



AmInvestment Bank

Company report

SCIENTEX

(SCI MK EQUITY, STIK.KL)

18 Dec 2020

1QFY21 net profit increases 14% YoY

BUY

(Maintained)

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Rationale for report: Company results

Price	RM12.02
Fair Value	RM12.69
52-week High/Low	RM12.90/RM5.96

Key Changes

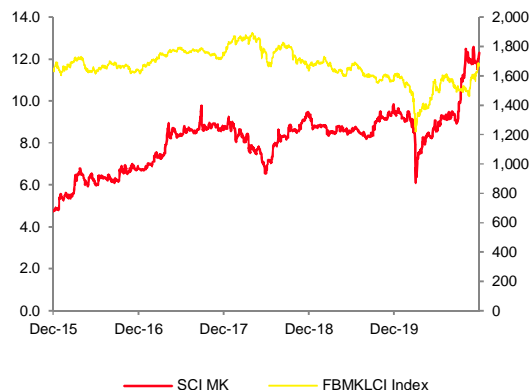
Fair value	↔
EPS	↔

YE to Jul	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,518.6	4,369.8	4,905.3	5,506.6
Core net profit (RM mil)	390.1	467.7	529.5	598.9
FD Core EPS (sen)	75.6	90.7	102.7	116.1
FD Core EPS growth (%)	13.4	19.9	13.2	13.1
Consensus Net Profit (RM mil)	-	453.6	509.9	584.1
DPS (sen)	23.0	27.2	30.8	34.8
PE (x)	16.3	13.6	12.0	10.6
EV/EBITDA (x)	10.6	9.0	8.0	7.0
Div yield (%)	2.1	2.5	2.8	3.1
ROE (%)	16.3	17.4	17.6	17.6
Net Gearing (%)	24.5	20.6	14.7	8.9

Stock and Financial Data

Shares Outstanding (million)	515.9
Market Cap (RM mil)	6,345.3
Book Value (RM/share)	6.29
P/BV (x)	2.0
ROE (%)	16.3
Net Gearing (%)	24.5
Major Shareholders	Scientex Holdings Sdn Bhd (21.1%) Scientex Leasing Sdn Bhd (9.2%) Scientex Infinity Sdn Bhd (8.1%)
Free Float	-
Avg Daily Value (RM mil)	9.9

Price performance	3mth	6mth	12mth
Absolute (%)	35.9	42.5	25.5
Relative (%)	23.8	28.7	17.1



Investment Highlights

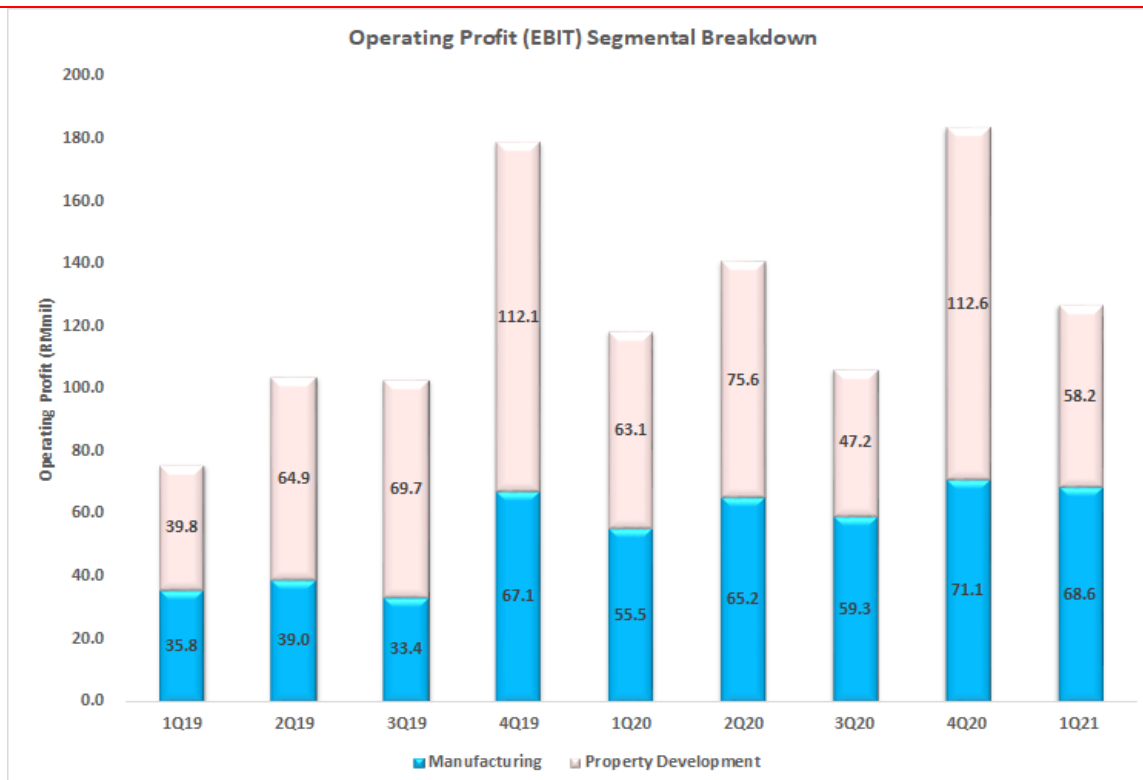
- We maintain our BUY call, forecasts and fair value of RM12.69/share for Scientex based on sum-of-parts (SOP) valuation (Exhibit 3). We peg its manufacturing segment to an FY22F P/E of 18x, at a premium compared to its peer stretch film makers' average forward PE of 12.5x. This is to reflect its higher EPS growth rates of 21.6% and 13.2% in FY21–22F (vs. a weighted average of about 10% annually for its global peers).
- Scientex's 1QFY21 net profit of RM92.5mil came in at only 20% of both our full-year forecast and full-year consensus. However, we consider the results within expectations as we expect stronger quarters ahead due to better sales performance from its property division as the domestic economy moves on from the Covid-19 pandemic.
- Scientex's 1QFY21 net profit grew 14% YoY, driven largely by the manufacturing division. The division's EBIT surged by a whopping 24% thanks largely to an improved EBIT margin of 11.7% (vs. 8.5% previously) – arising possibly from: (1) a better product mix that was skewed towards the downstream high-margin printing and lamination products from 61.9%-owned Daiboichi; and (2) improved efficiency stemming from reduced wastage, better inventory controls, customized solutions and integration within its operating units.
- Scientex's property development unit registered an 8% YoY decline in EBIT to RM58.2mil in 1QFY21 due to the softer economic conditions attributed to the Covid-19 pandemic. We gather that total new launches stood at a GDV of RM350mil in 1QFY21, with a strong take-up rate of more than 80%.
- We expect the unit's performance to improve in coming quarters, driven by: (1) progress billings from unbilled sales (that stood at RM760mil as at end-Oct 2020); and (2) RM1.6bil new launches in FY21F, comprising largely of 6,000 units of affordable housing units (with an average price of c.RM267K/unit) in Pulau, Johor and Durian Tunggal, Melaka. In our earnings forecasts, we conservatively assume FY21F new launches of only RM1.3bil in GDV.

- We continue to like Scientex for: (1) the strong prospects of the packaging industry due to consumer spending, a shift to on-the-go food and beverages due to a hectic lifestyle and higher food safety standards; (2) its above-trend earnings growth rates of 21.6% and 13.2% for FY21–22F (vs. a weighted average of about 10% annually for its global peers) due to extensive R&D, cost efficiency initiatives and an M&A pipeline; and (3) a robust property development business despite the soft market in general thanks to its right focus on predominantly landed affordable residential units in secondary suburbs.
- At about 12x forward earnings in its entirety, we think that this home-grown regional/global plastic packaging player is highly compelling given its strong foothold in a consumer-fuelled sector.

EXHIBIT 1: RESULTS SUMMARY						
YE July	4Q	1Q	QoQ	3M20	3M21	YoY
	FY20	FY21				
Revenue	954.6	802.3	-16%	877.4	802.3	-9%
Manufacturing	621.4	583.8	-6%	655.9	583.8	-11%
Property Development	333.2	218.4	-34%	221.5	218.4	-1%
EBIT	183.7	126.8	-31%	118.5	126.8	7%
Manufacturing	71.1	68.6	-4%	55.5	68.6	24%
Property Development	112.6	58.2	-48%	63.1	58.2	-8%
Profit Before Tax (PBT)	184.2	128.0	-30%	115.8	128.0	11%
Taxation	-35.4	-28.1	-20%	-28.4	-28.1	-1%
Profit After Tax (PAT)	148.8	99.9	-33%	87.4	99.9	14%
Minority Interest	6.7	7.4	9%	6.5	7.4	13%
Net Profit	142.1	92.5	-35%	81.0	92.5	14%
EPS (sen)	27.54	17.93	-35%	15.7	17.9	14%
<u>Margins</u>						
EBIT margin	19%	16%		14%	16%	
PBT margin	19%	16%		13%	16%	
Net Profit margin	15%	12%		13%	16%	
Effective Tax Rate	19%	22%		25%	22%	

Source: AmInvestment Bank Bhd.

EXHIBIT 2: OPERATING PROFIT SEGMENTAL BREAKDOWN



Source: Bloomberg, AmlInvestment Bank Bhd.

EXHIBIT 3: SUM-OF-PARTS VALUATION

Sum-of-Parts (SOP) Valuations

Manufacturing Division	FY22F PAT 255.1	PE multiple 18	4591.7
Property Division	Outstanding GDV	NPV @ 10%	
Developments	RM (mil)		
Taman Scientex Pasir Gudang	528.0	87.4	
Taman Scientex Kulai	460.0	76.1	
Taman Scientex Senai	2172.0	359.4	
Taman Pulai Mutiara	4757.0	787.2	
Taman Heights (Ayer Keroh)	621.0	102.8	
Scientex Klebang & Scientex Meru (Ipoh)	860.0	142.3	
Scientex Rawang	860.0	142.3	
Taman Mutiara Mas (Skudai)	1285.0	212.7	
Scientex Durian Tunggal	1400.0	231.7	
Scientex Pulai Agricultural Land*	1600.0	264.8	
	14543.0	2406.7	
(-) Property Division Net Debt (estimate)		-234.6	
RNAV		2172.1	
(-) 10% Discount to Property RNAV		-217.2	
Property Division Sub-Total			1954.9
Total			6546.6
Outstanding Shares			515.9
Fair Value/share (RM)			12.69

*our estimate

Source: Bloomberg, AmlInvestment Bank Bhd.

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	3,247.4	3,518.6	4,369.8	4,905.3	5,506.6
EBITDA	546.6	658.1	773.0	856.5	950.6
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	666.2	749.7	843.8
Other income & associates	(16.9)	-	(23.9)	(27.4)	(32.0)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
Exceptional items	-	-	-	-	-
Pretax profit	450.6	544.3	643.1	728.6	824.7
Taxation	(104.7)	(126.2)	(154.4)	(174.9)	(197.9)
Minorities/pref dividends	12.2	27.9	21.1	24.2	27.9
Net profit	333.7	390.1	467.7	529.5	598.9
Core net profit	333.7	390.1	467.7	529.5	598.9
Balance Sheet (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	1,247.8	1,322.6	1,634.2	1,827.4	2,020.6
Intangible assets	1,043.2	1,047.7	1,052.5	1,057.5	1,062.8
Other long-term assets	118.1	108.6	118.1	118.1	118.1
Total non-current assets	2,409.0	2,776.7	2,804.8	3,003.0	3,201.5
Cash & equivalent	257.6	413.2	293.7	354.7	454.1
Stock	321.2	354.0	432.2	485.1	544.6
Trade debtors	595.8	716.0	801.7	899.9	1,010.2
Other current assets	523.9	340.4	523.9	523.9	523.9
Total current assets	1,698.5	1,823.7	2,051.5	2,263.6	2,532.8
Trade creditors	438.2	624.5	589.7	662.0	743.1
Short-term borrowings	704.0	683.7	654.0	629.0	604.0
Other current liabilities	187.5	45.0	212.7	208.0	199.7
Total current liabilities	1,329.7	1,353.2	1,456.4	1,498.9	1,546.8
Long-term borrowings	269.8	357.3	219.8	194.8	169.8
Other long-term liabilities	109.0	134.2	109.0	109.0	109.0
Total long-term liabilities	378.8	491.6	328.8	303.8	278.8
Shareholders' funds	2,225.0	2,561.4	2,821.6	3,192.3	3,611.5
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	5.55	6.29	6.59	7.30	8.12
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	450.6	544.3	643.1	728.6	824.7
Depreciation/Amortisation	92.3	108.7	106.8	106.8	106.8
Net change in working capital	86.4	(52.9)	(97.5)	(109.5)	(122.9)
Others	(72.0)	(99.1)	(112.3)	(135.1)	(160.4)
Cash flow from operations	557.4	501.0	540.1	590.9	648.2
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(306.0)	(300.0)	(300.0)	(300.0)	(300.0)
Others	7.4	11.9	11.9	11.9	11.9
Cash flow from investing	(298.6)	(288.1)	(288.1)	(288.1)	(288.1)
Debt raised/(repaid)	(19.4)	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(106.7)	(115.4)	(140.3)	(158.9)	(179.7)
Others	(46.9)	(87.0)	(85.0)	(83.0)	(81.0)
Cash flow from financing	(173.0)	(202.3)	(225.3)	(241.8)	(260.6)
Net cash flow	85.7	10.5	26.7	60.9	99.4
Net cash/(debt) b/f	170.8	256.5	267.0	293.7	354.7
Net cash/(debt) c/f	256.5	267.0	293.7	354.7	454.1
Key Ratios (YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	23.6	8.3	24.2	12.3	12.3
EBITDA growth (%)	26.9	20.4	17.5	10.8	11.0
Pretax margin (%)	13.9	15.5	14.7	14.9	15.0
Net profit margin (%)	10.3	11.1	10.7	10.8	10.9
Interest cover (x)	123.5	107.7	28.8	35.5	44.2
Effective tax rate (%)	23.2	23.2	24.0	24.0	24.0
Dividend payout (%)	30.1	29.6	30.0	30.0	30.0
Debtors turnover (days)	61	68	63	63	63
Stock turnover (days)	33	35	33	34	34
Creditors turnover (days)	46	55	51	47	47

Source: Company, AmInvestment Bank Bhd estimates

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