

"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
<b>EBITDA</b>	<b>182.3</b>	<b>163.6</b>	<b>163.6</b>	<b>0.0</b>	<b>(10.3)</b>	<b>510.2</b>	<b>474.6</b>	<b>(7.0)</b>	
<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	<b>148.9</b>	<b>124.1</b>	<b>120.3</b>	<b>(3.1)</b>	<b>(19.2)</b>	<b>426.5</b>	<b>374.7</b>	<b>(12.1)</b>	
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)	
<b>Core net profit</b>	<b>113.1</b>	<b>100.1</b>	<b>98.1</b>	<b>(2.0)</b>	<b>(13.3)</b>	<b>311.4</b>	<b>287.5</b>	<b>(7.7)</b>	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
<b>Manufacturing</b>	<b>2,753.0</b>	<b>20x PE based on CY22E</b>
<b>Property</b>	<b>3,641.2</b>	<b>30% discount to RNAV</b>
Total equity value (RMm)	6,394.2	
Net cash/(debt)	(198.5)	
Share base (m)	1,550.0	
<b>SOP TP (RM)</b>	<b>4.00</b>	

Source: Affin Hwang forecast

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

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<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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