

"1QFY21 profit grew 5% yoy"

Share price performance



	1M	3M	12M
Absolute (%)	2.0	31.1	26.1
Rel KLCI (%)	-1.9	18.5	18.8

	BUY	HOLD	SELL
Consensus	3	4	-

Source: Bloomberg

Stock Data

Sector	Plastic pkg.
Issued shares (m)	516.9
Mkt cap (RMm)/(US\$m)	6471.1/1,539.7
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	5.96-12.90
Est free float	35.5%
Stock Beta	0.70
Net cash/(debt) (RMm)	(637.2)
ROE (FY21E)	14.6%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.1%
Scientex Infinity SB	9.0%
Lim Teck Meng	7.5%

Source: Affin Hwang, Bloomberg

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Scientex (SCI MK)

BUY (maintain)

Up/Downside: +9.8%

Price Target: RM13.20

Previous Target (Rating): RM13.20 (BUY)

Improved margin supports earnings

- 1QFY21 core net profit rose 5.4% yoy to RM87.1m on a better profit margin from its manufacturing segment.
- Core net profit in 1QFY21 makes up 19% of street's and our full-year forecasts. We expect better earnings in the subsequent quarters from stronger property billings and higher production volumes.
- As such, we make no changes to our earnings forecasts and reiterate our BUY call with an unchanged 12-month TP of RM13.20.

1QFY21 core net profit grew by 5.4% yoy

Scientex's 1QFY21 core net profit grew by 5.4% yoy to RM87.1m, mainly attributable to a higher profit margin from the manufacturing segment (+3.3 ppt yoy to RM68.6m) due to a better sales mix and product margins. This more than offset an 8.6% yoy decline in revenue to RM802.3m, mainly due to lower export sales resulting from a general slowdown in the global economy. Meanwhile, the property segment's EBIT fell by 7.7% yoy to RM58.2m due to a decline in progress billings during the quarter.

A seasonally weak quarter

Scientex's 1QFY21 core net profit fell by 44.3% qoq to RM87.1m mainly due to a lower contribution from the property segment, which saw a fall in revenue and EBIT by 34.4% qoq and 48.3% qoq respectively (Fig 2). This was due to lower progress billings recognised in 1QFY21 and 4QFY20 earnings that had been boosted by the completion of several development phases. Meanwhile, the manufacturing segment saw a 6.1% qoq decline in revenue, cushioned by a better profit margin resulting from the better sales mix. With 1Q being a seasonally weak quarter, we expect subsequent quarters to see some improvement in property earnings, underpinned by current unbilled sales of RM650m and target launches with a gross development value (GDV) of RM1.6bn (c.6k units across 24 property launches). Furthermore, given the positive development in Covid-19 vaccines, we expect the manufacturing segment's sales to recover on the back of a revival in the global economy and consumer demand.

Reaffirm BUY with an unchanged TP of RM13.20

We make no changes to our earnings estimates and reiterate our BUY call with an unchanged TP of RM13.20, based on a SOTP valuation (15x FY21E PER for manufacturing; 30% discount to property RNAV). At a 14x FY21E core PER, the valuation looks attractive, supported by a 3-year core EPS CAGR of 16% in 2021-23E. Key downside risks to our call include: (i) higher-than-expected resin costs, (ii) weaker export sales and (iii) weaker-than-expected property sales.

Earnings & Valuation Summary

FYE 31 July	2019	2020	2021E	2022E	2023E
Revenue (RMm)	3,247.4	3,518.6	3,785.8	4,355.0	4,975.0
EBITDA (RMm)	573.1	700.0	752.4	879.5	1,042.3
Pretax profit (RMm)	450.6	544.3	630.7	751.7	923.1
Net profit (RMm)	333.7	390.1	453.3	540.3	663.4
EPS (sen)	64.8	75.7	88.0	104.9	128.8
PER (x)	18.6	15.9	13.7	11.5	9.3
Core net profit (RMm)	352.7	422.1	453.3	540.3	663.4
Core EPS (sen)	68.5	82.9	88.0	104.9	128.8
Core EPS growth (%)	22.5	21.1	6.2	19.2	22.8
Core PER (x)	17.6	14.5	13.7	11.5	9.3
Net DPS (sen)	20.0	23.0	26.7	31.8	39.1
Dividend Yield (%)	1.7	1.9	2.2	2.6	3.3
EV/EBITDA	12.4	10.1	9.3	7.7	5.8

Chg in EPS (%)	-	-	-
Affin/Consensus (x)	1.0	1.1	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Proposed bonus shares and free warrants

Scientex received approval for the issuance of: (i) 1,034m new shares, on the basis of 2 bonus shares for every 1 existing share held; and (ii) 103k new free warrants, on the basis of 1 free warrant for every 5 shares held. Overall, this exercise will increase Scientex's current share base to 1.6bn shares (from 516m shares), which should further enhance the liquidity of the stock. The exercise ex-date falls on 13 January 2021.

Fig 1: Results comparison

FYE July (RMm)	1Q20	4Q20	1Q21	QoQ % chg	YoY % chg	Comments
Revenue	877.4	954.6	802.3	(16.0)	(8.6)	1QFY21 revenue fell by 9% yoy on lower contribution from the manufacturing (-11% yoy) and property (-1% yoy) divisions.
Op costs	(729.8)	(729.4)	(653.5)	(10.4)	(10.4)	
EBITDA	147.6	225.2	148.8	(34.0)	0.8	
EBITDA margin (%)	16.8	23.6	18.5	-5.1ppt	1.7ppt	Blended 1QFY21 EBITDA margin improved 1.7ppts yoy to 18.5%, due to a favourable sales mix and better production efficiency in the manufacturing segment.
Depn and amort	(27.4)	(27.3)	(27.4)	0.5	0.0	
EBIT	120.2	197.9	121.3	(38.7)	1.0	
EBIT margin (%)	13.7	20.7	15.1	-5.6ppt	1.4ppt	
Int expense	(5.3)	(2.8)	(2.3)	(19.0)	(56.5)	
Int and other inc	2.6	3.3	3.6	8.2	37.3	
Exceptional items	(1.7)	(14.2)	5.4	(138.2)	(422.7)	1QFY21 EIs comprises of forex gain and disposal loss on property.
Pretax profit	115.8	184.2	128.0	(30.5)	10.5	
Tax	(28.4)	(35.4)	(28.1)	(20.5)	(0.9)	
Tax rate (%)	24.5	19.2	22.0	2.8ppt	-2.5ppt	
MI	(6.5)	(6.7)	(7.4)	9.0	13.4	Higher MI due to better performance from 62%-owned Daiboichi, which has been consolidated since 3Q19.
Net profit	81.0	142.1	92.5	(34.9)	14.3	
EPS (sen)	15.7	27.6	17.9	(35.0)	14.1	
Core net profit	82.6	156.3	87.1	(44.3)	5.4	Broadly within expectations.

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 July (RMm)	1Q FY20	4Q FY20	1Q FY21	QoQ % chg	YoY % chg
Revenue					
-Manufacturing	655.9	621.4	583.8	(6.1)	(11.0)
-Property	221.5	333.2	218.4	(34.4)	(1.4)
Total	877.4	954.6	802.3	(16.0)	(8.6)
EBIT					
-Manufacturing	55.5	71.1	68.6	(3.6)	23.7
-Property	63.1	112.6	58.2	(48.3)	(7.7)
Total*	118.5	183.7	126.8	(31.0)	7.0
EBIT margins (%)					
-Manufacturing	8.5	11.4	11.7	0.3ppt	3.3ppt
-Property	28.5	33.8	26.6	-7.2ppt	-1.8ppt
Overall	13.5	19.2	15.8	-3.4ppt	2.3ppt

Source: Company
*not adjusted for EI

Fig 3: Unchanged SOTP of RM13.20

Segmental	Equity value	multiple	Share base	Equity value per	Comment
Plastic packaging	2,930.7	PE 15.0x	515.6	5.68	Pegged to 15x FY20E
Property	5,543.4		515.6	7.53	30% discount to RNAV
SOP (RM)				13.20	

Source: Affin Hwang estimates and forecasts

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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