

"Results within expectations"

Share price performance



| | 1M | 3M | 12M |
|--------------|------|-------|-------|
| Absolute (%) | -4.9 | -13.3 | -18.2 |
| Rel KLCI (%) | 0.2 | -7.1 | -12.0 |

| | BUY | HOLD | SELL |
|-----------|-----|------|------|
| Consensus | 5 | 3 | - |

Stock Data

| | |
|--------------------------|--------------------|
| Sector | Plastics Packaging |
| Issued shares (m) | 1,551.0 |
| Mkt cap (RMm)/(US\$m) | 5,382/1,217.8 |
| Avg daily vol - 6mth (m) | 0.7 |
| 52-wk range (RM) | 3.37-5 |
| Est free float | 33.0% |
| Stock Beta | 0.50 |
| Net cash/(debt) (RMm) | (848.2) |
| ROE (CY22E) | 13.0% |
| Derivatives | Nil |
| Shariah Compliant | Yes |
| FTSE4Good Constituent | No |
| FBM EMAS (Top 200) | |
| ESG Rank | Bottom 25% |
| ESG Risk Rating | 36.1 (flat yoy) |

Key Shareholders

| | |
|----------------------|-------|
| Scientex Holdings SB | 21.0% |
| Scientex Leasing SB | 9.6% |
| 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: +15.2%

Price Target: RM4.00

Previous Target (Rating): RM4.60 (BUY)

Expect back-end loaded results

- **Scientex's 9MFY22 core net profit of RM287.5m (-8% yoy) came in within our and consensus estimates**
- **Compressed margin from the Manufacturing segment due to high raw material and freight costs**
- **No change to FY22E EPS but cutting our FY23-24E EPS by 9-12% after increasing our cost assumptions. Maintain BUY call with a lower SOP-based TP of RM4.00**

9MFY22 core net profit declined by 8% yoy

Scientex's 9MFY22 core net profit of RM287.5m (-7.7% yoy) accounted for 65% and 66% of our and street full-year forecasts. We deem this within estimates due to historically back-end loaded results. Revenue increased to RM2.9bn (+7.0% yoy) due to stronger sales contribution from the Manufacturing segment (+13.2% yoy) though partially offset by lower Property sales (-7.2% yoy). However, the group's EBIT margin was compressed to 13.5% (-2.4ppts yoy) on the back of increasing raw material costs as well as an upsurge in freight costs from the consumer packaging business.

Property segment experienced delay in receiving CCC

Sequentially, Scientex's 3QFY22 revenue increased marginally to RM993.8m (+4.4% qoq) due to recovery from the Manufacturing segment (+8.2% qoq) partially dampened by lower Property segment (-5.8% qoq) sales. Consequently, the group's EBIT margin declined slightly to 13.6% (-0.6ppt qoq) mainly dragged by lower operating profit from the Property segment on the back of lower revenue due to deferment of Certificate of Completion & Compliance (CCC) for its projects Melaka and Johor. The group declared a single-tier interim dividend of 4.0sen for 3QFY22 (vs 4.0sen in 3QFY21).

Maintain BUY rating with a lower TP of RM4.00 (from RM4.60)

No change to FY22E EPS due to results being in-line; however, we reduce our FY23-24E EPS by 9.4-12.3% on the back of rising costs of raw materials and surging freight costs. Moving forward, we expect moderate earnings growth going into CY23E onwards due to rising market headwinds affecting the Manufacturing and Property segments. We arrive at our new TP of RM4.00 after rolling forward our SOP valuation to CY23E. The stock has dropped by 27% YTD and is currently trading at 11x forward PE which is -0.5SD below its five-year forward mean PE of 12x. Currently we find the stock to be oversold, thus providing a buying opportunity at an attractive valuation. 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 the Russia-Ukraine war, and iii) lower-than-expected sales across its businesses.

Earnings & Valuation Summary

| FYE 31 Jul | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 3,518.6 | 3,656.0 | 4,296.4 | 5,131.4 | 5,964.5 |
| EBITDA (RMm) | 721.5 | 745.0 | 765.4 | 870.7 | 972.7 |
| Pretax profit (RMm) | 544.3 | 601.0 | 606.1 | 686.4 | 775.3 |
| Net profit (RMm) | 390.1 | 457.2 | 441.9 | 484.0 | 545.1 |
| EPS (sen) | 25.2 | 29.5 | 28.5 | 31.2 | 35.2 |
| PER (x) | 14.0 | 12.0 | 12.4 | 11.3 | 10.0 |
| Core net profit (RMm) | 423.6 | 463.1 | 441.9 | 484.0 | 545.1 |
| Core EPS (sen) | 27.3 | 29.9 | 28.5 | 31.2 | 35.2 |
| Core EPS growth (%) | 20.1 | 9.3 | -4.6 | 9.5 | 12.6 |
| Core PER (x) | 12.9 | 11.8 | 12.4 | 11.3 | 10.0 |
| Net DPS (sen) | 23.0 | 9.0 | 11.0 | 12.0 | 13.0 |
| Dividend Yield (%) | 6.5 | 2.5 | 3.1 | 3.4 | 3.7 |
| EV/EBITDA | 9.2 | 8.9 | 8.8 | 7.6 | 6.6 |
| Chg in EPS (%) | | | - | -12.3 | -9.4 |
| Affin/Consensus (x) | | | 1.0 | 0.9 | 0.9 |

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

| FYE Jul (RMm) | 3Q21 | 2Q21 | 3Q22 | QoQ % chg | YoY % chg | 9M21 | 9M22 | YoY % chg | Comments |
|--------------------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|--|
| Revenue | 976.8 | 952.0 | 993.8 | 4.4 | 1.7 | 2,685.6 | 2,874.0 | 7.0 | 9M22: Revenue contributed by stronger Manufacturing (+13% yoy) contribution with lower Property (-7% yoy) sales contribution |
| Op costs | 794.5 | 788.4 | 830.3 | 5.3 | 4.5 | 2,175.4 | 2,399.4 | 10.3 | Qoq: Marginal increase in revenue from Manufacturing (+8%) segment partially offset by lower Property (-6%) segment revenue |
| EBITDA | 182.3 | 163.6 | 163.6 | 0.0 | (10.3) | 510.2 | 474.6 | (7.0) | |
| <i>EBITDA margin (%)</i> | 18.7 | 17.2 | 16.5 | -0.7 ppt | -2.2 ppt | 19.0 | 16.5 | -2.5 ppt | |
| Depn and amort | (27.8) | (28.7) | (28.9) | 0.6 | 3.9 | (81.5) | (85.4) | 4.8 | |
| EBIT | 154.5 | 134.9 | 134.7 | (0.1) | (12.8) | 428.7 | 389.2 | (9.2) | |
| <i>EBIT margin (%)</i> | 15.8 | 14.2 | 13.6 | -0.6 ppt | -2.3 ppt | 16.0 | 13.5 | -2.4 ppt | Yoy: higher raw material costs and upsurge in freight costs within the consumer packaging business |
| Int expense | (3.0) | (4.9) | (5.0) | 2.2 | 69.9 | (7.6) | (14.3) | 87.1 | |
| Int and other inc | 0.5 | 0.5 | 0.3 | (31.9) | (40.8) | 2.2 | 2.3 | 7.9 | |
| Exceptional items | (3.2) | (6.4) | (9.8) | 52.8 | >+100 | 3.2 | (2.6) | n.m. | |
| Pretax profit | 148.9 | 124.1 | 120.3 | (3.1) | (19.2) | 426.5 | 374.7 | (12.1) | |
| Tax | (32.3) | (25.1) | (25.7) | 2.1 | (20.6) | (88.9) | (73.0) | (17.9) | |
| <i>Tax rate (%)</i> | 21.7 | 20.3 | 21.3 | 1.1 ppt | -0.4 ppt | 20.8 | 19.5 | -1.4 ppt | |
| MI | (6.7) | (5.2) | (6.3) | 19.7 | (6.4) | (23.0) | (16.9) | (26.7) | |
| Net profit | 109.9 | 93.7 | 88.3 | (5.7) | (19.6) | 314.6 | 284.9 | (9.4) | |
| EPS (sen) | 7.1 | 6.0 | 5.7 | (5.6) | (19.6) | 20.3 | 18.4 | (9.4) | |
| Core net profit | 113.1 | 100.1 | 98.1 | (2.0) | (13.3) | 311.4 | 287.5 | (7.7) | Within estimates |

Source: Affin Hwang, Company

Fig 2: Segmental Results Comparison

| FYE Jul (RMm) | 3Q21 | 2Q21 | 3Q22 | QoQ % chg | YoY % chg | 9M21 | 9M22 | YoY % chg |
|-----------------------------|-------|-------|-------|--------------|--------------|---------|---------|--------------|
| Revenue | 976.8 | 952.0 | 993.8 | 4.4 | 1.7 | 2,685.6 | 2,874.0 | 7.0 |
| Manufacturing | 671.5 | 692.8 | 749.7 | 8.2 | 11.6 | 1,874.1 | 2,120.5 | 13.2 |
| Property | 305.3 | 259.2 | 244.2 | (5.8) | (20.0) | 811.5 | 753.5 | (7.2) |
| Operating profit | 148.6 | 125.9 | 123.3 | (2.0) | (17.0) | 424.5 | 382.4 | (9.9) |
| Manufacturing | 64.5 | 53.7 | 57.0 | 6.2 | (11.7) | 196.1 | 175.4 | (10.6) |
| Property | 84.0 | 72.2 | 66.3 | (8.2) | (21.1) | 228.4 | 207.0 | (9.4) |
| <i>Operating margin (%)</i> | 15.2 | 13.2 | 12.4 | -0.8 ppt | -2.8 ppt | 15.8 | 13.3 | -2.5 ppt |
| <i>Manufacturing (%)</i> | 9.6 | 7.7 | 7.6 | -0.1 ppt | -2.0 ppt | 10.5 | 8.3 | -2.2 ppt |
| <i>Property (%)</i> | 27.5 | 27.9 | 27.2 | -0.7 ppt | -0.4 ppt | 28.1 | 27.5 | -0.7 ppt |

Source: Affin Hwang, Company

Fig 3: Sum of Parts Valuation

| Segment | Equity value (RMm) | Comment |
|--------------------------|--------------------|------------------------------|
| Manufacturing | 2,753.0 | 20x PE based on CY22E |
| Property | 3,641.2 | 30% discount to RNAV |
| Total equity value (RMm) | 6,394.2 | |
| Net cash/(debt) | (198.5) | |
| Share base (m) | 1,550.0 | |
| SOP TP (RM) | 4.00 | |

Source: Affin Hwang forecast

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

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

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst’s coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst’s coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | 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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