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Hold

Price
RM4.58

Target Price
RM4.96

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

1QFY22: results broadly in line

Financial Highlights

FYE Jul	2019	2020	2021	2022F	2023F
Revenue (RMm)	3,247.4	3,518.6	3,656.0	4,525.1	5,144.9
Core net profit (RMm)	352.7	423.6	454.2	531.6	616.5
Core EPS (Sen)	22.7	27.3	29.3	34.3	39.8
EPS growth (%)	23.9	20.1	7.2	17.0	16.0
DPS (Sen)	20.0	23.0	9.0	10.0	11.0
Core PE (x)	20.1	16.8	15.6	13.4	11.5
Div yield (%)	4.4	5.0	2.0	2.2	2.4
ROE (%)	14.7	15.4	14.7	15.2	15.6
Net Gearing (%)	32.2	24.5	30.3	37.7	38.5
PBV(x)	3.4	2.9	2.6	2.2	2.0

Source: Company, KAF

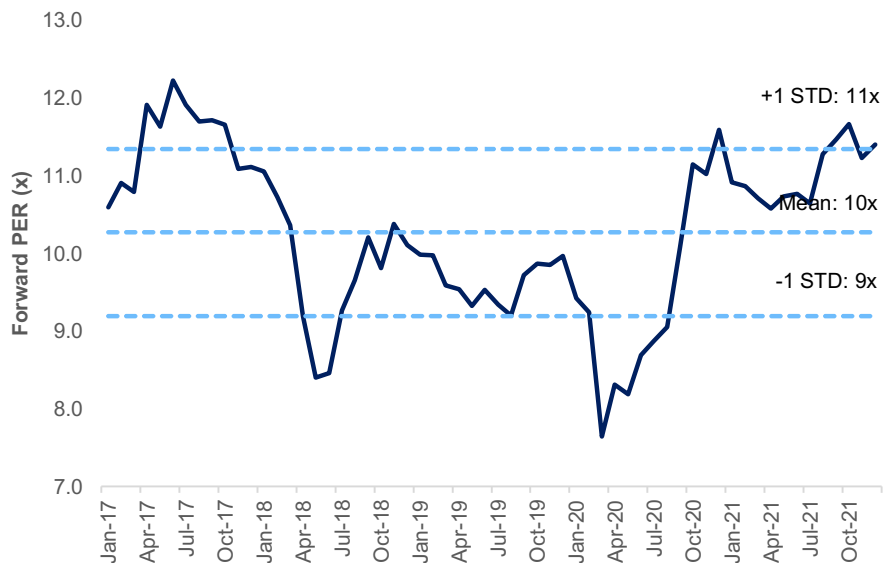
- We maintain our Hold rating on Scientex with unchanged TP of RM4.96 pegged to FY22F based SOP valuation.
- Scientex's 1QFY22 core earnings of RM90m (+3% YoY) came in broadly in-line with ours and consensus estimates. It accounted for 17% of ours and streets' full-year forecasts as we expect earnings to be back-end loaded as per historical trend.
- Revenue increased to RM928m (+16% YoY) on the back of higher sales contributions from the Packaging (+16% YoY) and Property (+14% YoY) segments.
- Within the Packaging segment, revenue increased by 16% YoY to RM678m attributable to firm demand for industrial and consumer packaging products in both domestic and export markets. This was however offset by higher raw material prices and freight charges as well as Covid-19 related expenses. Operating profit for the segment declined to RM65m (-6% YoY) for the three-months period.
- Meanwhile, the Property segment revenue increased by 14% YoY to RM250m on the back of steady progress billings and good take up rates for new launches in Penang and Johor. This was also due to completion of several phases of its other development projects located in Selangor and Melaka. In line with higher revenue, operating profit for the segment increased to RM68m (+18% YoY).
- Moving forward, we are projecting Scientex's earnings to grow by three-year forward earnings CAGR of 12% between FY22-24F, mainly driven by growing demand for Flexible Plastic Packaging (FPP) products as well as sustainable demand for affordable housing segment.
- In the near term, the group plans to enhance the capacities, efficiencies and capabilities of the Manufacturing segment to meet rising demand as well as offering value adding products to domestic and export markets.
- On top of that, the group also plans to accelerate its targets to build 8,000 affordable homes a year by FY23, from 6,000 per year currently.
- We are positive on these initiatives as they are in-line with Scientex's long-term plans of becoming Regional leader in packaging solutions as well as building 50,000 affordable housing in the country.
- The share price has been trading sideways, now at 11.4x forward PE. This is +1SD above its five-year forward mean PE of 10x. We find this to be approaching its fair value justified by its aggressive expansion plans across both segments.
- With projected DPS of 10-11 sen for FY22-23F, this implies dividend yields of 2.2- 2.4%, at current price level.

Exhibit 1: Quarterly financial results analysis

FYE Jul RMm	Oct-20 1QFY21	Jan-21 2QFY21	Apr-21 3QFY21	Jul-21 4QFY21	Oct-21 1QFY22	Change (%)		KAF	
						QoQ	YoY	FY22	3M/F
Revenue	802	907	977	970	928	(4)	16	4,525	21%
~ Packaging	584	619	671	617	678	10	16	3,377	20%
~ Property	218	288	305	353	250	(29)	14	1,148	22%
Interest Expense	(2)	(2)	(3)	(4)	(4)	23	90		
Interest Income	1	1	3	2	1	(69)	6		
Depreciation	(27)	(28)	(28)	(27)	(29)	5	5		
EBITDA	154	177	176	203	162	(20)	5	823	20%
Operating Profit	127	149	149	176	133	(24)	5	707	19%
~ Packaging	69	63	65	57	65	13	(6)	386	17%
~ Property	58	86	84	118	68	(42)	18	321	21%
Reported PBT	128	150	149	175	130	(25)	2	701	19%
Taxation	(28)	(28)	(32)	(26)	(22)	(16)	(21)		
Minority Interest	(7)	(9)	(7)	(6)	(5)	(4)	(28)		
Exceptional items	5	1	(3)	(9)	13	(241)	154		
Reported Profit	93	112	110	143	103	(28)	11	532	19%
Adj. Net Profit	88	111	113	152	90	(41)	3	532	17%
EPS (sen)	6	7	7	9	7	(28)	11		
Adj EPS (sen)	6	7	7	10	6	(41)	3		
DPS (sen)	0	0	4	5	0				
						%-pts	%-pts		
Effective tax rate (%)	22	19	22	15	17	2	(5)		
EBITDA margin (%)	19	20	18	21	17	(3)	(2)		
Operating margin (%)	16	16	15	18	14	(4)	(1)		
~ Manufacturing (%)	12	10	10	9	10	0	(2)		
~ Property	27	30	28	34	27	(6)	1		
Pretax margin (%)	16	16	15	18	14	(4)	(2)		
Net margin (%)	11	12	12	16	10	(6)	(1)		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Exhibit 3: Sum-of-Parts Valuation

Segment	Based on FY22	Valuation
Packaging	23x PE	6,642
Property	0.5x PB	1,043
	Equity value (RMm)	7,685
	Outstanding shares (m)	1,551
	Target Price (RM)	4.96

Source: KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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