



SCIENTEX

(SCI MK EQUITY, STIK.KL)

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Acquires land in Seberang Perai for RM247mil

BUY

(Maintained)

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Rationale for report: Company update

Price **RM4.01**
 Fair Value **RM4.59**
 52-week High/Low **RM4.45/RM2.44**

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	455.4	515.7	583.4
FD Core EPS (sen)	25.2	28.9	32.5	36.6
FD Core EPS growth (%)	16.9	14.8	12.6	12.6
Consensus Net Profit (RM mil)	-	435.8	504.2	578.4
DPS (sen)	7.4	8.8	10.0	11.3
PE (x)	15.9	13.9	12.3	11.0
EV/EBITDA (x)	10.4	9.0	8.0	7.1
Div yield (%)	1.8	2.1	2.4	2.7
ROE (%)	16.3	16.9	17.2	17.3
Net Gearing (%)	24.5	20.9	15.4	9.7

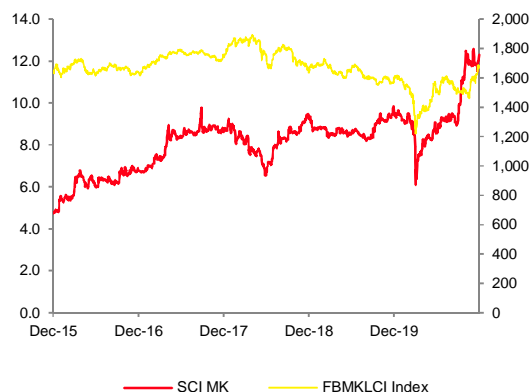
Stock and Financial Data

Shares Outstanding (million) 1,550.6
 Market Cap (RM mil) 6,217.9
 Book Value (RM/share) 2.09
 P/BV (x) 1.9
 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) 6.9

Price performance	3mth	6mth	12mth
Absolute (%)	(3.5)	8.8	60.8
Relative (%)	(2.0)	3.8	35.1



Investment Highlights

- We maintain our BUY call and forecasts, and raise our fair value (FV) to RM4.59/share (from RM4.54/share previously) for Scientex based on sum-of-parts (SOP) valuation (Exhibit 1), after reflecting the changes in its RNAV and net debt following the latest development.
- We peg Scientex's manufacturing segment to an FY23F P/E of 18x, at a premium compared to its peer stretch film makers' average forward PE of 12.5x, to reflect its higher fully-diluted EPS growth rates of 14.8% and 12.6% in FY21–22F (vs. a weighted average of about 10% annually for its global peers). Our FV also imputes a 3% premium to the SOP to reflect our 4-star ESG rating (Exhibit 2).
- Scientex is acquiring freehold agricultural land measuring 343 acres in north Seberang Perai, Penang for RM246.7mil cash. Located near established property development projects such as Eco Residence, Bandar Bertam Perdana and Sena Mas, as well as Scientex's ongoing development Scientex Tasek Gelugor, the land is earmarked for mixed development (residential and commercial) with a GDV of about RM2.0bil over 10 years based on our estimates.
- We are positive on this development. At about RM700K per acre, the price appears to be at a premium to two recent transactions. In 2016, S P Setia proposed to acquire 1,675 acres of land in Seberang Perai for RM620.1mil, translating into RM370K per acre. In 2019, Scientex acquired 180 acres of land in the same area for RM109.6mil, translating into RM600K per acre. We believe the premium reflects the general appreciation in land prices in the area.
- The latest acquisition will expand Scientex's landbank by 6% to 6,213 acres across Johor, Melaka, Selangor, Perak and Penang, which should keep its property development business busy for more than 10 years. In terms of GDV, the acquisition will add 14% to RM16.6bil. More specifically, the acquisition will complement Scientex's existing 180 acres of land in Seberang Perai (GDV of RM880mil) and more than triple its presence in Seberang Perai in terms of GDV with an additional RM2bil from the new land.
- The acquisition will increase Scientex's net debt and gearing of RM888mil and 0.33x as at 31 Jan 2021 to RM1,134mil and 0.42x, which are still manageable.

- 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 14.8% and 12.6% 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 11x its fully-diluted FY23F 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: SUM-OF-PARTS VALUATION

Sum-of-Parts (SOP) Valuation

	FY23F PAT	PE multiple	
Manufacturing Division	271.9	18	4,894.5
Property Division			
	Outstanding GDV		NPV @ 10%
Developments	RM (mil)		
Taman Scientex Pasir Gudang	444		73.5
Taman Scientex Kulai	421		69.7
Taman Mutiara Mas (Skudai)	1,285		212.7
Taman Scientex Senai	2,017		333.8
Taman Pulai Mutiara	4,333		717.1
Taman Heights (Ayer Keroh)	621		102.8
Scientex Durian Tunggal	1,223		202.4
Scientex Klebang & Scientex Meru (Ipoh)	500		82.7
Scientex Rawang	850		140.7
Scientex Tasek Gelugor	2,880		476.6
Scientex Kundang Jaya	1,700		281.3
Scientex Kota Tinggi	280		46.3
	16,554		2,739.5
(-) Property Division Net Debt (estimate)			-490.5
RNAV			2,249.1
(-) 10% Discount to Property RNAV			-224.9
Property Division Sub-Total			2,024.2
Total			6,918.7
(+) Cash proceeds from full conversion of warrants			444.5
			7,363.2
Fully Diluted Outstanding Share Base			1,654.0
Fair Value/share (RM)			4.45
(+) 3% premium for 4-star ESG rating			0.13
Fair Value/share (RM) + ESG Premium			4.59

Source: Bloomberg, AmInvestment Bank Bhd.

EXHIBIT 2: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★			
Work site safety	★	★	★	★	
Worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★		
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3: 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	756.8	838.3	930.1
Depreciation/Amortisation	(92.3)	(108.7)	(106.8)	(106.8)	(106.8)
Operating income (EBIT)	454.3	549.4	650.0	731.5	823.3
Other income & associates	(16.9)	-	(7.7)	(9.2)	(11.6)
Net interest	(3.7)	(5.1)	(23.1)	(21.1)	(19.1)
Exceptional items	-	-	-	-	-
Pretax profit	450.6	544.3	626.9	710.4	804.2
Taxation	(104.7)	(126.2)	(150.4)	(170.5)	(193.0)
Minorities/pref dividends	12.2	27.9	21.1	24.2	27.9
Net profit	333.7	390.1	455.4	515.7	583.4
Core net profit	333.7	390.1	455.4	515.7	583.4
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	285.1	336.3	424.8
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	2,042.8	2,245.2	2,503.5
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	2,813.0	3,173.9	3,582.3
Minority interests	173.9	192.3	213.3	237.5	265.4
BV/share (RM)	1.79	2.09	2.19	2.42	2.68
Cash Flow (RMmil, YE 31 Jul)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	450.6	544.3	626.9	710.4	804.2
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)	(108.4)	(130.7)	(155.5)
Cash flow from operations	557.4	501.0	527.7	577.0	632.7
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)	(136.6)	(154.7)	(175.0)
Others	(46.9)	(87.0)	(85.0)	(83.0)	(81.0)
Cash flow from financing	(173.0)	(202.3)	(221.6)	(237.7)	(256.0)
Net cash flow	85.7	10.5	18.0	51.2	88.5
Net cash/(debt) b/f	170.8	256.5	267.0	285.1	336.3
Net cash/(debt) c/f	256.5	267.0	285.1	336.3	424.8
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	15.0	10.8	11.0
Pretax margin (%)	13.9	15.5	14.3	14.5	14.6
Net profit margin (%)	10.3	11.1	10.4	10.5	10.6
Interest cover (x)	123.5	107.7	28.1	34.7	43.1
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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