable progress billings for the property segment. We upgrade FY21F revenue by 3% and roll forward our valuation to 2021. Maintain BUY with a higher target price of RM10.43.

4QFY20 RESULTS

Year to 31 Jul (RMm)	4QFY20	qoq % chg	yoy % chg	12MFY20	yoy % chg
Turnover	954.6	23.6	1.7	3,518.6	8.4
Manufacturing	621.4	1.1	(1.4)	2,551.1	8.2
Property	333.2	111.1	8.0	967.5	8.8
EBIT	183.7	72.6	2.5	549.5	19.0
Manufacturing	71.0	19.8	5.8	251.0	43.2
Property	112.7	139.1	0.5	298.4	4.2
Finance costs	(2.8)	(28.5)	(37.4)	(16.3)	5.2
PBT	184.2	75.9	4.3	544.3	20.8
Core net profit	138.6	67.5	4.2	403.9	14.4
Margins	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	19.2	5.5	0.2	15.6	1.4
-Manufacturing	11.4	1.8	0.8	9.8	2.4
-Property	33.8	4.0	(2.5)	30.8	(1.4)
PBT	19.3	5.7	0.5	15.5	1.6
Core net profit	14.5	3.8	0.4	11.5	0.6

Source: Scientex, UOB Kay Hian

RESULTS

- **Within expectations.** Scientex registered a record set of quarterly results in 4QFY20, bringing full-year FY20 core net profit to RM403.9m (+14.4% yoy), which accounted for 102% and 110% of our and consensus earnings estimates respectively. Meanwhile, the group has announced a final DPS of 13 sen, bringing FY20 DPS to 23 sen, implying a dividend yield of 2.4%. This represents a payout ratio of 30.4%, in line with the group's dividend policy of 30%.
- **Proposed bonus issues.** In 4Q20, Scientex also proposed a 2-for-1 bonus issue and 1-for-5 free warrants to reward shareholders.

KEY FINANCIALS

Year to 31 Jul (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,603	3,247	3,694	4,347	5,324
EBITDA	429	554	626	710	827
Operating profit	357	462	532	603	708
Net profit (rep./act.)	285	334	407	463	545
Net profit (adj.)	284	353	407	463	545
EPS (sen)	58.8	72.9	84.1	95.7	112.6
PE (x)	15.1	12.2	10.6	9.3	7.9
P/B (x)	2.5	1.9	1.7	1.5	1.3
EV/EBITDA (x)	12.7	9.9	8.7	7.7	6.6
Dividend yield (%)	1.9	2.2	2.8	3.2	3.8
Net margin (%)	10.9	10.3	11.0	10.6	10.2
Net debt/(cash) to equity (%)	43.6	32.2	19.5	15.3	10.8
Interest cover (x)	39.9	35.7	40.0	45.9	53.4
ROE (%)	17.4	16.8	17.2	17.3	18.0
Consensus net profit	-	-	359	415	-
UOBKH/Consensus (x)	-	-	1.13	1.11	-

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM9.50
Target Price	RM10.43
Upside	+9.8%
(Previous TP)	RM9.90

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	515.3
Market cap (RMm):	4,580.7
Market cap (US\$m):	1,092.2
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

52-week high/low	RM9.48/RM8.18			
1mth	3mth	6mth	1yr	YTD
7.2	3.9	4.6	3.0	0.5

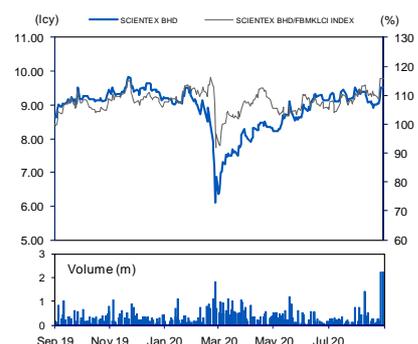
Major Shareholders

Scientex Holdings Sdn Bhd	21.06
Scientex Leasing Sdn Bhd	9.15
Scientex Infinity Sdn Bhd	7.96

FY20 NAV/Share (RM) 5.19

FY20 Net Debt/Share (RM) 1.01

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Manufacturing: Flattish top-line but improved operating profit on slight margin uptick.** 4QFY20 manufacturing revenue was relatively stable (-1.4% yoy, +1.1% qoq) at RM621m, but operating profit grew marginally, thanks to: a) higher sales margins from its newly-acquired conversion businesses - Daibochi and Mega Printing & Packaging (MPP), and b) improved sales mix and production efficiency. Together with significantly lower resin costs, EBIT rose by 5.8% yoy, bringing EBIT margin to 11.4% (+0.8ppt yoy).
- Property: Further accelerates to clock in another record quarter.** Scientex's property segment revenue came in at RM333.2m (+111.1% qoq, +8.0% yoy) on the back of stronger backlog orders and progress billings playing catch-up as construction activities resumed. To note, construction activities and sales agreement execution were hampered during the MCO period in 3QFY20. As a result, unbilled sales came down slightly to RM650m in 4QFY20 (3QFY20: RM730m). Meanwhile, Scientex has successfully launched new properties worth RM885m in GDV in FY20, below the originally planned target of RM1.3b due to the COVID-19 impacts. Nevertheless, the group intends to reinstate its new launches and debut another 6,000 property units across 24 existing projects worth about RM1.6b in FY21, achieving its vision to deliver 50,000 affordable homes by 2028. Management also alluded that demand has been strong with take-up rate of approximately 80% for recent launches.

STOCK IMPACT

- Embarking on better growth proposition in FY21.** While Scientex has recorded a stellar 5-year net profit CAGR growth of 20% in 2015-20, we deem that its growth momentum is sustainable in FY21 and beyond, driven by the continuous enhancement of its manufacturing segment and robust expansion of its property segment. In addition, Scientex has a healthy balance sheet backed by strong operational cashflow (net operation cash flow recorded 5-year CAGR of 30.1%), despite its aggressive business acquisitions and capacity expansion. This will enable it to continue with lush dividends and bonus shares.
- Manufacturing segment will continue to fuel growth.** We deem that Scientex's plastic packaging segment has exhilarating growth potential, underpinned by: a) better sales mix of value-added products (custom film and converting businesses) which will sustain profit margins at 8-10% from the previous 6-8%; b) ramping up utilisation rate of existing manufacturing lines to >70%(FY20: 60-65%); c) organic capacity expansion (demolishing its automotive plant in end-20 to construct a new robotic stretch film plant); and d) gradual shift of production line to automation which potentially increases output by several folds. With its dominant position in the plastic packaging industry and strong balance sheet, we also do not rule out the possibility of Scientex acquiring more downstream manufacturers, given that the past few acquisitions have been synergistic and allows it to access new product segments and clientele.
- Property division poised for robust growth.** While oversupply persists in Malaysia's property scene, Scientex will stand as an outlier and deliver resilient growth in FY21, backed by: a) its ability to keep prices low with above 60% of its affordable housing units priced at below RM200,000, b) aggressive landbank acquisition with lower-than-marker costs; and c) standardisation of designs which enables it to launch projects within one year from signing of the land sales and purchase agreement, and completion of projects within 18 months. To note, more than 90% of Scientex's properties are landed properties with about 80% take-up rate within the first few weeks of launch.

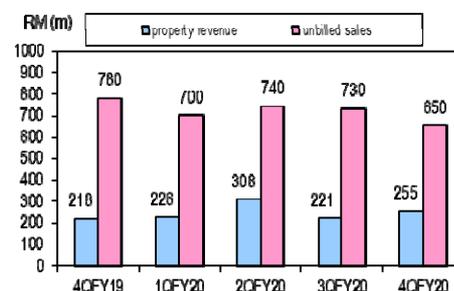
EARNINGS REVISION/RISK

- We raise our FY21 earnings forecast by 3% on the back of some house-keeping adjustments as well as higher property progress billings. We also introduce our FY23 assumptions.

VALUATION/RECOMMENDATION

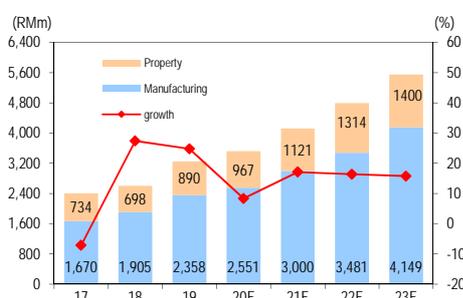
- Maintain BUY with a higher target price of RM10.43** (from RM9.90), pegged to 12x 2021F PE. We like the stock for its strong management team and track record, which enables the group to deliver record annual results year after year. With Scientex's Vision 2028 aim remaining intact, we believe the group will be able to continue its growth impetus moving forward.

PROPERTY SEGMENT



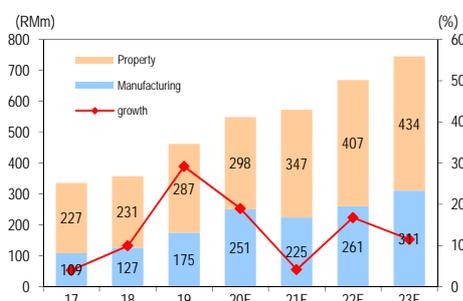
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Net turnover	3,247	3,694	4,347	5,324
EBITDA	554	626	710	827
Deprec. & amort.	92	95	107	119
EBIT	462	532	603	708
Associate contributions	4	4	4	4
Net interest income/(expense)	(16)	(16)	(15)	(15)
Pre-tax profit	451	520	592	697
Tax	(105)	(99)	(113)	(132)
Minorities	(12)	(15)	(17)	(20)
Net profit	334	407	463	545
Net profit (adj.)	353	407	463	545

BALANCE SHEET

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Fixed assets	1,248	1,483	1,676	1,858
Other LT assets	1,161	1,161	1,161	1,161
Cash/ST investment	258	461	518	604
Other current assets	1,441	1,309	1,513	1,816
Total assets	4,107	4,414	4,868	5,439
ST debt	704	650	650	650
Other current liabilities	626	657	770	938
LT debt	270	300	300	300
Other LT liabilities	109	109	109	110
Shareholders' equity	2,225	2,510	2,833	3,216
Minority interest	174	189	206	226
Total liabilities & equity	4,107	4,414	4,868	5,439

CASH FLOW

Year to 31 Jul (RMm)	2019	2020F	2021F	2022F
Operating	557	463	496	549
Pre-tax profit	451	520	592	697
Tax	(88)	(99)	(113)	(132)
Deprec. & amort.	82	95	107	119
Working capital changes	86	(54)	(91)	(135)
Other operating cashflows	26	0	0	1
Investing	(299)	(330)	(300)	(300)
Capex (growth)	(217)	(330)	(300)	(300)
Investments	(80)	0	0	0
Proceeds from sale of assets	3	0	0	0
Others	(5)	0	0	0
Financing	(173)	70	(139)	(162)
Dividend payments	(107)	(122)	(139)	(163)
Issue of shares	0	0	0	1
Proceeds from borrowings	31	0	0	1
Loan repayment	(65)	(24)	0	0
Others/interest paid	(32)	216	0	(1)
Net cash inflow (outflow)	85	203	57	86
Beginning cash & cash equivalent	172	258	461	518
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	258	461	518	604

KEY METRICS

Year to 31 Jul (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	17.1	17.0	16.3	15.5
Pre-tax margin	13.9	14.1	13.6	13.1
Net margin	10.3	11.0	10.6	10.2
ROA	8.9	9.5	10.0	10.6
ROE	16.8	17.2	17.3	18.0
Growth				
Turnover	24.8	13.8	17.7	22.5
EBITDA	29.1	13.0	13.4	16.4
Pre-tax profit	27.0	15.4	13.8	17.7
Net profit	17.3	21.8	13.8	17.7
Net profit (adj.)	24.0	15.3	13.8	17.7
EPS	24.0	15.3	13.8	17.7
Leverage				
Debt to total capital	28.9	26.0	23.8	21.6
Debt to equity	43.8	37.9	33.5	29.5
Net debt/(cash) to equity	32.2	19.5	15.3	10.8
Interest cover (x)	35.7	40.0	45.9	53.4

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