

COMPANY RESULTS

Scientex (SCI MK)

1QFY22: Within Expectations; Better 2QFY22 Ahead

Scientex's 1QFY22 results are broadly in line. Stripping out a forex loss of RM13.6m, core net profit was RM116.5m (+33.7% yoy), mainly reflecting decent take-up rates and progress billings for the property segment which offset the margin compression in the manufacturing segment. Positively, we note that 1Q is historically the group's weakest quarter and expect a stronger 2QFY22 ahead, buoyed by the swift economic reopening globally. Downgrade to HOLD with a target price of RM4.98.

1QFY22 RESULTS

Year to 31 Jul (RMm)	1QFY22	qoq % chg	yoy % chg
Turnover	928.2	(4.3)	15.7
Manufacturing	678.1	9.8	16.2
Property	250.1	(29.1)	14.5
EBIT	133.2	(24.2)	5.1
Manufacturing	64.7	12.8	(5.6)
Property	68.5	(42.2)	17.7
Finance costs	(4.3)	23.1	89.8
PBT	130.4	(25.3)	1.9
Core net profit	116.5	(25.0)	33.7

Margins	(%)	qoq ppt chg	yoy ppt chg
EBIT	14.4	(3.8)	(1.4)
-Manufacturing	9.5	0.2	(2.2)
-Property	27.4	(6.2)	0.7
PBT	14.1	(3.9)	(1.9)
Core net profit	12.5	(3.5)	1.7

Source: Scientex, UOB Kay Hian

RESULTS

- Within expectations.** Scientex's 1QFY22 core net profit came in at RM116.5m (-25.0% qoq, +33.7% yoy), accounting for 24% and 22% of our and consensus' earnings estimates respectively. This excludes RM13.6m forex loss and RM1.2m provision of inventories and receivables. We note that historically, 1Q is its weakest quarter. As expected, no dividend was declared for the quarter.

KEY FINANCIALS

Year to 31 Jul (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,519	3,656	4,092	4,401	4,736
EBITDA	660	600	768	831	891
Operating profit	549	490	667	718	767
Net profit (rep./act.)	390	346	492	552	590
Net profit (adj.)	390	346	492	552	590
EPS (sen)	25.2	22.4	31.7	35.6	38.1
PE (x)	18.1	20.4	14.3	12.8	11.9
P/B (x)	2.8	2.4	2.2	1.9	1.7
EV/EBITDA (x)	12.3	13.6	10.6	9.8	9.1
Dividend yield (%)	1.7	2.0	2.1	2.3	2.5
Net margin (%)	11.1	9.5	12.0	12.6	12.5
Net debt/(cash) to equity (%)	24.5	30.3	14.1	5.4	(2.2)
Interest cover (x)	40.4	53.8	47.5	59.0	63.2
ROE (%)	16.3	12.7	16.0	16.1	15.4
Consensus net profit	-	-	517	596	610
UOBKH/Consensus (x)	-	-	0.95	0.93	0.97

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	RM4.58
Target Price	RM4.98
Upside	+8.7%
(Previous TP)	RM4.60

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,550.7
Market cap (RMm):	7,055.5
Market cap (US\$m):	1,667.0
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low RM4.83/RM3.83

1mth	3mth	6mth	1yr	YTD
(0.7)	(2.8)	7.3	16.5	7.6

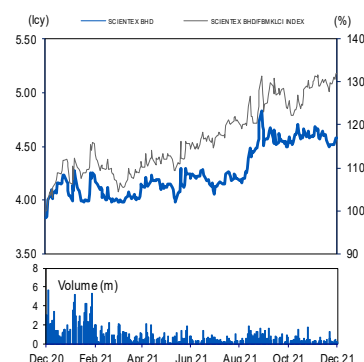
Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.99
Scientex Infinity Sdn Bhd	9.20
Scientex Leasing Sdn Bhd	9.12

FY22 NAV/Share (RM) 2.09

FY22 Net Debt/Share (RM) 0.29

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Property: Steady performance in the quarter.** Scientex's property segment revenue came in at RM250.1m (+14.5% yoy, -29.1% qoq) on the back of steady progress billings and higher sales from new launches at Tasek Gelugor in Penang, Pulau in Johor, as well as the completion of several phases of development projects located in Scientex Rawang and Melaka. Meanwhile, Scientex launched RM131m worth of new properties in 1QFY22 with unbilled sales standing at RM965m (4QFY21: RM950m). Management said demand for property launches was strong in the quarter with take-up rate of about 80%. Moving forward, the group intends to launch a total of 7,000 property units across 28 launches worth about RM2.0b within FY22. This fulfills its vision of delivering 50,000 affordable homes by 2028.

- Manufacturing: Margin compression in converting business despite resilient revenue growth.** In 1QFY22, manufacturing revenue was relatively higher (+16.2% yoy) at RM678m but EBIT declined (-5.6% yoy) to RM65m. The lower EBIT mainly reflects lower margin (-2.2% yoy) as the group's converting business was affected by higher raw material cost, freight rate and COVID-19 related expenses. Meanwhile, the higher revenue was attributed to: a) higher sales margins from its newly acquired conversion businesses (Daibochi and Mega Printing & Packaging); and b) improved sales mix from its diverse range of packaging solutions and better production efficiency.

STOCK IMPACT

- On track for better growth momentum in FY22.** While Scientex has recorded a commendable 5-year net profit CAGR growth of 11% in FY17-21, we deem that its growth momentum is sustainable in FY22 and beyond. This will be driven by: a) the continuous enhancement of its manufacturing segment; and b) robust expansion of its property segment. Scientex also has a healthy balance sheet backed by strong operational cash flow (net operation cash flow recorded 5-year CAGR of 13.0%) despite its aggressive business acquisitions and capacity expansion, and still continues to reward shareholders with lush dividends and bonus shares.

- Proposed privatisation of Daibochi unsuccessful.** To recall, Scientex proposed to privatise Daibochi by acquiring the group's remaining 38% ordinary shares and 95% warrants through a cash offer of RM345.3m earlier in September. Nevertheless, the takeover offer was unsuccessful as Scientex only managed to increase its stake to 71.9% after the offer period ended, well below the 90% stake required for privatisation of Daibochi. We understand that this is mainly due to two funds holding about 15% of Daibochi that rejected the offer in order to hold out for a higher value.

EARNINGS REVISION/RISK

- We cut our FY22 net profit forecast by 4% as: a) we make some house-keeping adjustments, and b) we incorporate the prosperity tax introduced in Budget 2022. Nevertheless, we raised our FY23 net profit by 8% to factor in higher property progress billings following the group's aggressive landbank acquisition and developments.

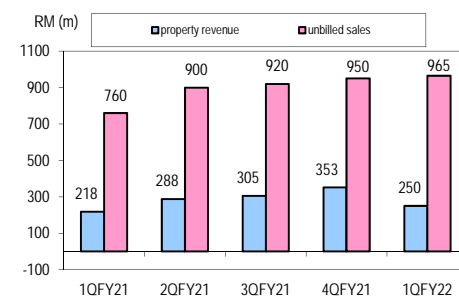
VALUATION/RECOMMENDATION

- Downgrade to HOLD despite a higher target price of RM4.98,** as the stock's share price rally has reflected most of the group's intrinsic value and capped its near-term upside. Our target price implies 14x FY23F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5-year net earnings CAGR of 11%).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

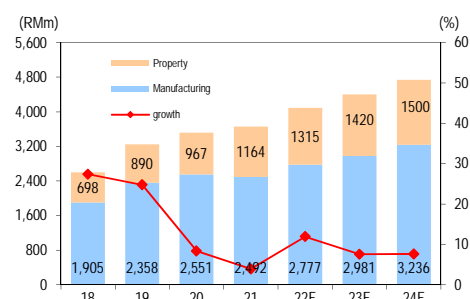
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> First plastic film manufacturer in Malaysia to receive the ISCC Plus Certification for post-consumer resin traceability. 8.2% decrease in Group-wide Greenhouse Gas emissions in FY21.
<ul style="list-style-type: none"> Social <ul style="list-style-type: none"> Spent RM5.3m in community investment in response to COVID-19. Members of local communities comprise 78% of workforce.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

PROPERTY SEGMENT



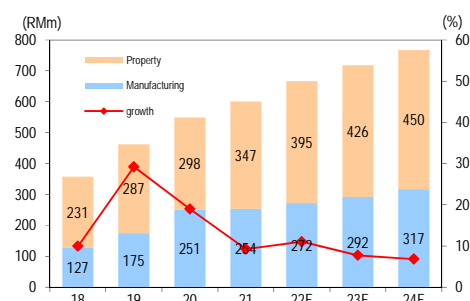
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Net turnover	3,656	4,092	4,401	4,736
EBITDA	600	768	831	891
Deprec. & amort.	110	101	113	124
EBIT	490	667	718	767
Associate contributions	12	12	12	12
Net interest income/(expense)	(11)	(16)	(14)	(14)
Pre-tax profit	490	662	716	765
Tax	(115)	(152)	(143)	(153)
Minorities	(29)	(18)	(20)	(22)
Net profit	346	492	552	590
Net profit (adj.)	346	492	552	590

CASH FLOW

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Operating	700	613	727	762
Pre-tax profit	601	662	716	765
Tax	(124)	(152)	(143)	(153)
Deprec. & amort.	126	101	113	124
Working capital changes	94	2	41	26
Other operating cashflows	3	0	0	0
Investing	(776)	(300)	(300)	(300)
Capex (growth)	(776)	(300)	(300)	(300)
Investments	(20)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	20	0	0	0
Financing	(93)	(148)	(166)	(177)
Dividend payments	(144)	(148)	(166)	(177)
Issue of shares	0	0	0	0
Proceeds from borrowings	86	0	0	0
Loan repayment	(16)	0	0	0
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	(170)	166	261	285
Beginning cash & cash equivalent	413	243	409	670
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	243	409	670	955

BALANCE SHEET

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,383	1,582	1,769	1,945
Other LT assets	1,777	1,780	1,780	1,780
Cash/ST investment	243	409	670	955
Other current assets	1,697	1,433	1,334	1,267
Total assets	5,100	5,203	5,552	5,947
ST debt	819	565	565	565
Other current liabilities	752	751	693	653
LT debt	301	301	301	301
Other LT liabilities	130	127	127	127
Shareholders' equity	2,896	3,240	3,627	4,040
Minority interest	202	220	240	261
Total liabilities & equity	5,100	5,203	5,552	5,947

KEY METRICS

Year to 31 Jul (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.4	18.8	18.9	18.8
Pre-tax margin	13.4	16.2	16.3	16.1
Net margin	9.5	12.0	12.6	12.5
ROA	7.1	9.5	10.3	10.3
ROE	12.7	16.0	16.1	15.4
Growth				
Turnover	3.9	11.9	7.6	7.6
EBITDA	(9.1)	28.0	8.3	7.3
Pre-tax profit	(9.9)	35.1	8.1	6.8
Net profit	(11.2)	42.0	12.3	6.8
Net profit (adj.)	(11.2)	42.0	12.3	6.8
EPS	(11.2)	42.0	12.3	6.8
Leverage				
Debt to total capital	26.6	20.0	18.3	16.8
Debt to equity	38.7	26.7	23.9	21.4
Net debt/(cash) to equity	30.3	14.1	5.4	(2.2)
Interest cover (x)	53.8	47.5	59.0	63.2

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