

"9MFY21 earnings were above expectations"

Share price performance



	1M	3M	12M
Absolute (%)	7.0	4.7	45.7
Rel KLCI (%)	6.9	6.7	40.3

	BUY	HOLD	SELL
Consensus	3	3	-

Source: Bloomberg

Stock Data

Sector	Plastic pkg.
Issued shares (m)	1,550.6
Mkt cap (RMm)/(US\$m)	6605.5/1587.7
Avg daily vol - 6mth (m)	1.2
52-wk range (RM)	2.86-4.45
Est free float	35.3%
Stock Beta	0.74
Net cash/(debt) (RMm)	(897.7)
ROE (CY21E)	12.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Infinity SB	9.2%
Scientex Leasing SB	9.1%
Lim Teck Meng	7.5%

Source: Affin Hwang, Bloomberg

Azhani Hashim

T (603) 2146 7544

E azhani.hashim@affinhwang.com

Scientex (SCI MK)

BUY (upgrade)

Up/Downside: 20.9%

Price Target: RM5.15

Previous Target (Rating): RM4.05 (HOLD)

Cost pass through preserved margins

- A good set of results – 9MFY21 core net profit rose 13.6% yoy to RM302m on better contribution from its property and manufacturing segments
- 9MFY21 earnings made up 68% of street and 80% of our full-year forecasts
- We upgrade Scientex to BUY with a higher TP of RM5.15 as we turn more positive on its earnings outlook

A good set of results

Scientex's 3QFY21 core net profit grew by 10.8% qoq to RM112.9m, mainly from higher revenue for both the manufacturing (+8.5% qoq) and property (+6.1% qoq) segments. The manufacturing segment saw higher sales of flexible packaging (FPP) to the domestic and export markets, while the property segment saw higher sales and progress billings. EBITDA margin also remained stable at 18.2% despite higher resin prices as we believe it managed to pass through the higher cost to customers through price hikes.

9MFY21 core net profit grew by 13.6% yoy

Scientex's 9MFY21 core net profit grew by 13.6% yoy to RM302m due to better contribution from the property segment on higher sales of affordable homes and higher gross earnings recognized from construction progress billings. Scientex also achieved strong take-up rates for new launches in Scientex Tasek Gelugor in Penang, Scientex Kundang Jaya in Selangor, Scientex Durian Tunggal in Melaka and Taman Pulau Mutiara in Johor with an average take-up rate of 80%. The manufacturing segment also saw higher earnings from better EBIT margin due to a more favorable packaging sales mix. Elsewhere, interest expense was lower due to lower interest rate, while tax expense was also lower. Scientex has also declared an interim dividend of 4 sen. Overall, the results were above our expectations but below street's – making up 80% of our full-year forecast and 68% of street's. The earnings beat was due to the successful cost-pass through, which preserved the group's manufacturing margins.

Upgrade to BUY with a higher target price of RM5.15

We raise our FY21-23E earnings by 1-8% after adjusting for higher margins from the manufacturing segment and some improvement in property earnings, underpinned by current unbilled sales of RM920m. We also rolled forward our valuation base year to CY22E. Additionally, in view of the more resilient manufacturing earnings outlook, we increased our valuation multiple for the plastic segment to 16x (based on +1SD above 5-year average sector forward mean) from 12x previously. Based on our SOTP valuation of 16x CY22E PER for manufacturing, a 30% discount to property RNAV, we derive our new 12-month target price of RM5.15 (previously RM4.05). Upgrade to BUY.

Earnings & Valuation Summary

FYE 31 July	2019	2020	2021E	2022E	2023E
Revenue (RMm)	3,247.4	3,518.6	3,568.0	4,486.1	5,086.8
EBITDA (RMm)	573.1	688.8	665.8	859.4	1,008.5
Pretax profit (RMm)	450.6	544.3	548.8	734.0	877.4
Net profit (RMm)	333.7	390.1	410.9	527.5	630.6
EPS (sen)	21.5	25.2	26.5	34.0	40.7
PER (x)	19.8	16.9	16.1	12.5	10.5
Core net profit (RMm)	352.7	422.1	410.9	527.5	630.6
Core EPS (sen)	22.7	27.2	26.5	34.0	40.7
Core EPS growth (%)	24.0	19.7	-2.6	28.4	19.5
Core PER (x)	18.7	15.7	16.1	12.5	10.5
Net DPS (sen)	20.0	7.5	7.9	10.2	12.2
Dividend Yield (%)	4.7	1.8	1.9	2.4	2.9
EV/EBITDA	13.1	10.8	10.5	7.9	6.0

Chg in EPS (%)	+8.2	+2.5	+1.0
Affin/Consensus (x)	0.9	1.0	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Key risks

Key downside risks to our BUY call: (i) higher raw material costs, (ii) weaker export sales and (iii) weaker-than-expected property sales.

Fig 1: Results comparison

FYE 31 Jul (RMm)	3Q FY20	2Q FY21	3Q FY21	QoQ % chg	YoY % chg	9M FY20	9M FY21	YoY % chg	Comments
Revenue	772.2	906.5	976.8	7.7	26.5	2,564.0	2,685.6	4.7	9MFY21 revenue increased by 4.7% yoy on higher sales and progress billings from the property segment (+28% yoy) which more than offset 2.9% decrease in manufacturing revenue
Op costs	(625.5)	(740.8)	(798.6)	7.8	27.7	(2,100.4)	(2,193.6)	4.4	
EBITDA	146.7	165.7	178.2	7.6	21.5	463.6	492.0	6.1	
<i>EBITDA (%)</i>	<i>19.0</i>	<i>18.3</i>	<i>18.2</i>	<i>0ppt</i>	<i>-0.7ppt</i>	<i>18.1</i>	<i>18.3</i>	<i>0.2ppt</i>	EBITDA margin remained stable at 18.3%
Depn&amort	(26.6)	(26.8)	(26.6)	(0.7)	(0.2)	(80.1)	(80.1)	0.0	
EBIT	120.0	138.9	151.6	9.2	26.3	383.5	411.9	7.4	
<i>EBIT (%)</i>	<i>15.5</i>	<i>15.3</i>	<i>15.5</i>	<i>0.2ppt</i>	<i>0ppt</i>	<i>15.0</i>	<i>15.3</i>	<i>0.4ppt</i>	
Int exp	(3.9)	(2.4)	(3.0)	23.8	(25.1)	(13.5)	(7.6)	(43.7)	
Int/other inc	2.2	2.7	3.3	19.4	45.8	7.9	9.6	21.4	
EI	(13.6)	10.2	(3.1)	(129.9)	(77.5)	(17.7)	12.6	(171.1)	9MFY21 EI is mainly from unrealised forex gain
PBT	104.7	149.5	148.9	(0.4)	42.2	360.1	426.5	18.4	
Tax	(28.7)	(28.4)	(32.3)	13.6	12.6	(90.8)	(88.9)	(2.2)	
<i>Tax rate (%)</i>	<i>27.4</i>	<i>19.0</i>	<i>21.7</i>	<i>2.7ppt</i>	<i>-5.7ppt</i>	<i>25.2</i>	<i>20.8</i>	<i>-4.4ppt</i>	
MI	(6.4)	(8.9)	(6.7)	(24.8)	4.7	(21.2)	(23.0)	8.6	
Net profit	69.6	112.2	109.9	(2.0)	57.8	248.1	314.6	26.8	
EPS (sen)	4.5	7.2	7.1	(2.0)	57.8	16.0	20.3	26.8	
Core profit	83.2	101.9	112.9	10.8	35.7	265.8	302.0	13.6	Above our expectation but below street's FY21 estimates

Source: Affin Hwang, Company

Fig 2: Fully diluted SOTP valuation

Segmental	CY22 EBITDA	multiple	Share base	Equity value per	Comment
Plastic packaging	448.4	PE 16.0x	1,654.0	2.37	Pegged to 16x CY22E (+1SD 5-year sector forward PER) 30% discount to RNAV
Property			1,654.0	2.78	
SOP (RM)				5.15	

Source: Affin Hwang estimates

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

This report is intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

This report is prepared by:
 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com