

"Results below expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-2.0	1.2	-24.1
Rel KLCI (%)	5.3	5.1	-15.9

	BUY	HOLD	SELL
Consensus	5	3	-

Source: Bloomberg

Stock Data

Sector	Plastics Packaging
Issued shares (m)	1,551.0
Mkt cap (RMm)/(US\$m)	5,382/1,157.8
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	3.02-5
Est free float	32.6%
Stock Beta	0.62
Net cash/(debt) (RMm)	(986.2)
ROE (CY23E)	12.6%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Top 25%
FBM EMAS (Top 200)	No
ESG Risk Rating	36.1 (0.0 yoy)

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	10.0%
Scientex Infinity SB	9.1%

Source: Affin Hwang, Bloomberg, Bursa Malaysia, ESG Risk Rating Powered by Sustainalytics

Damia Othman

T (603) 2146 7625

E damia.othman@affinhwang.com

Scientex (SCI MK)

HOLD (downgrade)

Up/Downside: +8.1%

Price Target: RM3.75

Previous Target (Rating): RM4.00 (BUY)

Lower-than-expected results

- **Scientex's FY22 core net profit of RM418m (-10% yoy) came in below our but within consensus estimates due to lower-than-expected Manufacturing segment contribution**
- **Compressed margins from higher input costs, freight costs and labour costs**
- **Reduce earnings forecasts by 6-8% for FY23-24E and introduce FY25E EPS. Downgrade rating to HOLD with lower TP of RM3.75 based on CY23E SOP valuation**

FY22 core net profit declined by 10% yoy

Scientex's FY22 core net profit of RM418.2m (-9.7% yoy) came in below our but within street estimates, accounting for 93% and 102% of full-year forecasts respectively. This was due to lower-than-expected contribution from the Manufacturing segment. Even then, revenue increased to RM4.0bn (+9.0% yoy) due to higher sales from the Manufacturing segment (+14.8% yoy) which was partially offset by lower sales from the Property segment (-3.5% yoy).

4QFY22 revenue improved by 12% qoq

Sequentially, 4QFY22 revenue increased to RM1.1bn (11.8% qoq) due to stronger sales contributions from the Property segment (+51.7% qoq) which was partially offset by marginally lower sales from the Manufacturing segment (-1.2% qoq). This was due to improvement in progress billing and ability to gain Certificate of Completion & Compliance (CCC) approval before the financial year-end within the Property segment. Note that Scientex launched a total GDV of RM1.2bn in FY22 which is a similar level to last financial year. The group declared a cumulative dividend of 9.0sen for FY22 (vs 9.0sen in FY21).

Downgrade to HOLD with lower TP of RM3.75

Reduce our earnings forecasts by 6.3-7.5% for FY23-24E and introduce FY25E after taking into consideration of potential decline in consumption growth which may dampen sales from the Manufacturing and Property segments. Product margins are expected to be affected by continuous labour shortage issues, rising input costs from increasing demand for recycled resins (can be 3-4x pricier vs virgin resins in the Consumer packaging category) and increasing building material costs. Downgrade our rating to HOLD from Buy with lower TP of RM3.75 (from RM4.00) based on CY23E SOP valuation. Upside/downside risks: 1) lower/higher-than-expected cost of sales from changes in resin prices and building material costs, 2) decreasing/increasing supply chain disruptions due to the Russia-Ukraine war, 3) higher/lower-than-expected sales across business segments, and 4) improvement/deterioration of labour shortage issue.

Earnings & Valuation Summary

FYE 31 Jul	2021	2022	2023E	2024E	2025E
Revenue (RMm)	3,656.0	3,985.3	4,539.8	5,055.4	5,687.9
EBITDA (RMm)	725.1	688.6	746.1	836.8	947.6
Pretax profit (RMm)	601.0	548.3	607.6	691.9	796.8
Net profit (RMm)	457.2	409.9	448.1	510.8	581.1
EPS (sen)	29.5	26.4	28.9	32.9	37.5
PER (x)	11.8	13.1	12.0	10.5	9.3
Core net profit (RMm)	463.1	418.2	448.1	510.8	581.1
Core EPS (sen)	29.9	27.0	28.9	33.0	37.5
Core EPS growth (%)	9.3	-9.7	7.1	14.1	13.8
Core PER (x)	11.6	12.9	12.0	10.5	9.3
Net DPS (sen)	9.0	9.0	12.0	13.0	15.0
Dividend Yield (%)	2.6	2.6	3.5	3.7	4.3
EV/EBITDA	8.8	9.4	8.3	7.2	6.1
Chg in EPS (%)			-7.5	-6.3	NA
Affin/Consensus (x)			0.9	0.9	New

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Jul (RMm)	4Q21	3Q21	4Q22	QoQ % chg	YoY % chg	FY21	FY22	YoY % chg	Comments
Revenue	970.4	993.8	1,111.3	11.8	14.5	3,656.0	3,985.3	9.0	FY22: Revenue contributed by stronger Manufacturing (+15% yoy) contribution with lower Property (-4% yoy) sales contribution
Op costs	758.8	830.3	898.2	8.2	18.4	2,934.2	3,297.6	12.4	Qoq: Higher revenue from Property (+52%) partially offset by Manufacturing (-1%) segment
EBITDA	211.6	163.6	213.1	30.3	0.7	725.1	688.6	(5.0)	
<i>EBITDA margin (%)</i>	21.8	16.5	19.2	2.7 ppt	-2.6 ppt	19.8	17.3	-2.6 ppt	
Depn and amort	(26.7)	(28.9)	(28.3)	(2.1)	5.8	(110.2)	(113.6)	3.1	
EBIT	184.9	134.7	184.9	37.2	0.0	614.8	575.0	(6.5)	
<i>EBIT margin (%)</i>	19.1	13.6	16.6	3.1 ppt	-2.4 ppt	16.8	14.4	-2.4 ppt	Yoy: higher raw material costs, higher labour costs and upsurge in freight costs within the consumer packaging business
Int expense	(3.5)	(5.0)	(6.2)	23.5	75.9	(11.1)	(20.4)	83.6	
Int and other inc	2.2	0.3	0.6	98.5	(70.9)	3.1	2.1	(32.3)	
Exceptional items	(9.0)	(9.8)	(5.8)	(41.1)	(36.4)	(5.9)	(8.3)	41.7	
Pretax profit	174.5	120.3	173.6	44.3	(0.5)	601.0	548.3	(8.8)	
Tax	(26.3)	(25.7)	(42.7)	66.5	62.4	(115.2)	(115.7)	0.4	
<i>Tax rate (%)</i>	15.1	21.3	24.6	3.3 ppt	9.5 ppt	19.2	21.1	1.9 ppt	Higher tax rate due to adjustment in reinvestment tax allowance amount
MI	(5.6)	(6.3)	(5.9)	(6.6)	5.7	(28.5)	(22.7)	(20.4)	
Net profit	142.7	88.3	125.0	41.5	(12.4)	457.2	409.9	(10.4)	
EPS (sen)	9.2	5.7	8.1	41.5	(12.4)	29.5	26.4	(10.4)	
Core net profit	151.7	98.1	130.7	33.3	(13.8)	463.1	418.2	(9.7)	Below our but within consensus estimates

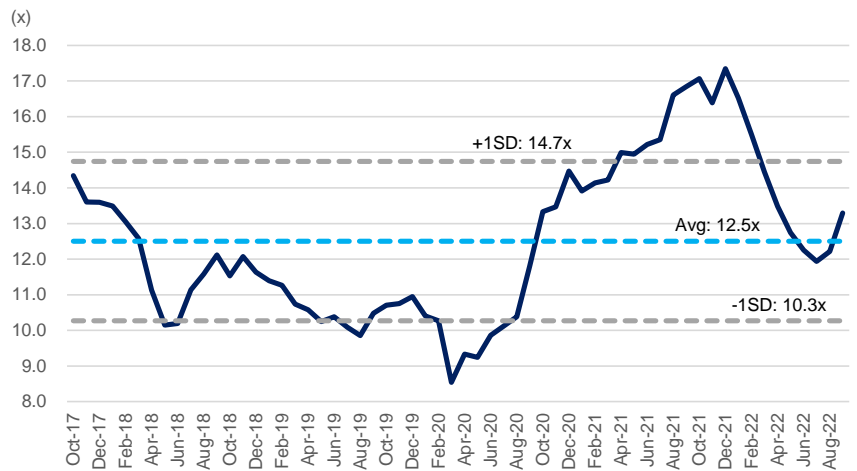
Source: Affin Hwang, Company

Fig 2: Segmental Results Comparison

FYE Jul (RMm)	4Q21	3Q21	4Q22	QoQ % chg	YoY % chg	FY21	FY22	YoY % chg
Revenue	970.4	993.8	1,111.3	11.8	14.5	3,656.0	3,985.3	9.0
Manufacturing	617.4	749.7	740.8	(1.2)	20.0	2,491.5	2,861.4	14.8
Property	352.9	244.2	370.5	51.7	5.0	1,164.5	1,123.9	(3.5)
Operating profit	175.8	123.3	178.7	44.9	1.6	600.3	561.0	(6.5)
Manufacturing	57.4	57.0	62.6	9.9	9.1	253.6	238.0	(6.1)
Property	118.4	66.3	116.0	75.0	(2.0)	346.8	323.0	(6.9)
<i>Operating margin (%)</i>	18.1	12.4	16.1	3.7 ppt	-2.0 ppt	16.4	14.1	-2.3 ppt
<i>Manufacturing (%)</i>	9.3	7.6	8.5	0.9 ppt	-0.8 ppt	10.2	8.3	-1.9 ppt
<i>Property (%)</i>	33.5	27.2	31.3	4.2 ppt	-2.2 ppt	29.8	28.7	-1.1 ppt

Source: Affin Hwang, Company

Fig 3: Stock trading slightly above its five-year forward mean PER



Source: Bloomberg, Affin Hwang forecast

Fig 4: Sum of Parts Valuation

Segment	Equity value (RMm)	Comment
Manufacturing	3,241.8	15x PE based on CY22E
Property	2,788.1	35% discount to RNAV
Total equity value (RMm)	6,029.9	
Net cash/(debt)	(213.4)	
Share base (m)	1,551.0	
SOP TP (RM)	3.75	

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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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com