



SCIENTEX

(SCI MK EQUITY, STIK.KL)

17 March 2022

Higher supply cost squeezes 2QFY22 margin

HOLD

(Downgraded)

AmInvestment Bank

Team Coverage

03 2036 2333

Rationale for report: Company results/update

Price **RM3.93**
 Fair Value **RM4.00**
 52-week High/Low RM5.00/RM3.93

Key Changes

Fair value
 EPS

YE to Jul	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	3,656.0	4,106.3	4,612.2	5,180.6
Core net profit (RM mil)	457.2	433.8	477.0	538.6
FD Core EPS (sen)	29.0	24.4	34.6	39.0
FD Core EPS growth (%)	15.2	(15.7)	41.6	12.6
Consensus Net Profit (RM mil)	-	501.7	580.7	620.3
DPS (sen)	9.0	7.6	10.9	12.3
PE (x)	13.6	16.1	11.4	10.1
EV/EBITDA (x)	9.9	10.9	7.8	6.9
Div yield (%)	2.3	1.9	2.8	3.1
ROE (%)	16.8	12.6	16.4	16.6
Net Gearing (%)	30.3	25.6	22.0	17.9

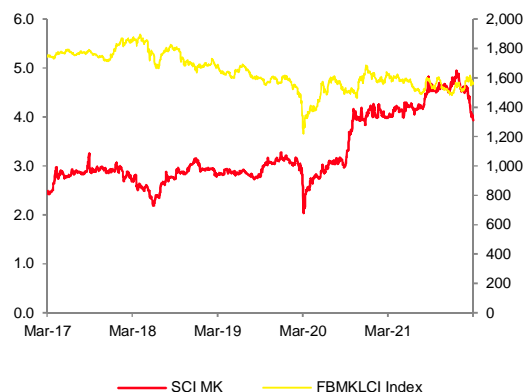
Stock and Financial Data

Shares Outstanding (million) 1,550.6
 Market Cap (RM mil) 6,093.8
 Book Value (RM/share) 2.28
 P/BV (x) 1.7
 ROE (%) 16.8
 Net Gearing (%) 30.3

Major Shareholders
 Scientex Holdings Sdn Bhd (21.0%)
 Scientex Leasing Sdn Bhd (9.5%)
 Scientex Infinity Sdn Bhd (9.1%)

Free Float 51.4%
 Avg Daily Value (RM mil) 3.0

Price performance	3mth	6mth	12mth
Absolute (%)	(16.9)	(15.3)	(1.3)
Relative (%)	(21.5)	(16.2)	2.1



Investment Highlights

- We downgrade Scientex to HOLD from BUY with a lower fair value (FV) of RM4.00/share (previously RM5.25/share) based on sum-of-parts (SOP) valuation (Exhibit 1). We now peg Scientex's manufacturing segment to a lower FY23F PE of 15x (previously 18x), a 25% premium to its peer stretch film makers to reflect its higher market capitalisation and regional leader status in packaging solutions. Our FV also imputes a 3% premium to the SOP based on our 4-star ESG rating (Exhibit 6).
- Our FY22F–FY24F earnings have been cut by 12%–13% due to lower property segment contribution as Scientex's 1HFY22 results came in below expectations, accounting for 41% our earlier FY22F earnings and 40% of consensus. This is primarily due to higher raw materials prices and freight charges, affecting both the consumer packaging and property segments, which consequently dragged the group's 1HFY22 total EBIT margin down by 2% points YoY to 14%.
- This also largely caused 2QFY22 EBIT margin to contract 1% point QoQ to 13%. However, this was slightly offset by the property development division albeit being challenged by new regulatory application processes, which affected the installation timeline of power supply infrastructure for its development in the southern region.
- The group expect the disruptions from the new application processes to begin easing in 2HFY22. Scientex is targeting RM1.7bil new FY22F launches (6,000 units across 24 launches) despite only RM410mil worth of launches in 1HFY22 (1,545 units across 7 launches) due to these regulatory impediments. Hence, we conservatively assume FY22F new launches at RM1.2bil. Presently, progress billings from unbilled sales stood at RM1bil (0.8x FY22F property development revenue), with an average take-up rate of 66%.
- We still like Scientex for: (1) the strong prospects of the packaging industry due to growing consumer spending, a shift to on-the-go food and beverages due to a hectic lifestyle and stricter food safety standards; (2) continuous R&D efforts to provide a wider range of packaging solutions; and (3) a robust property development business despite a generally soft market thanks to its focus on predominantly affordable landed residential units in secondary suburbs.
- However, we are of the view that its upside potential is capped against the backdrop of increasing competition and margin squeeze in its packaging business amid a stagflation outlook together with slower-than-expected property launches.

EXHIBIT 1: SOP VALUATION

	FY23F PAT (RM'mil)	PE multiple (x)	Valuation (RM'mil)
Manufacturing Division	223.4	15	3,351.5
Property Division			
	Outstanding GDV	NPV @ 8%	
Developments	RM (mil)		
Taman Scientex Pasir Gudang	427	75.8	
Taman Scientex Kulai	405	71.9	
Taman Mutiara Mas (Skudai)	1,285	228.1	
Taman Scientex Senai	1,835	325.7	
Taman Pulau Mutiara	4,016	712.8	
Taman Muzaffar Heights (Ayer Keroh)	621	110.2	
Scientex Durian Tunggal	982	174.3	
Scientex Ipoh	414	73.5	
Scientex Rawang	730	129.6	
Sceintex Tasek Gelugor	880	156.2	
Scientex Kundang Jaya	1,700	301.7	
Scientex Kota Tinggi	280	49.7	
Scientex Jasin & Scientex Bandar Jasin	4,500	798.7	
	18,075	3,208	
(-) Property Division Net Debt (estimate)		-385.5	
RNAV		2,823	
(-) 20% Discount to Property RNAV		-564.5	
Property Division Sub-Total			2,258.1
Total			5,609.7
(+) Cash proceeds from full conversion of warrants			444.1
			6,053.8
Fully Diluted Outstanding Share Base			1,559.0
Fair Value/share (RM)			3.88
(+) 3% premium for 4-star ESG rating			0.12
Fair Value/share (RM) + ESG Premium			4.00

Source: Company; AmInvestment Bank Bhd

EXHIBIT 2: RESULTS SUMMARY

YE July (RM'mil)	2Q FY21	1Q FY22	2Q FY22	YoY (%)	QoQ (%)	1H FY21	1H FY22	YoY (%)
Revenue	906.5	928.2	952.0	5.0	2.6	1,708.8	1,880.2	10.0
Manufacturing	618.8	678.1	692.8	12.0	2.2	1,202.6	1,370.9	14.0
Property Development	287.8	250.1	259.2	-9.9	3.7	506.2	509.3	0.6
EBIT	149.2	133.2	125.9	-15.6	-5.5	275.9	259.1	-6.1
Manufacturing	63.0	64.7	53.7	-14.8	-17.1	131.6	118.4	-10.0
Property Development	86.2	68.5	72.2	-16.2	5.4	144.4	140.7	-2.5
Depreciation	27.4	28.7	27.8	1.4	-3.0	55.1	55.4	0.6
Net Interest	-1.3	-3.6	-4.3	241.0	21.8	-2.8	-7.9	182.3
EBITDA	175.3	158.3	149.3	-14.8	-5.7	328.2	306.6	-6.6
Profit Before Tax (PBT)	149.5	130.4	124.1	-17.0	-4.9	277.6	254.5	-8.3
Taxation	-28.4	-22.2	-25.1	-11.6	13.1	-56.6	-47.3	-16.3
Profit After Tax (PAT)	121.1	108.2	98.9	-18.3	-8.6	221.0	207.1	-6.3
Minority Interest	8.9	5.3	5.2	-41.2	-1.5	16.3	10.6	-35.0
Net Profit	112.2	102.9	93.7	-16.5	-8.9	204.7	196.6	-4.0
Margins (%)								
EBIT margin	16.5	14.4	13.2			16.1	13.8	
Manufacturing	10.2	9.5	7.7			10.9	8.6	
Property Development	29.9	27.4	27.9			28.5	27.6	
EBITDA margin	19.3	17.1	15.7			19.2	16.3	
PBT margin	16.5	14.1	13.0			16.2	13.5	
Net Profit margin	12.4	11.1	9.8			12.0	10.5	
Effective Tax Rate	19.0	17.0	20.3			20.4	18.6	

Source: Company; AmInvestment Bank Bhd

EXHIBIT 3: PLASTICS PLAYERS COMPARISON

Stock	Country	Mkt Cap (RM'mil)	Beta (x)	PE (x)		FY22F Earnings Growth (%)	CY22F Net gearing (%)	CY22F EV/EBITDA (x)	CY22F ROE (%)
				CY22F	CY23F				
SCIPACK (Daibochi)	Malaysia	769.3	0.45	16.5	14.3	20.3	20.1	12.0	14.6
Thong Guan	Malaysia	896.9	0.99	7.9	6.1	21.6	Net Cash	4.6	13.5
BP Plastic	Malaysia	399.7	0.83	8.4	7.9	24.3	Net Cash	4.9	21.3
Nan Ya Plastics	Taiwan	15,986.0	1.00	12.1	13.4	17.0	5.0	10.0	21.4
Formosa Plastics	Taiwan	14,864.6	0.88	11.1	11.8	18.0	Net Cash	11.6	19.4
Average				11.5	12.2	20.2		20.7	18.0

Source: AmlInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART

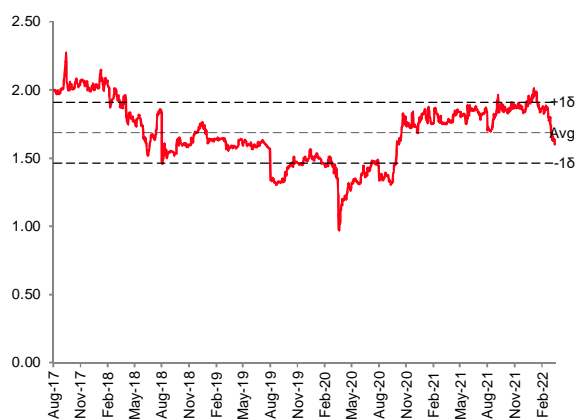


EXHIBIT 5: PE BAND CHART

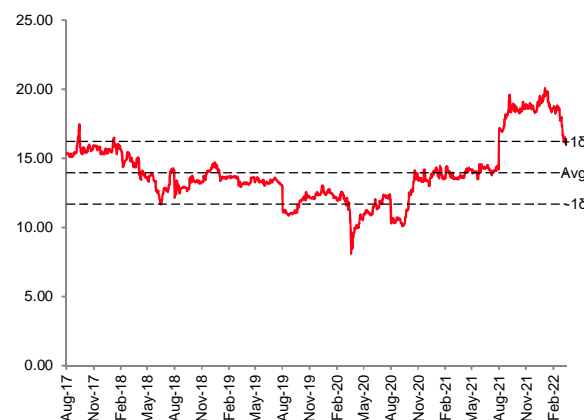


EXHIBIT 6: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★			
Work site safety	★	★	★	★	
Worker welfare	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Pollution control	★	★	★		
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us from 1-star to 5-star.

Source: AmlInvestment Bank Bhd

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	3,518.6	3,656.0	4,106.3	4,612.2	5,180.6
EBITDA	658.1	706.3	635.7	878.0	985.1
Depreciation/Amortisation	(108.7)	(110.2)	(117.9)	(131.9)	(144.8)
Operating income (EBIT)	549.4	596.1	517.8	746.1	840.2
Other income & associates	-	11.2	(120.9)	32.2	40.7
Net interest	(5.1)	4.9	5.0	1.2	3.9
Exceptional items	-	-	-	-	-
Pretax profit	544.3	601.0	522.8	747.3	844.1
Taxation	(126.2)	(115.2)	(114.3)	(163.4)	(184.5)
Minorities/pref dividends	27.9	28.5	26.7	34.2	37.5
Net profit	390.1	457.2	381.8	549.7	622.0
Core net profit	390.1	457.2	381.8	549.7	622.0
Balance Sheet (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	1,322.6	1,382.7	1,564.8	1,732.9	1,888.0
Intangible assets	1,335.7	1,630.0	1,509.1	1,541.3	1,582.0
Other long-term assets	101.6	142.2	142.2	142.2	142.2
Total non-current assets	2,776.7	3,154.9	3,216.0	3,416.3	3,612.2
Cash & equivalent	413.2	243.3	297.5	317.4	373.1
Stock	354.0	387.0	434.6	488.2	548.3
Trade debtors	716.0	684.9	769.3	864.1	970.6
Other current assets	340.4	624.6	717.8	824.6	944.0
Total current assets	1,823.7	1,939.9	2,219.2	2,494.2	2,836.0
Trade creditors	624.5	523.0	587.5	659.8	741.1
Short-term borrowings	683.7	818.8	812.6	806.4	800.2
Other current liabilities	45.0	224.8	224.8	224.8	224.8
Total current liabilities	1,353.2	1,566.6	1,624.9	1,691.1	1,766.2
Long-term borrowings	357.3	301.0	294.8	288.6	282.4
Other long-term liabilities	134.2	127.1	127.1	127.1	127.1
Total long-term liabilities	491.6	428.0	421.8	415.6	409.4
Shareholders' funds	2,561.4	2,895.7	3,160.4	3,541.5	3,972.8
Minority interests	194.3	201.5	228.2	262.4	299.9
BV/share (RM)	2.09	2.28	2.46	2.72	3.02
Cash Flow (RMmil, YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	544.3	601.0	522.8	747.3	844.1
Depreciation/Amortisation	108.7	110.2	117.9	131.9	144.8
Net change in working capital	150.4	93.9	(196.5)	(220.7)	(247.9)
Others	(88.1)	(105.5)	34.5	(158.8)	(186.0)
Cash flow from operations	715.3	699.6	478.7	499.7	555.0
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(499.8)	(775.7)	(300.0)	(300.0)	(300.0)
Others	19.0	3.1	16.4	19.0	21.6
Cash flow from investing	(480.9)	(772.5)	(283.6)	(281.0)	(278.4)
Debt raised/(repaid)	89.1	85.7	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(116.3)	(143.5)	(117.1)	(168.6)	(190.8)
Others	(48.9)	(32.4)	(23.8)	(30.2)	(30.1)
Cash flow from financing	(76.1)	(90.2)	(140.9)	(198.8)	(220.9)
Net cash flow	158.4	(163.2)	54.2	19.9	55.7
Net cash/(debt) b/f	256.5	413.2	243.3	297.5	317.4
Net cash/(debt) c/f	416.1	250.1	297.5	317.4	373.1
Key Ratios (YE 31 Jul)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	8.3	3.9	12.3	12.3	12.3
EBITDA growth (%)	20.4	7.3	(10.0)	38.1	12.2
Pretax margin (%)	15.5	16.4	12.7	16.2	16.3
Net profit margin (%)	11.1	12.5	9.3	11.9	12.0
Interest cover (x)	107.7	nm	nm	nm	nm
Effective tax rate (%)	23.2	19.2	21.9	21.9	21.9
Dividend payout (%)	26.4	28.3	30.7	30.7	30.7
Debtors turnover (days)	68	70	65	65	65
Stock turnover (days)	35	37	37	37	37
Creditors turnover (days)	55	57	49	49	49

Source: Company, AmInvestment Bank Bhd estimates

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