

COMPANY RESULTS

Scientex (SCI MK)

3QFY22: Record Quarterly Revenue, But Spiralling Costs Compress Margins

Despite registering record-high revenue (+2% yoy), Scientex's 3QFY22 core net profit was lower at RM99.1m (-12.3% yoy), mainly reflecting the manufacturing division's margin compression due to input inflations. Meanwhile, the property segment's earnings also took a toll due to material shortages and changes in certain regulatory application processes. We reduced our valuation yardstick to factor in weak market sentiment. Maintain HOLD with a lower target price of RM3.92.

3QFY22 RESULTS

Year to 31 Jul (RMm)	3QFY22	qoq % chg	yoy % chg	9MFY22	yoy % chg
Turnover	993.8	4.4	1.7	2,874.0	7.0
Manufacturing	749.7	8.2	11.6	2,120.6	13.2
Property	244.2	(5.8)	(20.0)	753.5	(7.2)
EBIT	123.3	(2.0)	(17.0)	382.4	(9.9)
Manufacturing	57.0	6.1	(11.7)	175.4	(10.6)
Property	66.3	(8.2)	(21.1)	207.0	(9.4)
Finance costs	(5.0)	2.2	69.9	(14.3)	87.1
PBT	120.3	(3.1)	(19.2)	374.7	(12.1)
Core net profit	99.1	(1.3)	(12.3)	316.0	4.5
Margins (%)		qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	12.4	(0.8)	(2.8)	13.3	(2.5)
-Manufacturing	7.6	(0.2)	(2.0)	8.3	(2.2)
-Property	27.1	(0.7)	(0.4)	27.5	(0.7)
PBT	12.1	(0.9)	(3.1)	13.0	(2.8)
Core net profit	10.0	(0.6)	(1.6)	11.0	(0.3)

Source: Scientex, UOB Kay Hian

RESULTS

- Within expectations.** Scientex's 3QFY22 core net profit came in at RM99m (-1.3% qoq, -12.3% yoy), bringing 9MFY22 core net profit to RM316m (+5% yoy), which accounted for 75% and 72% of our and consensus estimates respectively. This excludes a RM10.8m forex loss.
- Declares interim dividend of 4 sen.** Meanwhile, the group has announced an interim dividend of 4 sen, implying a dividend yield of 1.1%. This represents a payout ratio of 70%, in line with the group's minimum dividend policy of 30%.

KEY FINANCIALS

Year to 31 Jul (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	3,519	3,656	3,977	4,281	4,636
EBITDA	660	600	675	745	847
Operating profit	549	490	574	632	723
Net profit (rep./act.)	390	346	423	486	556
Net profit (adj.)	390	346	423	486	556
EPS (sen)	25.2	22.4	27.3	31.4	35.9
PE (x)	13.8	15.5	12.7	11.1	9.7
P/B (x)	2.1	1.9	1.7	1.5	1.4
EV/EBITDA (x)	9.2	10.2	9.0	8.2	7.2
Dividend yield (%)	2.2	2.6	2.4	2.7	3.1
Net margin (%)	11.1	9.5	10.6	11.4	12.0
Net debt/(cash) to equity (%)	24.5	30.3	15.4	8.0	0.6
Interest cover (x)	40.4	53.8	41.8	52.9	60.1
ROE (%)	16.3	12.7	13.9	14.5	14.9
Consensus net profit	-	-	438	538	596
UOBKH/Consensus (x)	-	-	0.97	0.90	0.93

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.47
Target Price	RM3.92
Upside	+13.0%
(Previous TP)	RM4.39

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

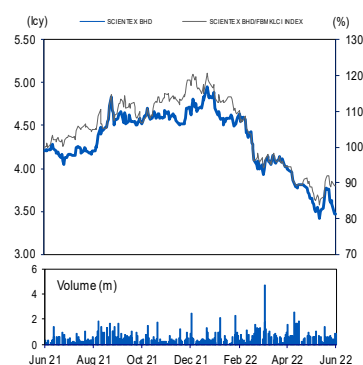
STOCK DATA

GICS sector	Materials			
Bloomberg ticker:	SCI MK			
Shares issued (m):	1,551.0			
Market cap (RMm):	5,382.0			
Market cap (US\$m):	1,218.3			
3-mth avg daily t'over (US\$m):	0.7			
Price Performance (%)				
52-week high/low	RM4.95/RM3.42			
1mth	3mth	6mth	1yr	YTD
(4.9)	(13.3)	(26.5)	(18.2)	(27.6)

Major Shareholders

-	-
-	-
-	-
FY22 NAV/Share (RM)	2.06
FY22 Net Debt/Share (RM)	0.32

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Manufacturing: Margin compression in the consumer packaging business despite resilient revenue growth.** In 3QFY22, manufacturing revenue was relatively higher at RM750m (+11.6% yoy) but EBIT declined to RM57m (-11.7% yoy). The lower EBIT mainly reflects lower margin (-2.0% yoy) as the group's packaging business continues to face challenges from rising raw material cost and surging freight rate due to global shortages of shipping containers. Despite a record-higher revenue, we understand that the precipitous surge of raw material prices (particularly resin) and elevating freight cost have dealt unforeseen earnings disruptions, causing the manufacturing segment's EBIT margin to largely reduce (-2.0% yoy) in 3QFY22.

• **Property: Facing headwinds from material shortages and regulatory processes.** Scientex's property segment's revenue came in at RM244.2m (-5.8% qoq, -20.0% yoy) with lower EBIT of RM66.3m (-21.1% yoy). The lower revenue was mainly attributed to the deferment of the issuance of Certificate of Completion & Compliance (CCC) for Scientex's projects in the Southern region due to material shortages. In 3QFY22, Scientex launched RM355m worth of new properties with unbilled sales standing at RM1.1b (2QFY22: RM1b). Management alluded that demand for property launches is stable in 9MFY22 with take-up rate of about 75%. The group also intends to launch a total of 6,000 property units across 24 launches worth about RM1.7b within FY22.

STOCK IMPACT

• **Recovery gains pace amid progressive economic reopening...** With Malaysia and countries globally shifting away from the pandemic-induced full-scale lockdowns towards full economic reopening, we deem that Scientex will largely benefit from demand recovery, easing supply chain disruptions as well as capacity expansion for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activities largely resume. We are forecasting a 7.6-8.8% revenue growth for Scientex in FY22-23.

• **...but input inflations likely to continue to compress earnings spreads and margins throughout FY22-23.** For the manufacturing segment, we expect high resin prices (surged >10% ytd) to sustain throughout FY22-23 and negatively affect the segment's margin as the group usually has a time lag to pass through the cost. For the property segment, steep increase on building material prices such as cement and steel are also expected to put downward pressure on the segment's profitability margin.

• **Valuations remain reasonable for solid long-term prospects.** While Scientex's share price has retraced about 31% from the recent peak, we deem that current valuations are fair and possess about 13% upside based on our forecasted FY23 valuations. We also envision that managements' effective execution, proven by the group's stellar track record (five-year net profit CAGR of 14% in 2016-2021) will provide confidence for investors' perceptions regarding the group's robust long-term outlook, looking beyond the temporary cost headwinds which will gradually moderate.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

• **Maintain HOLD with a lower target price of RM3.92**, as we pegged our target price to 12.4x 2023F PE (10-year mean) from 14x PE (+1SD above mean) previously to factor in weak market sentiment and near-term earnings disruptions on input inflations.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental

- 1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification
- 8.2% decrease in group-wide greenhouse gas emissions in FY21.

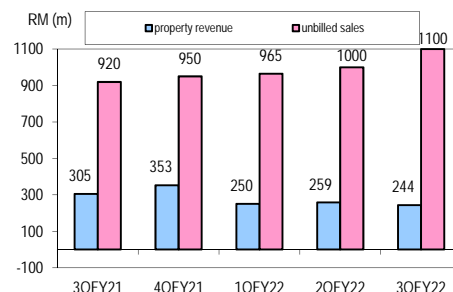
• Social

- Spent RM5.3m in community investment in response to COVID-19
- Members of local communities comprise 78% of workforce.

• Governance

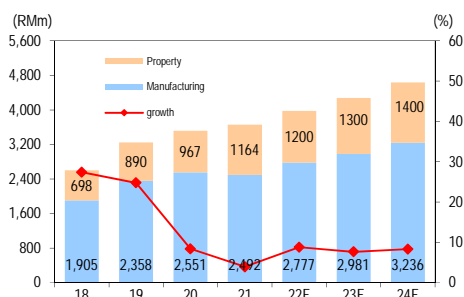
- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



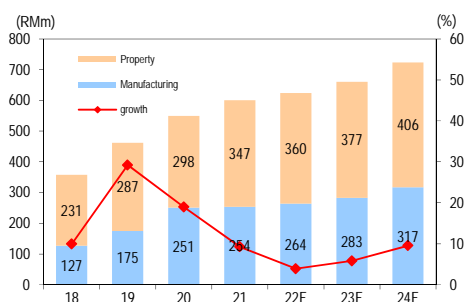
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



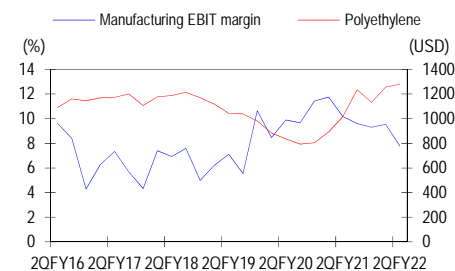
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

MANUFACTURING EBIT MARGIN VS PE PRICE



Source: Scientex, Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Net turnover	3,656	3,977	4,281	4,636
EBITDA	600	675	745	847
Deprec. & amort.	110	101	113	124
EBIT	490	574	632	723
Associate contributions	12	12	12	12
Net interest income/(expense)	(11)	(16)	(14)	(14)
Pre-tax profit	490	570	630	721
Tax	(115)	(131)	(126)	(144)
Minorities	(29)	(15)	(18)	(20)
Net profit	346	423	486	556
Net profit (adj.)	346	423	486	556

BALANCE SHEET

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,383	1,582	1,769	1,945
Other LT assets	1,777	1,780	1,780	1,780
Cash/ST investment	243	374	585	841
Other current assets	1,697	1,397	1,302	1,244
Total assets	5,100	5,133	5,435	5,809
ST debt	819	565	565	565
Other current liabilities	752	731	675	640
LT debt	301	301	301	301
Other LT liabilities	130	127	127	127
Shareholders' equity	2,896	3,192	3,532	3,922
Minority interest	202	217	235	255
Total liabilities & equity	5,100	5,133	5,435	5,809

CASH FLOW

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Operating	700	558	656	723
Pre-tax profit	601	570	630	721
Tax	(124)	(131)	(126)	(144)
Deprec. & amort.	126	101	113	124
Working capital changes	94	18	40	23
Other operating cashflows	3	0	0	0
Investing	(776)	(300)	(300)	(300)
Capex (growth)	(776)	(300)	(300)	(300)
Investments	(20)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	20	0	0	0
Financing	(93)	(127)	(146)	(167)
Dividend payments	(144)	(127)	(146)	(167)
Issue of shares	0	0	0	0
Proceeds from borrowings	86	0	0	0
Loan repayment	(16)	0	0	0
Others/interest paid	(20)	0	0	0
Net cash inflow (outflow)	(170)	131	211	257
Beginning cash & cash equivalent	413	243	374	585
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	243	374	585	841

KEY METRICS

Year to 31 Jul (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.4	17.0	17.4	18.3
Pre-tax margin	13.4	14.3	14.7	15.5
Net margin	9.5	10.6	11.4	12.0
ROA	7.1	8.3	9.2	9.9
ROE	12.7	13.9	14.5	14.9
Growth				
Turnover	3.9	8.8	7.6	8.3
EBITDA	(9.1)	12.5	10.4	13.7
Pre-tax profit	(9.9)	16.2	10.6	14.4
Net profit	(11.2)	22.1	14.9	14.4
Net profit (adj.)	(11.2)	22.1	14.9	14.4
EPS	(11.2)	22.1	14.9	14.4
Leverage				
Debt to total capital	26.6	20.3	18.7	17.2
Debt to equity	38.7	27.1	24.5	22.1
Net debt/(cash) to equity	30.3	15.4	8.0	0.6
Interest cover (x)	53.8	41.8	52.9	60.1

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