Scientex (SCI MK)

BUY (maintain)
Up/Downside: +12.4%

Price Target: RM5.15
Previous Target (Rating): RM5.15 (BUY)

A decent start to the year

- **Scientex posted a decent set of results – 1QFY22 core net profit rose 2.5% yoy to RM89.3m on the higher revenue and lower tax expense but dampened mainly by the higher opex**
- **A seasonally weaker quarter, but results were within expectations – accounting for 17% of our and the consensus full-year forecasts**
- **We reaffirm our BUY rating on Scientex with an unchanged 12-month TP of RM5.15**

1QFY22 core net profit grew by 2.5% yoy

Scientex's 1QFY22 core net profit grew by 2.5% yoy to RM89.3m with the higher revenue and lower tax expense dampened by higher opex, depreciation expense and interest expense. The manufacturing segment saw a 2.2 ppt lower yoy EBIT margin of 9.5% on lower contribution from the Group's converting business which was impacted by higher raw material prices, freight costs and Covid-19 related expenses. Meanwhile, the property segment recorded a higher revenue contribution attributed to steady progress billings from its development projects, good take-up rates at new launches at Tasek Gelugor in Penang, Pulai in Johor and other on-going projects. Scientex had also completed several phases of development projects located in Scientex Rawang, Selangor and Scientex Durian Tunggal, Melaka. In tandem, the property segment's EBIT margin widened to 27.4% (+0.75 ppt yoy). Overall, the seasonally weaker quarter's results came in within expectations – making up 17% of our the consensus full-year forecasts.

Sequentially, core net profit fell by 41.1%

Scientex's 1QFY22 core net profit fell by 41.1% qoq to RM89.3m, off a high base in the previous quarter. This was mainly due to a lower sales performance by the property segment, which saw decreases in revenue and EBIT by 29.1% qoq and 42.2% qoq respectively as 4QFY21 saw the completion of more phases in its development projects. This more than offset the higher contribution from the manufacturing segment which recorded a 9.8% qoq increase in revenue and 0.2ppt qoq increase in EBIT margin.

Reaffirm BUY with an unchanged 12-month TP of RM5.15

We maintain our BUY rating on Scientex with an unchanged target price of RM5.15 based on our SOTP valuation, assuming a 16x CY22E PER for manufacturing and a 30% discount to the property RNAV. We like Scientex for its strong management and earnings track record. Key downside risks: (i) weak export sales, (ii) higher-than-expected freight costs, and (iii) weaker-than-expected property sales.

Earnings & Valuation Summary

FYE 31 July	2020	2021	2022E	2023E	2024E
Revenue (RMm)	3,518.6	3,656.0	4,421.2	5,131.4	5,238.8
EBITDA (RMm)	688.8	703.6	855.4	1,004.1	1,020.0
Pretax profit (RMm)	544.3	601.0	730.0	872.9	881.5
Net profit (RMm)	390.1	457.2	527.5	630.6	636.9
EPS (sen)	25.2	29.5	34.0	40.7	41.1
PER (x)	18.2	15.5	13.5	11.3	11.2
Core net profit (RMm)	422.0	453.7	527.5	630.6	636.9
Core EPS (sen)	27.2	29.3	34.0	40.7	41.1
Core EPS growth (%)	19.7	7.5	16.3	19.6	1.0
Core PER (x)	16.8	15.5	13.5	11.3	11.2
Net DPS (sen)	7.7	9.0	10.2	12.2	12.3
Dividend Yield (%)	1.7	2.0	2.2	2.7	2.7
EV/EBITDA	11.5	11.7	8.9	7.0	6.4
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.1	1.0

Source: Company, Affin Hwang forecasts

"Results were within expectations"

Share price performance

	1M	3M	12M
Absolute (%)	-0.4	-1.5	18.9
Rel KLCI (%)	2.3	5.3	29.8

	BUY	HOLD	SELL
Consensus	4	2	-

Stock Data

Sector	Plastic pkg.
Issued shares (m)	1,551.0
Mkt cap (RMm)/(US$m)	7103.5/1680.3
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	3.81-4.87
Est free float	33.4%
Stock Beta	0.72
Net cash/(debt) (RMm)	(884.47)
ROE (FY22E)	13.4%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	Bottom 25%
ESG Risk Rating	36.1 (-1.8 yoy)

Key Shareholders

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

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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Fig 1: Results comparison

FYE 31 July (RMm)	1Q21	4Q21	1Q22	qoq % chg	yoy % chg	Comments
Revenue	802.3	970.4	928.2	(4.3)	15.7	1QFY22 revenue grew by 15.7% yoy on better sales performance from both the manufacturing (+16.1% yoy) and property (+14.5% yoy) segments
Op costs	(654.2)	(758.8)	(780.7)	2.9	19.3	
EBITDA	**148.1**	**211.6**	**147.5**	**(30.3)**	**(0.4)**	
EBITDA (%)	18.5	21.8	15.9	*-5.9ppt*	*-2.6ppt*	EBITDA margin contracted as the consumer packaging segment was impacted by higher raw material prices, freight costs and Covid-19 related opex
Depn&amort	(26.8)	(26.7)	(27.8)	4.3	4.1	
EBIT	121.3	184.9	119.6	(35.3)	(1.4)	
Int exp	(2.3)	(3.5)	(4.3)	23.1	89.8	
Int/other inc	3.6	2.2	1.5	(30.4)	(56.8)	
EI	5.4	(9.0)	13.6	(250.3)	150.5	1QFY22 EI mainly from unrealised forex gain
PBT	**128.0**	**174.5**	**130.4**	(25.3)	1.9	
Core PBT	**124.5**	**172.3**	**128.9**	**(25.2)**	**3.5**	
Tax	(28.1)	(26.3)	(22.2)	(15.5)	(21.0)	
Tax rate (%)	22.0	15.1	17.0	*2ppt*	*-4.9ppt*	
MI	(7.4)	(5.6)	(5.3)	(4.1)	(27.6)	
Net profit	**92.5**	**142.7**	**102.9**	(27.9)	11.2	
EPS (sen)	6.0	9.2	6.6	(27.9)	11.2	
Core profit	**87.1**	**151.7**	**89.3**	(41.1)	2.5	Within expectations

Source: Affin Hwang, Company

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

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