

14 June 2022

Scientex Berhad

Hit by Margin Squeeze

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9MFY22 core PATAMI of RM292.7m came below our/street's estimates at 62%/67%, mainly due to margin squeeze on higher raw materials costs and supply chain disruption while DPS of 4.0 sen is within expectation. We remain cautious on margins outlook in subsequent quarters due to inflationary pressure and volatility of raw material cost. We reduce FY22E CNP by 18% after imputing higher production costs. Maintain MARKET PERFORM with a lower SoP-TP of RM3.33 (from RM4.15) as we roll over to FY23E valuation.

Below expectation. 9MFY22 core PATAMI of RM292.7m came below our/consensus estimate at 62%/67%. DPS of 4.0 sen is in line (as we have trimmed our full-year DPS to 7.4 sen following our earnings cut as elaborated below).

YoY, 9MFY22 revenue rose by 7%, mainly lifted by higher sales volume from its industrial and consumer plastic manufacturing segment (+13%), while property segment revenue decreased by 7% due to delays in regulatory approvals for new launches. Operating profit dipped by 9.9%, mainly due to higher raw material prices and elevated freight costs in its consumers packaging manufacturing segment. 9MFY22 core PATAMI was down by 3.8%.

QoQ, 3QFY22 revenue rose 4.4% to RM993.8m, driven by higher selling prices and export sales from its plastic manufacturing segment. In the property segment, revenue declined by 5.8% due to material and labour shortages. EBIT margin was squeezed by 0.8ppt to 12.4%, likely due to the rising raw material costs for both segments and supply chain issues. Core PATAMI dipped by 11.2% on higher effective tax rate of 21% (vs. 3QFY21: 20%).

Outlook. In the near term, we expect resin prices to soften due to the easing of lockdown in China and excess resin capacity in the market while ASPs remain elevated. We believe that its industrial packaging segment will fetch better margins to cushion the consumers packaging segment due to higher raw material and freight costs. On the property segment, the group has an unbilled sale of RM1.1b, providing less than one year's visibility. We believe this segment will be able to improve its progress billing in the 2HCY22 supported by: (i) Johor projects with reopening of the Malaysia-Singapore border, and (ii) new launches in Negeri Sembilan and Kedah. At the same time, potential downside risks such as: (i) higher raw material costs, (ii) materials shortage, and (iii) changes in regulatory application procedures may prolong the recovery process.

Post results. We cut FY22E revenue/CNP by 6%/18% to RM3.8b/RM384m (from RM4.1b/RM470m) to account for higher raw materials costs in both segments and inflationary pressure. We maintain our FY23E earnings estimates. Based on a 30% dividend policy, FY22E/FY23E DPS stand at 7.4 sen/10.5 sen, implying yield of 2.1%/3.0%.

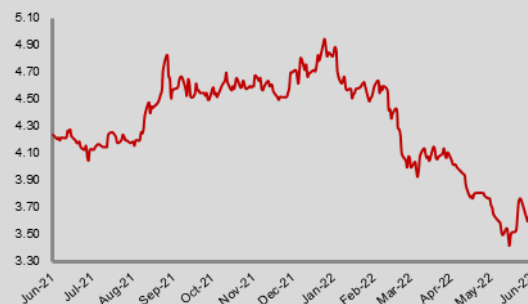
Maintain MARKET PERFORM with lower SoP-derived TP of RM3.33 (from RM4.15) as we roll forward valuation to FY23E earnings. We maintain: (i) our ascribed 14x PER for the plastic manufacturing segment which is at a premium to our sector average forward PER of 11.8x, given SCIENTX's largest market cap status and better economies of scale, and (ii) PBV multiple of 0.7x for its property segment, which is justifiable given that township developers' PBV range at 0.6x-1.0x.

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 : RM3.47
Target Price : RM3.33 ↓

Share Price Performance



KLCI 1,464.83
YTD KLCI chg -6.6%
YTD stock price chg -27.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker SCI MK Equity
Market Cap (RM m) 5,382.0
Shares Outstanding 1,551.0
52-week range (H) 5.00
52-week range (L) 3.37
3-mth avg daily vol: 812,824
Free Float 33%
Beta 0.5

Major Shareholders

Scientex Holdings Sdn 21.0%
Scientex Infinity Sdn 9.6%
Scientex Leasing Sdn 9.1%

Summary Earnings Table

FYE Jul (RM m)	2021A	2022E	2023E
Turnover	3656.0	3853.7	4458.1
EBIT	600.3	547.2	740.9
PBT	601.0	512.1	713.0
Net Profit (NP)	457.2	384.3	541.9
Core NP	443.8	384.3	541.9
Consensus (NP)	N/A	438.3	538.1
Earnings Revision	N/A	-18%	N/A
Core EPS (sen)	28.6	24.8	34.9
Core EPS growth (%)	8.9	-13.4	41.0
NDPS (sen)	9.0	7.4	10.5
BVPS (RM)	1.87	2.03	2.28
Core PER (x)	12.1	14.0	9.9
PBV (x)	1.9	1.7	1.5
Net Gearing (x)	0.30	0.35	0.25
Net Div. Yield (%)	2.6	2.1	3.0

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Results Highlights								
FYE July (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Turnover	993.8	952.0	4%	976.8	2%	2874.0	2685.6	7%
EBIT	123.3	125.9	-2%	148.6	-17%	382.4	424.5	-10%
Interest income	2.0	3.1	-36%	3.3	-40%	6.6	9.6	-31%
Finance costs	-5.0	-4.9	2%	-3.0	70%	-14.3	-7.6	87%
PBT	120.3	124.1	-3%	148.9	-19%	374.7	426.5	-12%
Taxation	-25.7	-25.1	2%	-32.3	-21%	-73.0	-88.9	-18%
Net Profit	94.6	98.9	-4%	116.6	-19%	301.7	337.6	-11%
Minority interest	6.3	5.2	20%	6.7	-6%	16.9	23.0	-27%
PATAMI	88.3	93.7	-6%	109.9	-20%	284.9	314.6	-9%
Core PATAMI	88.9	100.1	-11%	110.0	-19%	292.7	304.1	-4%
EBIT margin	12.4%	13.2%		15.2%		13.3%	15.8%	
PBT margin	12.1%	13.0%		15.2%		13.0%	15.9%	
Core PATAMI margin	8.9%	10.5%		11.3%		10.2%	11.3%	
Effective tax rate	21.3%	20.3%		21.7%		19.5%	20.8%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE July (RM m)	3Q22	2Q22	QoQ Chg	3Q21	YoY Chg	9M22	9M21	YoY Chg
Turnover								
Manufacturing	749.7	692.8	8%	671.5	12%	2,120.5	1,874.1	13%
Property	244.2	259.2	-6%	305.3	-20%	753.5	811.5	-7%
Group Turnover	993.8	952.0	4%	976.8	2%	2,874.0	2,685.6	7%
Segment Results								
Manufacturing	57.0	53.7	6%	64.5	-12%	175.4	196.1	-34%
Property	66.3	72.2	-8%	84.0	-21%	207.0	228.4	-39%
Group EBIT	123.3	125.9	-2%	148.6	-17%	382.4	424.5	-37%
EBIT Margin								
Manufacturing	7.6%	7.7%		9.6%		8.3%	14.3%	
Property	27.2%	27.9%		27.5%		27.5%	42.0%	
Group EBIT Margin	12.4%	13.2%		15.2%		13.3%	22.6%	

Source: Company, Kenanga Research

SoP Valuations			
Segment	Fair Value (RM m)	PBV/PER (x)	Property Book Value/NP (RM'm)
Property	1,295	0.7x PBV	1,850
Manufacturing	3,869	14x PER	276.4
Sum-of-Parts (RM m)	5,164		
No. of Shares (m)	1550.6		
Target Price (RM)	3.33		

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	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.	Price (RM)	
STOCKS UNDER COVERAGE																	
BP PLASTIC HOLDING BHD	1.38	388.4	Y	12/2022	13.8%	7.8%	-12.1%	25.2%	8.4	9.5	7.6	1.7	1.5	16.8%	4.3%	1.59	MP
SCGM BHD	2.30	442.9	Y	04/2022	15.1%	16.0%	-10.3%	13.4%	13.0	14.5	12.8	2.3	2.1	15.1%	2.7%	2.53	MP
SCIENTEX BHD	3.47	5,382.0	Y	07/2022	5.4%	18.1%	-13.4%	44.0%	12.1	14.0	9.7	1.9	1.7	12.5%	2.1%	3.35	MP
SLP RESOURCES BHD	0.895	283.7	Y	12/2022	9.7%	5.5%	28.6%	9.3%	16.2	12.6	11.5	1.5	1.5	12.0%	6.1%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.33	897.4	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					12.7%	13.6%	3.0%	22.7%	11.8	11.7	9.6	1.7	1.6	14.1%	3.55%		

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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