

Scientex Berhad

TP: RM4.66 (+37.3%)
Margin Squeeze due to Inflation
Last Traded: RM3.47
Buy (ESG: ★★★)

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Review

- Scientex Berhad registered a core net profit of RM287.8mn for 9MFY22, 4.8% decline compared to the same period last year. The results were 61% and 66% of ours and consensus' full-year estimate respectively. We deem the results within expectations as 4Q typically accounts for approximately 30-39% of full-year earnings.
- An interim dividend of 4sen/share was announced for 3QFY22, same as the corresponding period last year.
- Manufacturing.** 9MFY22 revenue surged 13.2% YoY to RM2.12bn, driven by higher sales in industrial and consumer packaging within domestic and export markets. Nonetheless, higher raw material prices and higher freight costs dragged the operating profit to a 10.6% YoY decline to RM174.5mn.
- Property.** 9MFY22 revenue declined by 7.2% YoY to RM753.5mn due to deferment of Certificate of Completion & Compliance for projects in Johor and Melaka (as a result of material shortages for power supply infrastructure) and delay in obtaining permits and approvals from the relevant authorities for new launches. In line with the lower revenue, operating profit for 9MFY22 slipped 9.4% to RM207.0mn.

Impact

- In view of persistently elevated raw material prices coupled with time delay required to pass the cost, we believe that inflationary pressure will continue to compress margin in the manufacturing division in the near term and hence trim our FY22/23/24 earnings by 12.0/13.3/3.4% respectively.

Outlook

- Manufacturing.** The demand for packaging will continue to be robust despite higher selling price in the absence of cheaper substitute. Nonetheless, the potential easing of lockdown in China provides an additional upside risk to the already elevated raw material price. As it takes at least one quarter for the cost pass-through mechanism to work, margin compression will likely continue for the division as a short-term headwind. However, we believe that the cost pass-through mechanism will allow Scientex to maintain profitability in the long run. Meanwhile, the new robotic stretch film plant expected to be commissioned in 2HCY22 will expand Scientex's capacity and efficiency while lowering its labour cost.
- Property.** Despite the end of HOC, an increase in OPR and inflationary pressure dampening demand in the property sector, Scientex's affordable housing continues to see favourable demand, especially in the Johor region with the reopening of Malaysia-Singapore border. We believe that sales for Scientex's affordable housing will continue to grow, albeit at a

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.0
Market Cap (RMmn)	5,382.0
52-wk Hi/Lo (RM)	5.00/3.37
12-mth Avg Daily Vol ('000 shrs)	640.9
Estimated Free Float (%)	33.0
Beta	0.3
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY22	FY23
Forecast Revision (%)	(12.0)	(13.3)
Net profit (RMm)	416.0	476.0
Consensus	438.3	538.1
TA's / Consensus (%)	94.9	88.5
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY22	FY23
Net debt/ equity (%)	37.8	35.2
ROE (%)	13.7	14.3
ROA (%)	7.7	7.9
NTA/Share (RM)	1.8	2.0
Price/ NTA (x)	1.9	1.7

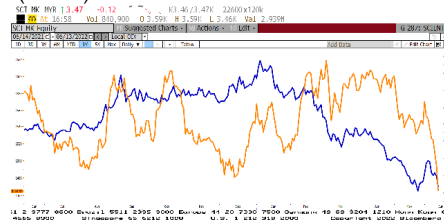
Scorecard

	% of FY22	
vs TA	61	Within
vs Consensus	66	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(4.9)	(5.2)
3 mth	(13.3)	(6.6)
6 mth	(26.5)	(2.0)
12 mth	(18.2)	(7.0)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

slower pace. Additional construction material cost will be a headwind but Scientex plans to review prices with slight upward adjustment while maintaining affordability of the houses if required.

Valuation

- We move our valuation year forward to CY23 while adding a conglomerate discount of 10% on Scientex's fair value to account for its diversified business segments. As a result, we revise our TP to RM4.66/share (previously RM5.25/share) based on unchanged 20x Manufacturing earnings and 14x Property earnings. Reiterate Buy.

Table 1: Earnings Summary

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	720.8	787.4	895.9
EBIT	549.5	600.3	599.2	660.4	769.0
Reported PBT	544.3	601.0	585.8	648.9	760.0
Adj. PBT	576.2	597.2	585.8	648.9	760.0
Reported Net Profit	390.1	457.2	416.0	476.0	559.1
Adj. Net profit	422.0	453.5	416.0	476.0	559.1
Basic EPS (sen)	25.2	29.5	26.8	30.7	36.0
Adj. EPS (sen)	27.2	29.2	26.8	30.7	36.0
PER (x)	13.8	11.8	12.9	11.3	9.6
Net Dividend (sen)	7.7	9.0	10.0	11.0	12.0
Dividend Yield (%)	2.2	2.6	2.9	3.2	3.5

Table 2: 3QFY22 Results Analysis

FYE July (RMmn)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
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)
Interest Expense	(3.0)	(4.9)	(5.0)	2.2	69.9	(7.6)	(14.3)	87.1
Interest Income	3.3	3.1	2.0	(36.4)	(39.5)	9.6	6.6	(30.8)
Depreciation	(26.6)	(27.8)	(27.8)	0.0	4.6	(80.1)	(83.5)	4.1
EBITDA	175.2	153.7	151.1	(1.7)	(13.7)	504.7	465.8	(7.7)
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)
EI	(3.1)	(6.7)	(9.8)	nm	nm	12.1	(2.9)	nm
Reported PBT	148.9	124.1	120.3	(3.1)	(19.2)	426.5	374.7	(12.1)
Taxation	(32.3)	(25.2)	(25.7)	1.7	(20.6)	(88.9)	(73.0)	(17.9)
Minority Interest	(6.7)	(5.2)	(6.3)	19.7	(6.4)	(23.0)	(16.9)	(26.7)
Reported Profit	109.9	93.6	88.3	(5.6)	(19.6)	314.6	284.9	(9.4)
Adj. Net Profit	113.0	100.3	98.1	(2.2)	(13.2)	302.5	287.8	(4.8)
EPS (sen)	7.1	6.0	5.7	(5.6)	(19.6)	20.3	18.4	(9.5)
Adj EPS (sen)	7.3	6.5	6.3	(2.2)	(13.2)	19.5	18.6	(4.9)
DPS (sen)	4.0	0.0	4.0	nm	nm	4.0	4.0	nm
				%-pts	%-pts			%-pts
EBIT Margin (%)	15.2	13.2	12.4	(0.8)	(2.8)	15.8	13.3	(2.5)
~ Manufacturing	9.6	7.7	7.6	(0.1)	(2.0)	10.5	8.3	(2.2)
~ Property	27.5	27.9	27.2	(0.7)	(0.4)	28.1	27.5	(0.7)
PBT Margin (%)	15.2	13.0	12.1	(0.9)	(3.1)	15.9	13.0	(2.8)
Net Margin (%)	11.6	10.5	9.9	(0.7)	(1.7)	11.3	10.0	(1.2)
Tax rate (%)	21.7	20.3	21.3	1.0	(0.4)	20.8	19.5	(1.4)

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY23 EPS PER 20x	3,264.9
Property	CY23 EPS PER 14x	4,863.2
Equity value (RMmn)		8,128.1
+ Proceed from Warrant Conversion (RMmn)		443.7
Total Equity Value (RMmn)		8,571.8
Conglomerate Discount		10%
Total SOP		7,714.58
Share cap (mn)		1,551.0
+ Warrant Conversion (mn)		103.2
Enlarged Share Cap (mn)		1,654.2
Target Price (RM)		4.66

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.

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As of Tuesday, June 14, 2022, the analyst, Tan Kam Meng, 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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