

27 September 2019

Scientex Berhad

FY19 Above Expectations

By Marie Vaz | msvaz@kenanga.com.my;

FY19 core earnings of RM331.2m came in above our (119%) and consensus (108%) estimates on stronger-than-expected property, and plastic margins on improving product mix. All in, we increase FY20E earnings by 16% to RM386m, and introduce FY21E CNP of RM474m on improved margins closer to current levels. Maintain MARKET PERFORM but on a higher TP of RM9.45 (from RM8.15).

FY19 core net profit of RM331.2m came in above our (119%) and consensus (108%) estimates. Topline came in within expectations at 98%, but the deviation from our estimate was from higher-than-expected EBIT margin of 14% (vs. our expectations of 11.4%) from both segments; (i) property segment margins (32% vs. ours of 30%), and (ii) plastic manufacturing segment margins of 7.4% (vs. ours of 6.0%). A final dividend of 10.0 sen was announced, bringing FY19 NDPS to 20.0, below our expectation at 91%.

Results highlight. YoY-Ytd, top-line jumped by 25% from the plastic manufacturing segment (+24%), driven by higher contribution from stretch film sales, while the property segment revenue (+27%) was up on ongoing projects as well as new launches such as Taman Scientex Utama in Senai, Taman Pulai Mutiara in Pulai, Scientex Durian Tunggal in Melaka and Taman Scientex in Rawang. All in, CNP increased by 16% on the back of higher effective tax rate (23% vs. 19%) and finance cost (+44%). QoQ, topline was up by 13% mostly on stronger billings for the property segment which came in during the quarter. However, strong EBIT margin (+6.6ppt) was driven by both segments; (i) property segment due better margins for project billings this quarter namely Taman Scientex Utama in Senai, Scientex Durian Tunggal in Melaka and Taman Scientex in Rawang, and (ii) plastic manufacturing margins on a better sales mix and product margins as a result of softer raw material prices. As a result, bottomline was up by 83% on the back of slightly lower effective tax rate of 21.5% (vs. 24.9%).

Outlook. SCIENTX's manufacturing segment is focused on ramping up utilisation, targeting c.75% over the next few years (vs. c.70% currently), mostly from its BOPP plant, and Arizona plant in the United States. Growth is premised on gradual improvement in utilisation rate for the manufacturing segment, and (ii) full-year contribution from KHPI in FY19.

We increase FY20E CNP by 16% to RM386m and introduce FY21 numbers. Our higher FY20 CNP is on the back of stronger margins for both segments; (i) property segment to 32-33% for EBIT margins in FY20-21E (vs. 30% in FY20), and (ii) plastic manufacturing segment to 7% for EBIT margins (from 6.0%). We are expecting launches of RM1.3-1.3b in FY20-21, and manufacturing utilisation rates of 70-75% in FY20-21. Unbilled sales of RM780m provides <1 year of visibility.

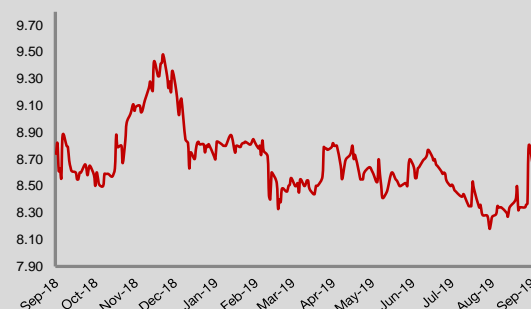
Maintain MARKET PERFORM but on a higher TP to RM9.45 (from RM8.15) on FY20E valuations post increasing our FY20E earnings. Our TP is based on our FY20E SoP valuation on: (i) unchanged PER of 10.0x for the Property segment, which is at a 15% discount to small-mid-cap property players and Johor-exposed peers' PER due to SCIENTX's exposure in the challenging Johor market, and (ii) a slightly higher 16.0x applied PER for the manufacturing segment (from 15.5x) on improved margins, which is at a 9% discount compared to SLP's applied PER given its lower margin of 7% vs. 15%, but above TGUAN (9.0x PER) given its strong earnings growth. Maintain MARKET PERFORM as we believe we have priced in most foreseeable positives as well as downside risks for now.

Risks to our call include; (i) higher/lower-than-expected resin cost, (ii) stronger/weaker product demand from overseas, (iii) stronger/weaker-than-expected property sales, and (iv) foreign currency risk from weakening Ringgit.

MARKET PERFORM ↔

Price : **RM8.89**
Target Price : **RM9.45** ↑

Share Price Performance



KLCI	1,593.00
YTD KLCI chg	-5.8%
YTD stock price chg	0.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	4,580.7
Shares Outstanding	515.3
52-week range (H)	9.48
52-week range (L)	8.11
3-mth avg daily vol:	208,484
Free Float	38%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	21.1%
Scientex Leasing Sdn Bhd	9.2%
Scientex Infinity Sdn Bhd	8.0%

Summary Earnings Table

FYE Jul (RM m)	2019A	2020E	2021E
Turnover	3247.4	3797.8	4126.1
EBIT	461.8	499.2	610.4
PBT	450.6	512.8	629.0
Net Profit (NP)	333.7	385.8	474.2
Core NP*	331.2	385.8	474.2
Consensus (NP)	N.A.	363.0	417.4
Earnings Revision	N.A.	+16%	N.A.
Core EPS (sen)	61.9	72.1	88.6
Core EPS growth (%)	8.2	16.5	22.9
NDPS (sen)	20.0	21.6	26.6
BVPS (RM)	3.75	4.87	5.69
Core PER (x)	14.4	12.3	10.0
PBV (x)	2.4	1.8	1.6
Net Gearing (x)	0.4	0.4	0.3
Net Div. Yield (%)	2.5	2.4	3.0

27 September 2019

OTHER POINTS

*Our FY20 share base of 535m shares includes 19m shares from the Share Grant Plan, 6m from the DRP and 25.2m from the proposed Share Swap for DAIBOCI.

Results Highlights								
	4Q	3Q	Q-o-Q	3Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	938.8	828.5	13%	720.7	30%	3247.4	2602.8	25%
EBIT	179.2	103.1	74%	101.2	77%	461.8	357.4	29%
Interest income	1.8	2.2	-16%	2.7	-32%	4.3	8.0	-46%
Finance costs	(4.5)	(3.8)	17%	(4.0)	12%	(15.5)	(10.8)	44%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	176.6	101.4	74%	99.9	77%	450.6	354.7	27%
Taxation	(38.0)	(25.3)	50%	(17.7)	115%	(104.7)	(67.6)	55%
Profit after tax	138.6	76.2	82%	82.3	69%	345.9	287.1	21%
Minority interest	(5.2)	(3.3)	58%	(0.9)	451%	(12.2)	(4.2)	189%
Net profit	133.4	72.9	83%	81.3	64%	333.7	282.8	18%
Core net profit	132.5	72.6	83%	83.4	59%	331.2	284.7	16%
Core EPS (sen)	25.7	14.2	80%	17.1	51%	65.8	58.5	12%
NDPS (sen)	10.0	10.0	0%	10.0	0%	20.0	20.0	0%
NTA/share (RM)	3.7	3.5	8%	3.5	8%	3.7	3.5	8%
EBIT margin	19%	12%		14%		14%	14%	
Pretax margin	19%	12%		14%		14%	14%	
Core net profit margin	14%	9%		12%		10%	11%	
Effective tax rate	21.5%	24.9%		17.7%		23.2%	19.1%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q	3Q	Q-o-Q	3Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover								
Manufacturing	630.3	602.8	5%	527.0	20%	2357.8	1904.6	24%
Property	308.5	225.7	37%	217.7	42%	889.6	698.2	27%
Group Turnover	938.8	828.5	13%	744.7	26%	3247.4	2602.8	25%
Segment Results								
Manufacturing	67.1	33.4	101%	26.3	155%	175.2	126.9	38%
Property	112.1	69.7	61%	81.9	37%	286.5	237.5	21%
Group EBIT	179.2	103.1	74%	108.2	66%	461.8	364.4	27%
EBIT Margin								
Manufacturing	10.6%	5.5%		5.0%		7.4%	6.7%	
Property	36.3%	30.9%		37.6%		32.2%	34.0%	
Group EBIT Margin	19.1%	12.4%		14.5%		14.2%	14.0%	

Source: Company, Kenanga Research

27 September 2019

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
SCGM BHD	1.16	222.2	Y	04/2020	17.4%	21.7%	45.8%	47.9%	N.A.	23.3	15.8	1.4	1.3	5.8%	1.7%	1.200	MP
SCIENTEX BHD	8.89	4,580.7	Y	07/2020	16.9%	8.6%	16.5%	22.9%	14.4	12.3	10.0	2.4	1.8	20.0%	2.4%	9.45	MP
SLP RESOURCES BHD	1.39	440.6	Y	12/2019	12.5%	5.4%	-6.7%	5.5%	17.4	18.5	17.6	2.4	2.2	12.6%	3.2%	1.45	OP
THONG GUAN INDUSTRIES BHD	2.68	474.7	Y	12/2019	3.4%	2.9%	0.8%	2.7%	10.2	10.1	9.8	1.0	0.9	9.5%	3.4%	2.45	MP
TOMYPAK HOLDINGS	0.480	201.1	Y	12/2019	-2.5%	5.6%	-3.3%	N.A.	N.A.	N.A.	N.A.	1.4	1.0	-6.1%	0.0%	0.270	UP
Simple Average					9.6%	8.8%	10.6%	-8.9%	14.0	16.0	13.3	1.8	1.5	8.3%	2.1%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

27 September 2019

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

