

COMPANY RESULTS

Scientex (SCI MK)

2QFY21: At The Tipping Point

Scientex's 2QFY21 results came in below our expectations. Stripping out a forex gain of RM9.9m, core net profit was RM102.3m (+2.5% yoy), supported by the robust growth of its property segment. The manufacturing segment's earnings were hit due to surging raw material prices and rising freight costs. We expect earnings momentum to recover in the coming quarters, buoyed by a swift recovery of the global economy and consumer sentiment. Maintain BUY. Target price: RM4.43.

2QFY21 RESULTS

Year to 31 Jul (RMm)	2QFY21	qoq % chg	yoy % chg	6MFY21	yoy % chg
Turnover	906.5	13.0	(0.9)	1,708.8	(4.6)
Manufacturing	618.8	6.0	(6.2)	1,202.6	(8.6)
Property	287.8	31.8	12.9	506.2	6.2
EBIT	149.2	17.7	6.0	275.9	6.4
Manufacturing	63.0	(8.2)	(3.4)	131.6	9.0
Property	86.2	48.1	14.0	144.4	4.2
Finance costs	(2.4)	4.3	(45.0)	(4.7)	(51.3)
PBT	149.5	16.8	7.2	277.6	8.7
Core net profit	102.3	17.4	2.5	189.5	3.8

Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	16.5	0.7	1.1	16.1	1.7
-Manufacturing	10.2	(1.6)	0.3	10.9	1.8
-Property	30.0	3.3	0.3	28.5	(0.6)
PBT	16.5	0.5	1.2	16.2	2.0
Core net profit	11.3	0.4	0.4	11.1	0.9

Source: Scientex, UOB Kay Hian

RESULTS

- **Below expectations.** Scientex's 2QFY21 core net profit came in at RM102.3m (+17.4% qoq, +2.5% yoy), bringing 1HFY21 core net profit to RM189.5m (+3.8% yoy), which accounted for 42% of our and consensus estimates respectively. This excludes a RM9.9m forex gain and RM47k gain from disposal of property, plant and equipment.

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)	22.8	25.2	28.9	33.6	37.1
PE (x)	17.6	15.9	13.8	11.9	10.8
P/B (x)	2.8	2.4	2.0	1.8	1.6
EV/EBITDA (x)	12.4	10.4	9.9	8.6	7.8
Dividend yield (%)	5.0	1.9	2.2	2.5	2.8
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	-	-	448	506	578
UOBKH/Consensus (x)	-	-	1.00	1.03	1.00

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.00
Target Price	RM4.43
Upside	+10.8%

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):	1,550.6
Market cap (RMm):	6,202.4
Market cap (US\$m):	1,505.9
3-mth avg daily t'over (US\$m):	2.0

Price Performance (%)

52-week high/low	RM4.27/RM2.03			
1mth	3mth	6mth	1yr	YTD
(4.1)	4.5	32.6	39.5	(5.4)

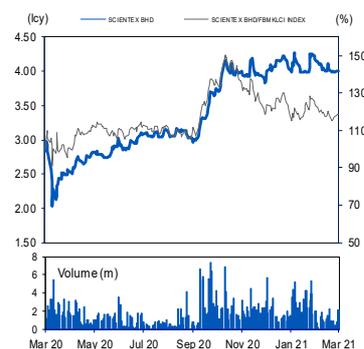
Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.99
Scientex Leasing Sdn Bhd	9.12
Scientex Infinity Sdn Bhd	9.06

FY21 NAV/Share (RM) 1.97

FY21 Net Debt/Share (RM) 0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Manufacturing: Top-line and operating profit declined despite slight margin uptick.** In 2QFY21, manufacturing revenue was lower (-6.2% yoy) at RM619m due to lower sales tonnage of packaging products. Meanwhile, EBIT dipped 3.4% yoy in 2QFY21 as a hike in raw material costs and a sudden surge in freight expenses due to a global shortage of shipping containers further crippled the segment's earnings. As a result, EBIT margin fell 1.6% qoq to 10.2%, but +0.3% yoy, due to: a) higher sales margins from its newly acquired businesses (Daibochi and Mega Printing & Packaging), and b) an improved sales mix from its diverse range of packaging solutions and better production efficiency.

- Property: Stellar performance in the quarter.** Scientex's property segment revenue came in at RM287.8m (+31.8% qoq, +12.9% yoy) on the back of steady progress billings and higher sales from seven new launches across Johor, Melaka, Selangor and Penang. The seven launches feature close to 2,000 units of affordable homes with combined GDV of RM427m. Meanwhile, Scientex has launched RM425m worth of new properties in 2QFY21 with unbilled sales standing at RM900m (1QFY21: RM760m). Management alluded that demand for property launches has been strong in the quarter with a take-up rate of about 75%. Moving forward, the group intends to launch a total of 6,000 property units across 24 launches worth about RM1.6b within FY21. This fulfills its vision to deliver 50,000 affordable homes by 2028.

STOCK IMPACT

- Manufacturing segment to deliver better growth in coming quarters.** While Scientex's plastic packaging division delivered a less exciting 2QFY21, we deem that the recovery in the coming quarters will be stronger as global headwinds such as an exceptional surge in freight costs will be gradually resolved. Moving forward, Scientex will continue to maintain its dominant position in the plastic packaging industry and exhibit robust growth potential, underpinned by: a) 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 the utilisation rate of existing manufacturing lines to >70% (FY20: 60-65%), c) organic capacity expansion (construction of new robotic stretch film plant), and d) a gradual shift of the production line to automation which potentially increases output by several fold.

- Property division mapping group's future growth.** In 2QFY21, Scientex launched seven property development projects across Penang, Selangor, Melaka and Johor. The group also completed the acquisitions of a 109-acre plot of land in Seremban, Negeri Sembilan and a 1,365-acre plot of land in Jasin, Melaka. The first development on the Jasin plot is expected to be launched in 4QFY21 while the Seremban project is expected to be launched in early-22, marking the group's maiden entry into Negeri Sembilan. While oversupply persists in Malaysia's property sector, Scientex will stand as an outlier and deliver resilient growth in 2HFY21, 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 at lower-than-market 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.

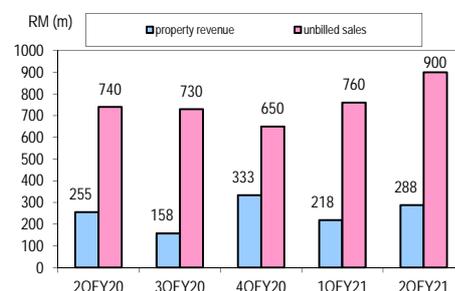
EARNINGS REVISION/RISK

- No changes.

VALUATION/RECOMMENDATION

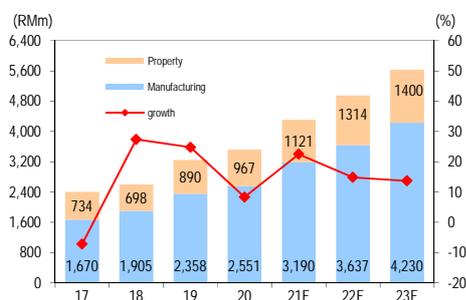
- Maintain BUY with target price of RM4.43.** Our target price implies 13.2x 2022F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5-year net earnings CAGR of 20%). We continue to like the stock for its strong management team and track record, which 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



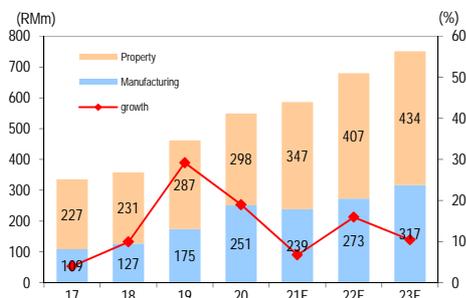
Source: Scientex, UOB Kay Hian

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

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

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

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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