

17 March 2022

Scientex Berhad

2QFY22 Below Expectations

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1HFY22 CNP of RM212.8m came below our and street's estimates at 42% each. No dividend as expected. QoQ, CNP was lower due to higher raw materials and freight costs in its plastic manufacturing segment, while slower infrastructure installation caused a delay in work progress in its property segment. We reduce FY22E CNP by 4% due to higher raw material and logistic costs assumptions. Maintain MP with lower SoP-TP of RM4.15.

Below expectations. 1HFY22 CNP of RM212.8m came below our/consensus estimate at 42% each. No dividend, as expected.

YoY, the group's revenue rose by 10% on contribution from both segments, with plastic manufacturing segment (+14%) driven by higher sales in its local and export markets, while the property segment revenue (+1%) was sustained. 1HFY22 EBIT margin dipped by 2.3ppt, mainly due to higher raw material prices and elevated freight costs on its consumer packaging manufacturing segment. All in, 1HFY22 CNP of RM212.8m rose by 9.6% in tandem with revenue and a lower effective tax rate of 18.6% (vs. 19.2%).

QoQ, revenue was up by 2.6%, mainly driven by a 2.2% increase in manufacturing revenue due to higher sales volume in its export market, while flattish growth in the property segment was attributed primarily to the delay in work progress caused by deferment of the issuance of Certificate of Completion & Compliance ("CCC") in the Southern region. We understand that delay in getting CCC is due to slower power supply infrastructure installment. However, EBIT margin fell 1.2ppt due to: (i) heightened raw material costs in both segments, and (ii) elevated freight costs. All in, the net result was 2QFY22 CNP declining by 11.2%.

Outlook. In the packaging segment, resin prices have risen sharply (YTD c.18%), mainly driven by: (i) surge in crude oil prices due to the Russia-Ukraine war tension, and (ii) global supply chain issues. We understand that management had factored in ASPs adjustment for its products, especially the industrial segment, to cushion the higher raw material and freight costs. However, we remain cautious on the consumers packaging segment due to the abovementioned concerns and expect a margin squeeze in the sequential quarter. Besides, the group announced that its Robotics stretch film plant would be commercializing operation in 2HCY22, which will improve production efficiency and lower dependency on manual workforce. SCIENTX has also brought in new machineries for its packaging segment to boost its capacity and efficiency. We remain neutral on its packaging segment on the back of: (i) better product mix, and (ii) newly added-value product (*Nano Ultra XE stretch film by using its new Nano 67-layer stretch film cast line*). On the property segment, the group targets RM1.7b GDV of new launches in FY22, while its unbilled sales of RM1b provide less than one year's visibility. We believe this segment will continue to sustain robust progress billing in the 2HFY22 due to the recovery of economic activities and reopening of the nation's borders. At the same time, potential downside risk such as (i) higher raw material costs, (ii) materials shortage, and (iii) changes in regulatory application procedures may prolong the recovery progress.

Post results. We reduce our FY22E revenue/CNP by 3%/6% after factoring in lower demand and margins pressure to account for the higher raw material and logistic costs for its manufacturing business. We also reduce our FY23E revenue/CNP to RM4.5b/RM553.5m due to global supply chain disruption. Based on 30% dividend payout policy, FY22E/FY23E DPS stand at 9.1sen/10.7sen, implying yields of 2.3%/2.7%.

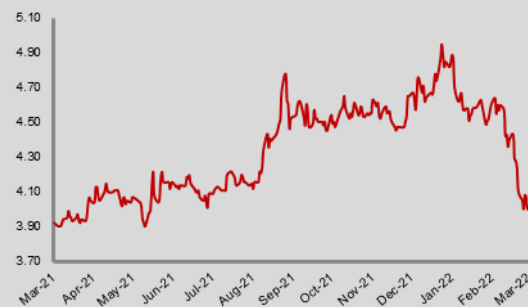
Maintain MARKET PERFORM with lower SoP-derived TP of RM4.15 (from RM4.42) based on FY22 earnings estimate. We maintain our ascribed 14.3x PER for the plastic manufacturing segment and 13x PER for the property segment.

Risks to our call include: (i) higher-than-expected resin cost, (ii) weaker product demand, (iii) weaker-than-expected property sales, and (iv) foreign currency risk.

MARKET PERFORM ↔

Price : RM3.93
Target Price : RM4.15 ↓

Share Price Performance



KLCI 1,571.32
YTD KLCI chg 0.2%
YTD stock price chg -18.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCI MK Equity
Market Cap (RM m) 6,095.4
Shares Outstanding 1,551.0
52-week range (H) 5.00
52-week range (L) 3.93
3-mth avg daily vol: 657,280
Free Float 33%
Beta 0.6

Major Shareholders

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

Summary Earnings Table

FYE Jul (RM m)	2021A	2022E	2023E
Turnover	3656.0	4109.9	4549.8
EBIT	600.3	662.3	756.2
PBT	601.0	627.2	728.3
Net Profit (NP)	457.2	470.7	553.5
Core NP*	443.8	470.7	553.5
Consensus (NP)	N/A	501.4	580.7
Earnings Revision	N/A	-6%	-4%
Core EPS (sen)	28.6	30.4	35.7
Core EPS growth (%)	8.9	6.1	17.6
NDPS (sen)	9.0	9.1	10.7
BVPS (RM)	1.87	2.07	2.32
Core PER (x)	13.7	12.9	11.0
PBV (x)	2.1	1.9	1.7
Net Gearing (x)	0.30	0.36	0.20
Net Div. Yield (%)	2.3	2.3	2.7

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Results Highlights								
FYE July (RM m)	2Q FY22	1Q FY22	QoQ Chg	2Q FY21	YoY Chg	1H FY22	1H FY21	YoY Chg
Turnover	952.0	928.2	3%	906.5	5%	1880.2	1708.8	10%
EBIT	125.9	133.2	-6%	149.2	-16%	259.1	275.9	-6%
Interest income	3.1	1.5	101%	2.7	13%	-9.2	-4.7	98%
Finance costs	-4.9	-4.3	13%	-2.4	106%	4.6	6.3	-26%
PBT	124.1	130.4	-5%	149.5	-17%	254.5	277.6	-8%
Taxation	-25.1	-22.2	13%	-28.4	-12%	-47.3	-56.6	-16%
Net Profit	98.9	108.2	-9%	121.1	-18%	207.1	221.0	-6%
Minority interest	5.2	0.8	562%	8.9	-41%	6.0	16.3	-63%
PATAMI	93.7	107.4	-13%	112.2	-16%	201.1	204.7	-2%
Core PATAMI	100.1	112.7	-11%	101.9	-2%	212.8	194.1	10%
EBIT margin	13.2%	14.4%		16.5%		13.8%	16.1%	
PBT margin	13.0%	14.1%		16.5%		13.5%	16.2%	
Core PATAMI margin	10.5%	12.1%		11.2%		11.3%	11.4%	
Effective tax rate	20.3%	17.0%		19.0%		18.6%	20.4%	

Segmental Breakdown								
FYE July (RM m)	2Q FY22	1Q FY22	QoQ Chg	2Q FY21	YoY Chg	1H FY22	1H FY21	YoY Chg
Turnover								
Manufacturing	692.8	678.1	2%	618.8	12%	1,370.9	1,202.6	14%
Property	259.2	250.1	4%	287.8	-10%	509.3	506.2	1%
Group Turnover	952.0	928.2	3%	906.5	5%	1,880.2	1,708.8	10%
Segment Results								
Manufacturing	53.7	64.7	-17%	63.0	-15%	118.4	131.6	-10%
Property	72.2	68.5	5%	86.2	-16%	140.7	144.4	-3%
Group EBIT	125.9	133.2	-6%	149.2	-16%	259.1	275.9	-6%
EBIT Margin								
Manufacturing	7.7%	9.5%		10.2%		8.6%	10.9%	
Property	27.9%	27.4%		29.9%		27.6%	28.5%	
Group EBIT Margin	13.2%	14.4%		16.5%		13.8%	16.1%	

Source: Company, Kenanga Research

SoP Valuations			
Segment	Fair Value (RM m)	PER (x)	Net Income (RM'm)
Property	2,998	13	230.6
Manufacturing	3,433	14.3	240.1
Sum-of-Parts (RM m)	6,431.0		470.7
No. of Shares (m)	1550.6		
Target Price (RM)	4.15		

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
STOCKS UNDER COVERAGE																	
BP PLASTIC HOLDING BHD	1.42	399.7	Y	12/2022	8.9%	12.7%	4.5%	5.4%	8.6	8.2	7.8	1.7	1.6	19.8%	7.7%	2.07	OP
SCGM BHD	2.14	412.1	Y	04/2022	15.1%	16.0%	7.9%	11.4%	12.1	11.2	10.1	2.2	1.9	18.2%	3.6%	2.80	OP
SCIENTEX BHD	3.93	6,095.4	Y	07/2022	12.4%	10.7%	6.1%	17.6%	13.7	12.9	11.0	2.1	1.9	15.4%	2.4%	4.15	MP
SLP RESOURCES BHD	0.915	290.0	Y	12/2022	9.7%	5.5%	28.6%	9.3%	16.6	12.9	11.8	1.6	1.5	12.0%	6.0%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.33	896.9	Y	12/2022	19.7%	20.4%	22.2%	21.2%	9.5	7.8	6.4	1.2	1.0	14.3%	2.4%	3.90	OP
Simple Average					13.1%	13.1%	13.9%	13.0%	12.1	10.6	9.4	1.7	1.6	15.9%	4.41%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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