



AmInvestment Bank

## Company report

## SCIENTEX

(SCI MK EQUITY, STIK.KL)

5 Oct 2020

Too big to ignore

BUY

(Maintained)

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

Rationale for report: Company update

Price	RM11.10
Fair Value	RM12.69
52-week High/Low	RM11.82/RM5.96

## Key Changes

Fair value	↑
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,518.6	4,369.8	4,905.3	5,506.6
Core net profit (RM mil)	390.1	467.7	529.5	598.9
FD Core EPS (sen)	75.6	90.7	102.7	116.1
FD Core EPS growth (%)	13.4	19.9	13.2	13.1
Consensus Net Profit (RM mil)	-	446.7	500.2	587.3
DPS (sen)	23.0	27.2	30.8	34.8
PE (x)	14.7	12.2	10.8	9.6
EV/EBITDA (x)	9.7	8.2	7.2	6.4
Div yield (%)	2.1	2.5	2.8	3.1
ROE (%)	16.3	17.4	17.6	17.6
Net Gearing (%)	24.5	20.6	14.7	8.9

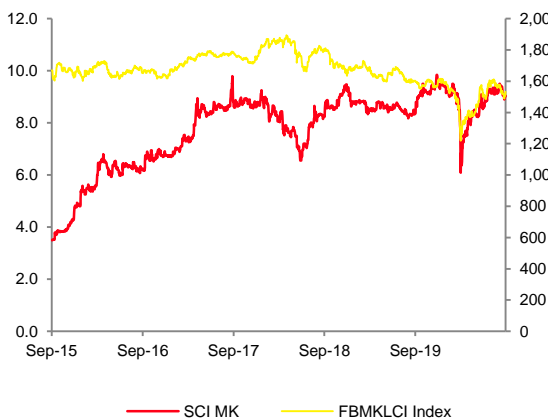
## Stock and Financial Data

Shares Outstanding (million)	515.9
Market Cap (RM mil)	5,726.2
Book Value (RM/share)	6.29
P/BV (x)	1.8
ROE (%)	16.3
Net Gearing (%)	24.5

Major Shareholders	Scientex Holdings Sdn Bhd (21.1%)
	Scientex Leasing Sdn Bhd (9.2%)
	Scientex Infinity Sdn Bhd (8.1%)

Free Float	-
Avg Daily Value (RM mil)	3.9

Price performance	3mth	6mth	12mth
Absolute (%)	23.9	49.0	23.9
Relative (%)	25.3	31.7	31.6



## Investment Highlights

- We maintain our BUY call and forecasts, but increase our fair value by 18% to RM12.69/share (from RM10.74/share previously) for Scientex based on sum-of-parts (SOP) valuation (Exhibit 1). We now peg its manufacturing segment to an FY22F PE of 18x (from 15x), at a premium compared to its peer stretch film makers' average forward PE of 12.5x, to reflect its higher EPS growth rates of 21.6% and 13.2% in FY21–22F (vs. a weighted average of about 10% annually for its global peers). Maintain BUY.
- Our valuation upgrade is premised upon:
  1. The steep increase in Scientex's market value since our coverage initiation on 17 Sep 2020, i.e. by a whopping 22% to RM5.6bil from RM4.6bil in just slightly more than two weeks (in part, we believe, also driven by investors' excitement over the bonus and free warrant issues proposed on 18 Sept 2020). Scientex's higher market value makes it a lot more investible to large institutional investors, prompting us to raise our target forward PE for its manufacturing segment to 18x (from 15x); and
  2. It is also a reflection of earnings potential from some 202 acres of landbank in Pulai under acquisition (announced on 21 Sept 2020). Based on our estimates (using Scientex's existing Pulai Mutiara project as a guide), the land should fetch a GDV of RM1.6bil, translating to a net present value (NPV) of RM265mil assuming a net margin of 24%.
- We continue to like Scientex for: (1) the strong prospects of the packaging industry as consumer spending shifts to on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its above-trend earnings growth rates of 21.6% and 13.2% for FY21–22F (vs. a weighted average of about 10% annually for its global peers) due to extensive R&D, cost efficiency initiatives and an M&A pipeline; and (3) a robust property development business despite the soft market in general thanks to its right focus on predominantly landed affordable residential units in secondary suburbs.
- At about 12x forward earnings in its entirety, we think that this home-grown regional/global plastic packaging player is highly compelling given its strong foothold in a consumer-fuelled sector.

## EXHIBIT 1: SUM-OF-PARTS VALUATION

## Sum-of-Parts (SOP) Valuations

<b>Manufacturing Division</b>	<i>FY22F PAT</i> <b>255.1</b>	<i>PE multiple</i> <b>18</b>	<b>4591.7</b>
<b>Property Division</b>			
	<b>Outstanding GDV</b>		<b>NPV @ 10%</b>
<b>Developments</b>	RM (mil)		
<i>Taman Scientex Pasir Gudang</i>	<b>528.0</b>		87.4
<i>Taman Scientex Kulai</i>	<b>460.0</b>		76.1
<i>Taman Scientex Senai</i>	<b>2172.0</b>		359.4
<i>Taman Pulau Mutiara</i>	<b>4757.0</b>		787.2
<i>Taman Heights (Ayer Keroh)</i>	<b>621.0</b>		102.8
<i>Scientex Klebang &amp; Scientex Meru (Ipoh)</i>	<b>860.0</b>		142.3
<i>Scientex Rawang</i>	<b>860.0</b>		142.3
<i>Taman Mutiara Mas (Skudai)</i>	<b>1285.0</b>		212.7
<i>Scientex Durian Tunggal</i>	<b>1400.0</b>		231.7
<i>Scientex Pulau Agricultural Land*</i>	<b>1600.0</b>		264.8
	<b>14543.0</b>		<b>2406.7</b>
(-) Property Division Net Debt (estimate)			<b>-234.6</b>
<b>RNAV</b>			<b>2172.1</b>
(-) 10% Discount to Property RNAV			<b>-217.2</b>
<b>Property Division Sub-Total</b>			<b>1954.9</b>
<b>Total</b>			<b>6546.6</b>
Outstanding Shares			<b>515.9</b>
<b>Fair Value/share (RM)</b>			<b>12.69</b>

\*our estimate

Source: Bloomberg, AmlInvestment Bank Bhd.

## EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,247.4	3,518.6	4,369.8	4,905.3	5,506.6
EBITDA	546.6	658.1	773.0	856.5	950.6
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	666.2	749.7	843.8
Other income & associates	(16.9)	-	(23.9)	(27.4)	(32.0)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	450.6	544.3	643.1	728.6	824.7
Taxation	(104.7)	(126.2)	(154.4)	(174.9)	(197.9)
<b>Minorities/pref dividends</b>	<b>12.2</b>	<b>27.9</b>	<b>21.1</b>	<b>24.2</b>	<b>27.9</b>
Net profit	333.7	390.1	467.7	529.5	598.9
Core net profit	333.7	390.1	467.7	529.5	598.9
<b>Balance Sheet (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	1,247.8	1,322.6	1,634.2	1,827.4	2,020.6
Intangible assets	1,043.2	1,047.7	1,052.5	1,057.5	1,062.8
<b>Other long-term assets</b>	<b>118.1</b>	<b>108.6</b>	<b>118.1</b>	<b>118.1</b>	<b>118.1</b>
Total non-current assets	2,409.0	2,776.7	2,804.8	3,003.0	3,201.5
Cash & equivalent	257.6	413.2	293.7	354.7	454.1
Stock	321.2	354.0	432.2	485.1	544.6
Trade debtors	595.8	716.0	801.7	899.9	1,010.2
<b>Other current assets</b>	<b>523.9</b>	<b>340.4</b>	<b>523.9</b>	<b>523.9</b>	<b>523.9</b>
Total current assets	1,698.5	1,823.7	2,051.5	2,263.6	2,532.8
Trade creditors	438.2	624.5	589.7	662.0	743.1
Short-term borrowings	704.0	683.7	654.0	629.0	604.0
<b>Other current liabilities</b>	<b>187.5</b>	<b>45.0</b>	<b>212.7</b>	<b>208.0</b>	<b>199.7</b>
Total current liabilities	1,329.7	1,353.2	1,456.4	1,498.9	1,546.8
Long-term borrowings	269.8	357.3	219.8	194.8	169.8
<b>Other long-term liabilities</b>	<b>109.0</b>	<b>134.2</b>	<b>109.0</b>	<b>109.0</b>	<b>109.0</b>
<b>Total long-term liabilities</b>	<b>378.8</b>	<b>491.6</b>	<b>328.8</b>	<b>303.8</b>	<b>278.8</b>
Shareholders' funds	2,225.0	2,561.4	2,821.6	3,192.3	3,611.5
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	5.55	6.29	6.59	7.30	8.12
<b>Cash Flow (RMmil, YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	450.6	544.3	643.1	728.6	824.7
Depreciation/Amortisation	92.3	108.7	106.8	106.8	106.8
Net change in working capital	86.4	(52.9)	(97.5)	(109.5)	(122.9)
<b>Others</b>	<b>(72.0)</b>	<b>(99.1)</b>	<b>(112.3)</b>	<b>(135.1)</b>	<b>(160.4)</b>
Cash flow from operations	557.4	501.0	540.1	590.9	648.2
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(306.0)	(300.0)	(300.0)	(300.0)	(300.0)
<b>Others</b>	<b>7.4</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>	<b>11.9</b>
Cash flow from investing	(298.6)	(288.1)	(288.1)	(288.1)	(288.1)
Debt raised/(repaid)	(19.4)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(106.7)	(115.4)	(140.3)	(158.9)	(179.7)
<b>Others</b>	<b>(46.9)</b>	<b>(87.0)</b>	<b>(85.0)</b>	<b>(83.0)</b>	<b>(81.0)</b>
<b>Cash flow from financing</b>	<b>(173.0)</b>	<b>(202.3)</b>	<b>(225.3)</b>	<b>(241.8)</b>	<b>(260.6)</b>
<b>Net cash flow</b>	<b>85.7</b>	<b>10.5</b>	<b>26.7</b>	<b>60.9</b>	<b>99.4</b>
<b>Net cash/(debt) b/f</b>	<b>170.8</b>	<b>256.5</b>	<b>267.0</b>	<b>293.7</b>	<b>354.7</b>
Net cash/(debt) c/f	256.5	267.0	293.7	354.7	454.1
<b>Key Ratios (YE 31 Jul)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	23.6	8.3	24.2	12.3	12.3
EBITDA growth (%)	26.9	20.4	17.5	10.8	11.0
Pretax margin (%)	13.9	15.5	14.7	14.9	15.0
Net profit margin (%)	10.3	11.1	10.7	10.8	10.9
Interest cover (x)	123.5	107.7	28.8	35.5	44.2
Effective tax rate (%)	23.2	23.2	24.0	24.0	24.0
Dividend payout (%)	30.1	29.6	30.0	30.0	30.0
Debtors turnover (days)	61	68	63	63	63
Stock turnover (days)	33	35	33	34	34
Creditors turnover (days)	46	55	51	47	47

Source: Company, AmlInvestment Bank Bhd estimates

**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.