

COMPANY RESULTS

Scientex (SCI MK)

1QFY21: Within Expectations, Stronger 2QFY21 Ahead

Scientex's 1QFY21 results came in within our expectations. Stripping out a forex gain of RM5.4m, core net profit was RM87.1m (+5.2% yoy), mainly on improved sales mix and efficiency of its manufacturing segment. Positively, we note that historically 1Q is the group's weakest quarter and expect a stronger 2QFY21 ahead, buoyed by organic and inorganic growth. We also roll forward our valuation to FY22. Maintain BUY with a higher target price of RM13.31.

1QFY21 RESULTS

Year to 31 Jul (RMm)	1QFY21	qoq % chg	yoy % chg
Turnover	802.3	(16.0)	(8.6)
Manufacturing	583.8	(6.1)	(11.0)
Property	218.4	(34.5)	(1.4)
EBIT	126.8	(31.0)	7.0
Manufacturing	68.6	(3.4)	23.6
Property	58.2	(48.4)	(7.6)
Finance costs	(2.3)	(19.0)	(56.5)
PBT	128.0	(30.5)	10.5
Core net profit	87.1	(37.1)	5.2
Margins (%)		+/- ppt	+/- ppt
EBIT	15.8	(3.4)	2.3
-Manufacturing	11.8	0.3	3.3
-Property	26.6	(7.2)	(1.8)
PBT	16.0	(3.3)	2.8
Core net profit	10.9	(3.7)	1.4

Source: Scientex, UOB Kay Hian

RESULTS

- **Within expectations.** Scientex's 1QFY21 core net profit came in at RM87.1m (-37.1% qoq, +5.2% yoy), which accounted for 19% of ours and consensus earnings estimates. This excludes RM5.4m forex gain and RM31k gain on disposal of property, plant and equipment. We note that historically 1Q is its weakest quarter. As expected, no dividend was declared for the quarter.

KEY FINANCIALS

Year to 31 Jul (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	3,247	3,519	4,310	4,951	5,630
EBITDA	554	660	694	799	881
Operating profit	462	549	587	680	751
Net profit (rep./act.)	334	390	448	520	575
Net profit (adj.)	353	390	448	520	575
EPS (sen)	72.9	80.7	92.7	107.6	119.0
PE (x)	16.5	14.9	13.0	11.2	10.1
P/B (x)	2.6	2.3	1.9	1.7	1.5
EV/EBITDA (x)	12.7	10.7	10.1	8.8	8.0
Dividend yield (%)	1.7	2.0	2.3	2.7	3.0
Net margin (%)	10.3	11.1	10.4	10.5	10.2
Net debt/(cash) to equity (%)	32.2	24.5	14.3	9.4	1.5
Interest cover (x)	35.7	40.4	40.9	47.1	52.0
ROE (%)	16.8	16.3	15.9	16.1	15.9
Consensus net profit	-	-	454	510	584
UOBKH/Consensus (x)	-	-	0.99	1.02	0.98

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM12.02
Target Price	RM13.31
Upside	+10.7%
(Previous TP)	RM10.43

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):	516.9
Market cap (RMm):	6,212.7
Market cap (US\$m):	1,540.2
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

52-week high/low	RM12.58/RM6.09			
1mth	3mth	6mth	1yr	YTD
2.0	31.1	40.1	26.1	27.2

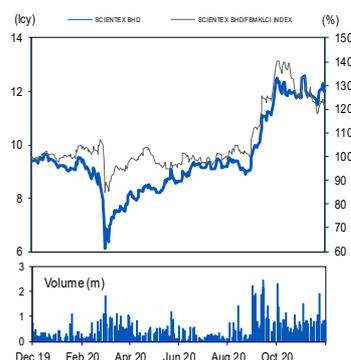
Major Shareholders

Scientex Holdings Sdn Bhd	20.99
Scientex Leasing Sdn Bhd	9.12
Scientex Infinity Sdn Bhd	8.96

FY21 NAV/Share (RM) 6.33

FY21 Net Debt/Share (RM) 0.90

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Proposed bonus issues approved by shareholders.** In 4Q20, Scientex proposed a 2-for-1 bonus issue and 1-for-5 free warrants to reward shareholders. The proposal was approved by shareholders at the Extraordinary General Meeting yesterday and would increase the total number of the group's ordinary shares to around 1.6b shares upon completion.
- Manufacturing: Top-line declined marginally but operating profit improved on slight margin uptick.** 1QFY21 manufacturing revenue was relatively lower (-11.0% yoy; -6.1% qoq) at RM584m, but operating profit grew robustly. This is thanks to: a) higher sales margins from its newly acquired conversion businesses (Daibochi and Mega Printing & Packaging); and b) improved sales mix from its diverse range of packaging solutions and better production efficiency. Together with slightly lower resin costs, EBIT rose by 23.6% yoy, bringing EBIT margin to 11.8% (+3.3ppt yoy).
- Property: Steady performance in the quarter.** Scientex's property segment revenue came in at RM218.4m (-34.5% qoq, -1.4% yoy), much lower qoq due to exceptionally stronger backlog orders and progress billings in the last quarter. Meanwhile, Scientex has launched new properties worth RM350m in gross development value in 1QFY21, with unbilled sales standing at RM760m (4QFY20: RM650m). Moving forward, the group intends to reinstate its new launches and launch a total of 6,000 property units across 24 launches worth about RM1.6b within FY21. This fulfils its vision to deliver 50,000 affordable homes by 2028. Management also alluded that demand has been strong, with take-up rate of above 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 FY2015-20, we deem that its growth momentum is sustainable in FY21 and beyond. This is driven by: a) the continuous enhancement of its manufacturing segment; and b) robust expansion of its property segment. To complement, Scientex has a healthy balance sheet backed by strong operational cash flow (net operation cash flow recorded 5-year CAGR of 30.1%) despite its aggressive business acquisitions and capacity expansion, while still continuing to reward shareholders with lush dividends and bonus shares.
- Resin prices recovered to pre-COVID-19 levels amid higher oil prices.** Oil prices recovered to a 9-month high from the bottom ytd. This was led by the positive progress of several COVID-19 vaccines that have reported convincing efficacy rates from preliminary trials. Nevertheless, we see little correlation between oil and resin prices as resin prices have been trending sideways in a narrow range even when oil prices surged to as high as US\$85/bbl in late-18. This is on the back of global increase in petrochemical refinery capacity, which capped any potential rise in resin costs. We also note that any benefits from lower resin prices are temporary as the cost savings will be passed on to customers albeit with some time lag.

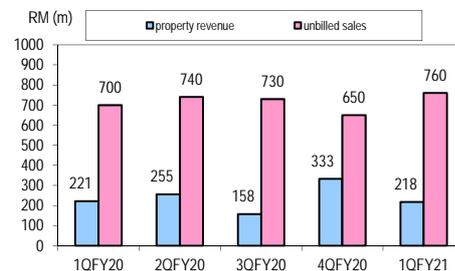
EARNINGS REVISION/RISK

- No changes.

VALUATION/RECOMMENDATION

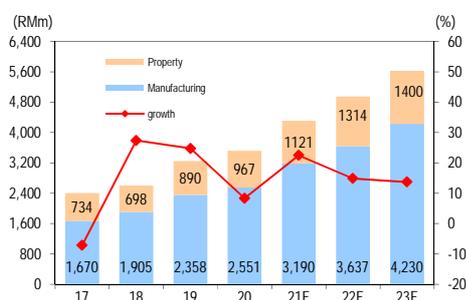
- Maintain BUY with a higher target price of RM13.31** (from RM10.43), as we roll forward our valuation to FY22. Our target price implies 13.2x 2022F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5-year net earnings CAGR of 20%). We continue to like 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



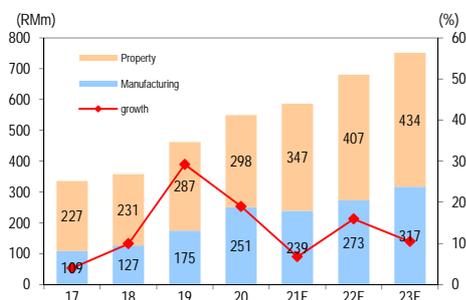
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Net turnover	3,519	4,310	4,951	5,630
EBITDA	660	694	799	881
Deprec. & amort.	111	107	119	129
EBIT	549	587	680	751
Associate contributions	11	11	11	11
Net interest income/(expense)	(16)	(17)	(17)	(17)
Pre-tax profit	544	581	674	745
Tax	(126)	(116)	(135)	(149)
Minorities	(28)	(16)	(19)	(21)
Net profit	390	448	520	575
Net profit (adj.)	390	448	520	575

CASH FLOW

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Operating	526	419	569	739
Pre-tax profit	544	581	674	745
Tax	(126)	(116)	(135)	(149)
Deprec. & amort.	95	107	119	129
Working capital changes	13	(152)	(89)	13
Other operating cashflows	0	0	0	0
Investing	(330)	(300)	(300)	(300)
Capex (growth)	(330)	(300)	(300)	(300)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	166	(134)	(156)	(173)
Dividend payments	(117)	(134)	(156)	(173)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	67	0	0	0
Others/interest paid	216	0	0	0
Net cash inflow (outflow)	362	(15)	113	267
Beginning cash & cash equivalent	258	620	605	718
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	413	605	718	985

BALANCE SHEET

Year to 31 Jul (RMm)	2020	2021F	2022F	2023F
Fixed assets	1,323	1,676	1,858	2,028
Other LT assets	1,454	1,447	1,447	1,447
Cash/ST investment	413	605	718	985
Other current assets	1,410	1,501	1,700	1,663
Total assets	4,600	5,229	5,723	6,123
ST debt	684	684	684	684
Other current liabilities	670	788	899	873
LT debt	357	357	357	357
Other LT liabilities	134	129	130	131
Shareholders' equity	2,561	3,060	3,423	3,827
Minority interest	194	211	230	251
Total liabilities & equity	4,600	5,229	5,723	6,123

KEY METRICS

Year to 31 Jul (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	18.8	16.1	16.1	15.6
Pre-tax margin	15.5	13.5	13.6	13.2
Net margin	11.1	10.4	10.5	10.2
ROA	9.0	9.1	9.5	9.7
ROE	16.3	15.9	16.1	15.9
Growth				
Turnover	8.3	22.5	14.9	13.7
EBITDA	19.1	5.1	15.2	10.3
Pre-tax profit	20.8	6.7	16.1	10.5
Net profit	16.9	14.9	16.1	10.5
Net profit (adj.)	10.6	14.9	16.1	10.5
EPS	10.6	14.9	16.1	10.5
Leverage				
Debt to total capital	27.4	24.1	22.2	20.3
Debt to equity	40.6	34.0	30.4	27.2
Net debt/(cash) to equity	24.5	14.3	9.4	1.5
Interest cover (x)	40.4	40.9	47.1	52.0

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