

"Results below expectations"

### Share price performance



	1M	3M	12M
Absolute (%)	-13.3	-15.6	0.3
Rel KLCI (%)	-10.9	-19.8	4.3

	BUY	HOLD	SELL
Consensus	4	4	-

### Stock Data

Sector	Plastics Packaging
Issued shares (m)	1,551.0
Mkt cap (RMm)/(US\$m)	6,188.5/1473.6
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	3.94-5
Est free float	33.1%
Stock Beta	0.57
Net cash/(debt) (RMm)	(207.6)
ROE (CY22E)	13.7%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Bottom 25%
FBM EMAS (Top 200)	No
ESG Rank	
ESG Risk Rating	36.1

### Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	9.5%
Scientex Infinity SB	9.1%

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

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## Scientex (SCI MK)

**BUY (maintain)**

Up/Downside: +17.0%

**Price Target: RM4.60**

Previous Target (Rating): RM5.20 (BUY)

### Earnings below estimates

- **Scientex's 6MFY22 core net profit of RM189m (-5% yoy) came in below our and consensus estimates due to higher-than-expected COGS and OPEX**
- **Compressed margin from the Manufacturing segment due to high resin and freight costs**
- **Cutting our earnings forecasts by 7-16% for FY22-24E after increasing our cost assumptions. Maintain BUY call with a lower SOP-based TP of RM4.60**

### 6MFY22 core net profit down 5% yoy to RM189.4m

Scientex's 6MFY22 core net profit of RM189.4m (-4.5% yoy) came in below our and consensus estimates. Core net profit accounted for 36% and 38% of our and street's full-year forecasts. This was due to higher-than-expected cost of sales and operating costs. Revenue increased to RM1.9bn (+10.0% yoy) due to stronger sales contribution from the Manufacturing segment (+14.0% yoy) and flatish Property sales (+0.6% yoy). However, the group's EBIT margin was compressed to 13.5% (-2.5ppts yoy) on the back of increasing raw material costs as well as an upsurge in freight costs.

### Stronger profitability from Property segment

Sequentially, Scientex's 2QFY22 revenue increased slightly to RM952.0m (+2.6% qoq) due to slight recovery from the Manufacturing (+2.2% qoq) and Property (+3.7% qoq) sales contributions. On the other hand, the group's EBIT margin improved to 14.2% (+1.3ppt qoq) due to stronger profitability from the Property segment, partially offset by compressed margin from the Manufacturing segment due to rising raw material and freight costs. No dividend was declared during the quarter under review.

### Maintain BUY rating with a lower TP of RM4.60 (from RM5.20)

Our new TP is based on SOP valuation after cutting our earnings forecasts by 6.9%-16.4% for FY22-24E. The stock has dropped by 17.5% YTD pricing in the impact of rising cost of raw materials and freight charges. Note that the rise in resin cost within the Industrial Packaging segment can be passed on to customers on a monthly basis, whereas the Consumer Packaging segment takes three to six months to pass on the costs depending on the contracts with customers. Moreover, Scientex is looking to increase property prices by RM3-10k/house in light of rising building material costs. Hence, we can expect near-term margin compression for the group. However, due to its aggressive expansion plans for the Manufacturing and Property businesses, this is expected to provide sustainable earnings contributions with projected three-year earnings CAGR of 9.1% for FY22-24E.

### Earnings & Valuation Summary

FYE 31 Jul	2020	2021	2022E	2023E	2024E
Revenue (RMm)	3,518.6	3,656.0	4,296.4	5,384.1	5,989.6
EBITDA (RMm)	721.5	745.0	765.4	963.6	1,046.0
Pretax profit (RMm)	544.3	601.0	606.1	776.7	848.4
Net profit (RMm)	390.1	457.2	441.9	552.0	601.8
EPS (sen)	25.2	29.5	28.5	35.6	38.8
PER (x)	15.7	13.4	13.9	11.1	10.2
Core net profit (RMm)	423.6	463.1	441.9	552.0	601.8
Core EPS (sen)	27.3	29.9	28.5	35.6	38.8
Core EPS growth (%)	20.1	9.3	-4.6	24.9	9.0
Core PER (x)	14.5	13.2	13.9	11.1	10.2
Net DPS (sen)	23.0	9.0	11.0	12.0	13.0
Dividend Yield (%)	5.8	2.3	2.8	3.0	3.3
EV/EBITDA	10.2	9.8	9.7	7.5	6.7
Chg in EPS (%)			-16.4	-7.8	-6.9
Affin/Consensus (x)			0.9	1.0	1.0

Source: Company, Affin Hwang estimates

**Key risks**

Downside risks are i) higher-than-expected cost of sales from rising resin prices and building material costs, ii) increasing supply chain disruptions due to Russia-Ukraine war, and iii) lower-than-expected sales across its businesses.

**Fig 1: Results Comparison**

FYE Jul (RMm)	2Q21	1Q21	2Q22	QoQ	YoY	6M21	6M22	YoY	Comments
				% chg	% chg			% chg	
Revenue	906.5	928.2	952.0	2.6	5.0	1,708.8	1,880.2	10.0	6M22: Revenue contributed by stronger Manufacturing (+14.0% yoy) contribution with flattish Property (+0.6% yoy) sales contribution
Op costs	729.3	780.7	788.4	1.0	8.1	1,380.9	1,569.1	13.6	qoq: Slight increase in revenue from Manufacturing (+2.2%) and Property (+3.7% qoq) segments
<b>EBITDA</b>	<b>177.2</b>	<b>147.5</b>	<b>163.6</b>	<b>10.9</b>	<b>(7.7)</b>	<b>327.9</b>	<b>311.0</b>	<b>(5.2)</b>	
<i>EBITDA margin (%)</i>	19.5	15.9	17.2	1.3 ppt	-2.4 ppt	19.2	16.5	-2.6 ppt	
Depn and amort	(27.7)	(27.8)	(28.7)	3.0	3.7	(53.7)	(56.5)	5.2	
EBIT	149.5	119.6	134.9	12.8	(9.8)	274.2	254.5	(7.2)	
<i>EBIT margin (%)</i>	16.5	12.9	14.2	1.3 ppt	-2.3 ppt	16.0	13.5	-2.5 ppt	6M22: higher raw material costs and upsurge in freight costs compressed margins by 2.5ppts yoy
Int expense	(2.4)	(4.3)	(4.9)	13.1	105.8	(4.7)	(9.2)	98.0	
Int and other inc	1.0	1.5	0.5	(69.1)	(51.6)	1.6	2.0	24.3	
Exceptional items	1.4	13.6	(6.4)	n.m.	n.m.	6.4	7.2	12.4	
Pretax profit	<b>149.5</b>	<b>130.4</b>	<b>124.1</b>	<b>(4.9)</b>	<b>(17.0)</b>	<b>277.6</b>	<b>254.5</b>	<b>(8.3)</b>	
Tax	(28.4)	(22.2)	(25.1)	13.1	(11.6)	(56.6)	(47.3)	(16.3)	
<i>Tax rate (%)</i>	19.0	17.0	20.3	3.2 ppt	1.2 ppt	20.4	18.6	-1.8 ppt	
MI	(8.9)	(5.3)	(5.2)	(1.5)	(41.2)	(16.3)	(10.6)	(35.0)	
Net profit	112.2	102.9	93.7	(8.9)	(16.5)	204.7	196.6	(4.0)	
EPS (sen)	7.2	6.6	6.0	(9.0)	(16.5)	13.2	12.7	(4.0)	
<b>Core net profit</b>	<b>110.8</b>	<b>89.3</b>	<b>100.1</b>	<b>12.1</b>	<b>(9.7)</b>	<b>198.3</b>	<b>189.4</b>	<b>(4.5)</b>	Below our and consensus expectations

Source: Affin Hwang, Company

**Fig 2: Segmental Results Comparison**

FYE Jul (RMm)	2Q21	1Q21	2Q22	QoQ	YoY	6M21	6M22	YoY
				% chg	% chg			% chg
Revenue	906.5	928.2	952.0	2.6	5.0	1,708.8	1,880.2	10.0
Manufacturing	618.8	678.1	692.8	2.2	12.0	1,202.6	1,370.9	14.0
Property	287.8	250.1	259.2	3.7	(9.9)	506.2	509.3	0.6
EBIT	149.2	133.2	125.9	(5.5)	(15.6)	275.9	259.1	(6.1)
Manufacturing	63.0	64.7	53.7	(17.1)	(14.8)	131.6	118.4	(10.0)
Property	86.2	68.5	72.2	5.4	(16.2)	144.4	140.7	(2.5)
<i>EBIT margin (%)</i>	16.5	14.4	13.2	-1.1 ppt	-3.2 ppt	16.1	13.8	-2.4 ppt
<i>Manufacturing (%)</i>	10.2	9.5	7.7	-1.8 ppt	-2.4 ppt	10.9	8.6	-2.3 ppt
<i>Property (%)</i>	29.9	27.4	27.9	0.5 ppt	-2.1 ppt	28.5	27.6	-0.9 ppt

Source: Affin Hwang, Company

**Fig 3: Sum of Parts Valuation**

Segment	Equity value (RMm)	Comment
<b>Manufacturing</b>	<b>3,857.6</b>	<b>20x PE based on CY22E</b>
<b>Property</b>	<b>3,478.0</b>	<b>30% discount to RNAV</b>
Total equity value (RMm)	7,335.6	
Net cash/(debt)	(207.6)	
Share base (m)	1,550.0	
<b>SOP TP (RM)</b>	<b>4.60</b>	

Source: Affin Hwang forecast



## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	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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