

# Scientex Berhad

**TP: RM5.40** (+17.9%)

Decent Start to FY22

Last Traded: RM4.58

**Buy (ESG: ★★★)**

Jeff Lye Zhen Xiong, CFA

Tel: +603-2167-9730

jefflye@ta.com.my

www.taonline.com.my

### Review

- Scientex Berhad's IQFY22 core net profit of RM89.2mn accounted for 18% and 17% of ours and consensus estimates respectively. The result was within expectation as we expect more robust earnings in the subsequent quarters correspond to easing of workforce restrictions and a back-end loaded earnings from the Property segment (typically 4Q accounts for 30-39% of full year earnings).
- Manufacturing.** IQFY22 operating profit slipped 5.6% YoY to RM64.7mn despite a 16.1% YoY jump in revenue. This was mainly due to lower contribution from converting business which impacted by higher input cost i.e. raw material prices and freight costs. We reckon it took longer time to pass-through cost in converting business than Scientex's industrial film business. Note that the group's converting business registered a lower IQFY22 operating margin of 5.3% (-6%-pts YoY) against Manufacturing's operating margin of 9.5%. (-2%-pts YoY).
- Property.** IQFY22 revenue registered a growth of 14.5% YoY to RM250.1mn driven by improved progress billings of on-going projects and good take-up rates on new launches in Johor and Penang. Operating profit increased to RM68.5mn (+17.7% YoY).
- IQFY22 vs 4QFY21.** Scientex's operating profit dropped by 24.2% QoQ. This was mainly due to lower progress billings recognised for the Property segment following a solid 4QFY21 which saw more completions of development sites.
- No dividend was declared during the quarter under review.

### Impact

- We raise FY22 estimated effective tax rate by a marginal 2%-pts from our previous forecast of 23% given that Scientex operates many distinct operating companies across Manufacturing and Property segment, which would help to shield the impact of Cukai Makmur. Separately, we increase Scientex's Daibochi equity stake to 71.9% from 61.9% previously following the lapse of voluntary take-over offer, thus reduced the group's profit contribution attributed to non-controlling interests. Taken together, we trim FY22 forecasted earnings by 2.6% whilst raising FY23 and FY24 by 0.6% and 0.7% respectively.

### Outlook

- Manufacturing.** Scientex's Malaysian workforces are now fully vaccinated and it has eased workforce constraints on plant's production. Consequently, we believe Scientex is now in a better position to serve its customers amid lingering challenges from heightened volatility in raw material prices, logistics cost and freight availability. Separately, the voluntary take-over exercise of Diabochi has lapsed in November with

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	7,088.1
52-wk Hi/Lo (RM)	4.87/3.81
12-mth Avg Daily Vol ('000 shrs)	990.9
Estimated Free Float (%)	33.4
Beta	0.6
<b>Major Shareholders (%)</b>	
Scientex Holdings & Related	55.7

### Forecast Revision

	FY22	FY23
Forecast Revision (%)	(2.6)	0.6
Net profit (RMm)	494.8	560.4
Consensus	517.0	596.0
TA's / Consensus (%)	95.7	94.0
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY22	FY23
Net debt/ equity (%)	34.8	29.4
ROE (%)	16.1	16.3
ROA (%)	9.1	9.3
NTA/Share (RM)	1.9	2.1
Price/ NTA (x)	2.4	2.1

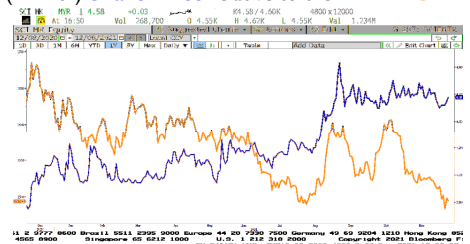
### Scorecard

	% of FY22	
vs TA	18	Within
vs Consensus	17	Within

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(0.4)	(2.7)
3 mth	(1.5)	(6.5)
6 mth	8.0	(5.9)
12 mth	18.9	(8.4)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Scientex's equity stake in Daibochi increased to 71.9% from 61.9% previously. Although the privatisation attempt was not successful, the increase in equity stake is earnings accretive as reflected in our earnings adjustment.

- **Property.** We are upbeat on Scientex's Property segment underpinned by pent up demands for affordable homes and believe progress billing in upcoming quarters would be more robust supported by simultaneous development across multiple sites in Peninsula alongside introduction of new launches in maiden locations. Note that, Scientex targets to launch RM2.0bn worth of properties (c.7.0k units) in FY22 supported by various landbank which the group has acquired at competitive prices.

### Valuation

- We revise Scientex's TP to RM5.40/share (previously RM5.45/share) based on unchanged 20x Manufacturing earnings and 14x Property earnings. Reiterate Buy.

**Table 1: Earnings Summary (RMmn)**

FYE July (RMmn)	FY20	FY21	FY22E	FY23F	FY24F	
Revenue	3,518.6	3,656.0	4,163.7	4,577.1	4,892.2	
EBITDA	656.9	707.2	824.1	894.3	928.8	
EBIT	549.5	600.3	702.4	767.3	802.0	
Reported PBT	544.3	601.0	689.1	757.5	794.6	
Adj. PBT	576.2	597.2	689.1	757.5	794.6	
Reported Net Profit	390.1	457.2	494.8	560.4	585.9	
Adj. Net profit	422.0	453.5	494.8	560.4	585.9	
Basic EPS	(sen)	25.2	29.5	32.0	36.2	37.9
Adj. EPS	(sen)	27.3	29.3	32.0	36.2	37.9
PER	(x)	18.2	15.5	14.3	12.6	12.1
Net Dividend	(sen)	7.7	9.0	10.0	11.0	12.0
Dividend Yield	(%)	1.7	2.0	2.2	2.4	2.6

**Table 2: IQFY22 Results Analysis (RMmn)**

FYE July (RMmn)	IQFY21	4QFY21	IQFY22	QoQ (%)	YoY (%)
Revenue	802.3	970.4	928.2	(4.3)	15.7
~ Manufacturing	583.8	617.4	678.1	9.8	16.1
~ Property	218.4	352.9	250.1	(29.1)	14.5
Interest Expense	(2.3)	(3.5)	(4.3)	23.1	89.8
Interest Income	3.6	2.2	1.5	(30.5)	(56.8)
Depreciation	(26.8)	(26.7)	(27.8)	4.3	4.1
EBITDA	153.5	202.5	161.1	(20.5)	4.9
Operating Profit	126.8	175.8	133.2	(24.2)	5.1
~ Manufacturing	68.6	57.4	64.7	12.7	(5.6)
~ Property	58.2	118.4	68.5	(42.2)	17.7
EI	5.4	(8.4)	13.6	nm	>100
Reported PBT	128.0	174.5	130.4	(25.3)	1.9
Taxation	(28.1)	(26.3)	(22.2)	(15.5)	(21.0)
Minority Interest	(7.4)	(5.6)	(5.4)	(2.3)	(26.2)
Reported Profit	92.5	142.7	102.8	(28.0)	11.1
Adj. Net Profit	87.1	151.1	89.2	(41.0)	2.3
EPS (sen)	6.0	9.2	6.6	(27.9)	10.9
Adj EPS (sen)	5.6	9.7	5.8	(40.9)	2.2
DPS (sen)	0.0	5.0	0.0	(100.0)	nm
				<b>%-pts</b>	<b>%-pts</b>
EBIT Margin (%)	15.8	18.1	14.4	(3.8)	(1.4)
~ Manufacturing	11.7	9.3	9.5	0.2	(2.2)
~ Property	26.6	33.5	27.4	(6.2)	0.8
PBT Margin (%)	16.0	18.0	14.1	(3.9)	(1.9)
Net Margin (%)	10.9	15.6	9.6	(6.0)	(1.3)
Tax rate (%)	22.0	15.1	17.0	2.0	(4.9)

**Table 3: Sum-of-Parts Valuation**

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY22 EPS PER 20x	3,895.3
Property	CY22 EPS PER 14x	4,582.7
Equity value (RMmn)		8,478.0
+ Proceed from Warrant Conversion (RMmn)		443.7
<b>Total Equity Value (RMmn)</b>		<b>8,921.7</b>
Share cap (mn)		1,547.6
+ Warrant Conversion (mn)		103.2
Enlarged Share Cap (mn)		1,650.8
<b>Target Price (RM)</b>		<b>5.40</b>

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★★	★★★	★★★
<b>Remark</b>	Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution.	Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly.	The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Thursday, December 09, 2021, the analyst, Jeff Lye Zhen Xiong, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

TA SECURITIES HOLDINGS BERHAD (14948-M)  
A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my