

Scientex Berhad

Steady Performance

TP: RM5.25 (+33.6%)

Last Traded: RM3.93

Buy (ESG: ★★★)

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Review

- After stripping out effect of foreign exchange, Scientex Berhad's IHFY22 core net profit was flat YoY at RM189.7mn, accounting for 38% of ours and consensus full-year estimates. We deem the results to be within expectations as we expect more robust earnings in the subsequent quarters, corresponding to easing of workforce restrictions and a back-end loaded earnings from the Property segment (typically 4Q accounts for 33-39% of full year earnings).
- Manufacturing.** IHFY22 operating profit slipped 10.0% YoY to RM118.4mn despite a 14.0% YoY jump in revenue. This was mainly due to lower contribution from converting business, which was impacted by higher input cost i.e. resin and freight costs. Scientex took longer time to pass-through the cost in the converting business than it usually does. Note that the group's converting business registered a lower IHFY22 operating margin of 5.5% (-3%-pts YoY) compared to 8.6% for IHFY22 (-2%-pts YoY).
- Property.** IHFY22 revenue was flattish at RM509.3mn despite strong unbilled sales. This was mainly attributed to deferment in issuance of Certification of Completion and Compliance for some projects in the Southern region. As a result, operating profit slipped to RM140.7mn (-2.5% YoY).
- 2QFY22 vs. 1QFY22.** After stripping out foreign exchange gain of RM13.6mn in 1QFY22 and foreign exchange loss amounting RM6.7mn in 2QFY22, Scientex's core profit jumped by 12.5% QoQ to RM100.3mn. Revenue contribution from the Manufacturing and Property segments increased 2.2% QoQ and 3.7% QoQ respective as activities picked up correspond to gradual easing on workforce restrictions.
- No dividend was declared during the quarter under review.

Impact

- We trim our FY22/23/24 property launches estimates to RM1.6/1.9/2.0bn from previously RM1.9/2.0/2.1bn in view of the reduction in FY22 targeted launches. Consequently, we trim Scientex's FY22/23/24 earnings by 4/2/1% respectively.

Outlook

- Manufacturing.** Scientex is committed in enhancing its Manufacturing capabilities with its robotics stretch film plant in Shah Alam expected to commence operations in 2HCY22. This is expected to increase its annual stretch film capacity by c.18kMT or c.15% of existing capacity. Moreover, the group has installed new lines across existing plants to upgrade its capacity for film making, bag converting, lamination and others while being focused on providing sustainable packaging solutions to its customers.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,547.6
Market Cap (RMmn)	6,082.2
52-wk Hi/Lo (RM)	5.00/3.93
12-mth Avg Daily Vol ('000 shrs)	630.5
Estimated Free Float (%)	33.1
Beta	0.4
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY22	FY23
Forecast Revision (%)	(4.5)	(2.1)
Net profit (RMm)	472.6	548.8
Consensus	501.7	580.7
TA's / Consensus (%)	94.2	94.5
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY22	FY23
Net debt/ equity (%)	35.6	30.6
ROE (%)	15.5	16.1
ROA (%)	8.7	9.0
NTA/Share (RM)	1.9	2.1
Price/ NTA (x)	2.1	1.9

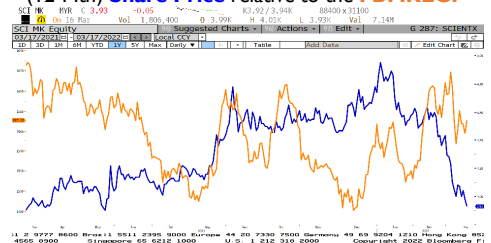
Scorecard

	% of FY22	
vs TA	38	Within
vs Consensus	38	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(14.6)	(2.0)
3 mth	(16.9)	5.8
6 mth	(15.3)	1.0
12 mth	(1.3)	(3.2)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Although recent unfavourable movement of resin price may temporarily squeeze margins, we note that industrial packaging, which makes up approximately half of group's Manufacturing revenue, typically has quick and efficient pass-through mechanism and could partially shield Scientex from the adverse effect of raw materials.

- **Property.** Scientex has toned down its FY22 targeted new launch to RM1.7bn worth of properties (c.6.0k units) from initial target of RM2.0bn owing to a change in regulatory application procedure which could lead to potential delays in obtaining permits and approvals. Nonetheless, the RM1.7bn targeted launches would remain as a new record for the group which is higher than RM1.5bn launches achieved in FY21. Meanwhile, Malaysians remain very receptive to Scientex's projects as seen in recent launches in Bandar Jasin and Jasin, which have achieved take-up rates of 90% and 70% respectively in less than 3 months. Overall, we remain upbeat on Scientex's Property segment underpinned by robust unbilled sales of c.RM1bn, maiden launches from new sites and continued efforts to acquire strategic land banks.

Valuation

- We trim our Scientex's TP to RM5.25/share (previously RM5.40/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	4,101.7	4,529.3	4,849.1
EBITDA	656.9	707.2	793.5	879.1	919.3
EBIT	549.5	600.3	671.8	752.1	792.5
Reported PBT	544.3	601.0	658.5	742.3	785.1
Adj. PBT	576.2	597.2	658.5	742.3	785.1
Reported Net Profit	390.1	457.2	472.6	548.8	578.7
Adj. Net profit	422.0	453.5	472.6	548.8	578.7
Basic EPS (sen)	25.2	29.5	30.5	35.5	37.4
Adj. EPS (sen)	27.3	29.3	30.5	35.5	37.4
PER (x)	15.6	13.3	12.9	11.1	10.5
Net Dividend (sen)	7.7	9.0	10.0	11.0	12.0
Dividend Yield (%)	2.0	2.3	2.5	2.8	3.1

Table 2: 2QFY22 Results Analysis (RMmn)

FYE July (RMmn)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	IHFY21	IHFY22	YoY (%)
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
Interest Expense	(2.4)	(4.3)	(4.9)	13.1	>100	(4.7)	(9.2)	98.0
Interest Income	2.7	1.5	3.1	>100	13.5	6.3	4.6	(26.3)
Depreciation	(26.8)	(27.8)	(27.8)	(0.1)	3.8	(53.5)	(55.6)	3.9
EBITDA	176.0	161.1	153.7	(4.6)	(12.7)	329.5	314.7	(4.5)
Operating Profit	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)
EI	9.8	13.6	(6.7)	nm	nm	15.2	6.9	(54.9)
Reported PBT	149.5	130.4	124.1	(4.9)	(17.0)	277.6	254.5	(8.3)
Taxation	(28.4)	(22.2)	(25.2)	13.5	(11.3)	(56.6)	(47.3)	(16.3)
Minority Interest	(8.9)	(5.4)	(5.2)	(3.3)	(41.2)	(16.3)	(10.6)	(35.0)
Reported Profit	112.2	102.8	93.6	(8.9)	(16.6)	204.7	196.6	(4.0)
Adj. Net Profit	102.3	89.2	100.3	12.5	(2.0)	189.5	189.7	0.1
EPS (sen)	7.2	6.6	6.0	(8.9)	(16.5)	13.2	12.7	(4.1)
Adj EPS (sen)	6.6	5.8	6.5	12.5	(1.8)	12.2	12.2	0.0
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBIT Margin (%)	16.5	14.4	13.2	(1.1)	(3.2)	16.1	13.8	(2.4)
~ Manufacturing	10.2	9.5	7.7	(1.8)	(2.4)	10.9	8.6	(2.3)
~ Property	29.9	27.4	27.9	0.5	(2.1)	28.5	27.6	(0.9)
PBT Margin (%)	16.5	14.1	13.0	(1.0)	(3.5)	16.2	13.5	(2.7)
Net Margin (%)	11.3	9.6	10.5	0.9	(0.7)	11.1	10.1	(1.0)
Tax rate (%)	19.0	17.0	20.3	3.3	1.3	20.4	18.6	(1.8)

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	4,334.5
Equity value (RMmn)		8,229.8
+ Proceed from Warrant Conversion (RMmn)		443.7
Total Equity Value (RMmn)		8,673.4
Share cap (mn)		1,547.6
+ Warrant Conversion (mn)		103.2
Enlarged Share Cap (mn)		1,650.8
Target Price (RM)		5.25

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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
Scoring	★★★	★★★★	★★★	★★★
Remark	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.

Disclaimer

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As of Thursday, March 17, 2022, 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

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