

30 Sep 2022

# Buy

**Price**  
 RM3.47

**Target Price**  
 RM4.15

## Market Data

Bloomberg Code	SCI MK
No. of shares (m)	1,550.9
Market cap (RMm)	5,381.6
52-week high/low (RM)	5.00 / 3.02
Avg daily turnover (RMm)	2.3
KLCI (pts)	1,397.5

Source: Bloomberg, KAF

## Major Shareholder (%)

Scientex Holdings Sdn Bhd	(21.0%)
Scientex Infinity Sdn Bhd	(10.0%)
Scientex Leasing Sdn Bhd	(9.1%)
Free Float	32.6

Source: Bloomberg, KAF

## Performance

	3M	6M	12M
Absolute (%)	4.0	(11.2)	(21.7)
Rel Market (%)	3.4	(2.2)	(16.8)



Source: Bloomberg, KAF

## Analyst

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# Scientex

## Back on track for growth

**Upgrade to Buy with a TP of RM4.15 pegged to FY23F-based SOP valuation. Scientex reported 4Q22 core earnings of RM131m (QoQ: +33%; YoY: -14%) to end its FY22 with core earnings of RM419m (YoY: -8%). Declared final DPS of 5.0 sen. 4Q22 sees margin recovery. We like Scientex for its encouraging growth prospects, supported by (i) resilient demand for its products; (ii) continuous expansion; and (iii) focus product innovations in sustainable packaging. With projected DPS of 10.0-11.0 sen for FY23-25F, this implies dividend yields of c.3% at the current price level.**

## Financial Highlights

FYE Jul	2021	2022	2023F	2024F	2025F
Revenue (RMm)	3,656.0	3,985.3	4,339.4	4,544.5	4,775.0
Core net profit (RMm)	454.2	419.0	481.3	503.9	538.8
Core EPS (Sen)	29.3	27.0	31.0	32.5	34.7
EPS growth (%)	7.2	(7.8)	14.9	4.7	6.9
DPS (Sen)	17.0	9.0	9.0	10.0	10.0
Core PE (x)	11.8	12.8	11.2	10.7	10.0
Div yield (%)	2.6	2.6	2.9	2.9	3.2
ROE (%)	14.8	12.4	13.2	12.6	12.3
Net Gearing (%)	30.3	31.5	24.1	17.2	10.5
PBV(x)	1.9	1.8	1.6	1.5	1.3

Source: Company, KAF

**4Q22 sees margin recovery.** Scientex reported 4Q22 core earnings of RM131m (QoQ: +33%; YoY: -14%) to end its FY22 with core earnings of RM419m (YoY: -8%). The results were at 88% and 102% of our and consensus full-year estimates. We note that 4Q22's operating profit margin for both packaging and property development have improved, by 1ppt to 8.6% and 4ppt to 31.3% respectively. Nonetheless, FY22 still recorded a dip mainly caused by volatile global resin prices, higher construction materials and other operating expenses. The company declared a single-tier final DPS of 5.0 sen, bringing the total for FY22 to 9.0 sen (FY21: 9.0 sen), which translates to a dividend yield of 2.6%.

**Robust demand for packaging, expansion on track.** In 1HFY23, Scientex is expected to add another 18,000 MT stretch film (with the initial two production lines) and 10,800 MT cast polypropylene (CPP) capacity into its existing total annual capacity of 450,000 MT for all packaging products. To recap, in early Sep 2022, Scientex announced that it intends to acquire 80.2% shares in Taisei Lamick Co Ltd (Taisei) via RM63.8m cash consideration to expand into liquid and paste packaging and tap into Taisei's network in Japan. The acquisition is expected to be completed in 1HFY23. Taisei recorded a revenue of RM61.7m and net profit of RM1.3m for the FYE 31 Mar 2022. These expansions are expected to drive growth for Scientex's packaging, on top of the organic growth of its existing operations.

In addition, resin prices have been on a declining trend since its peak in March 2022, which we have seen the decline in resin prices reflected in its improved margin in 4Q22. We are of the view that there should be more room for margin to recover to ~9-10% in FY23F premised on (i) improving utilisation rate from current 60-65% to 70-75% with more foreign workers coming in; and (ii) should resin prices continue to decline.

**Property launches delay expected to ease gradually.** For the FY22, operating profit of the property development segment declined to RM323m (YoY: -7%), mainly dragged by launch delays and higher costs. In FY22, Scientex launched a total of RM1.2b (FY21: RM1.5b) new properties, comprising 4,097 units (FY21: 5,615 units) across 18 launches (FY21: 23 launches) in Peninsular Malaysia. We gathered that as of 4Q22, average take-up rate charted a fairly good rate at 85% with unbilled sales of RM1.27b, indicating a resilient demand for its properties. On prospects, we are of the view that property launches delay will

gradually ease, though not immediate with management efforts, and opine that it is on track to its goal of delivering 22,880 affordable homes to a total of 50,000 by 2028.

**Upgrade to Buy with a TP of RM4.15.** Premised on the above, we upgrade our rating on Scientex to Buy with a TP of RM4.15 pegged to FY23F-based SOP valuation – which implies a 13x FY23F PE. We like Scientex for its encouraging growth prospects, supported by (i) resilient demand for its products; (ii) continuous expansion; and (iii) focus product innovations in sustainable packaging which sees growing demand both domestically and globally. With projected DPS of 10.0-11.0 sen for FY23-25F, this implies dividend yields of c.3% at the current price level. Downside risks to our call include (i) increased costs of sales due to e.g., volatility in global resin prices; and (ii) prolonged delays of property launches.

### Exhibit 1: Quarterly financial results

FYE Jul (RM m)	Jul-21 4QFY21	Oct-21 1QFY22	Jan-22 2QFY22	Apr-22 3QFY22	Jul-22 4QFY22	Change (%)		Cumulative		Change (%)	KAF	
						QoQ	YoY	FY21	FY22	YoY	FY22F	12M/F
Revenue	970	928	952	994	1,111	12	15	3,656	3,985	9	4,525	88%
~ Packaging	617	678	693	750	741	(1)	20	2,491	2,861	15	3,377	85%
~ Property	353	250	259	244	370	52	5	1,164	1,124	(3)	1,148	98%
Interest Expense	(4)	(4)	(5)	(5)	(6)	24	76	(11)	(20)	84		
Interest Income	2	1	0	0	1	98	(71)	12	2	(82)		
Depreciation	(27)	(29)	(29)	(29)	(28)	(2)	3	110	114	4		
<b>EBITDA</b>	<b>203</b>	<b>162</b>	<b>155</b>	<b>151</b>	<b>208</b>	<b>38</b>	<b>2</b>	<b>711</b>	<b>681</b>	<b>(4)</b>		
Operating Profit	176	133	126	122	180	47	2	600	567	(6)		
~ Packaging	57	65	54	56	64	14	11	254	238	(6)		
~ Property	118	68	72	66	116	75	(2)	347	323	(7)		
Reported PBT	175	130	124	120	174	44	(1)	601	548	(9)		
Taxation	(26)	(22)	(25)	(26)	(43)	67	62	(115)	(116)	0		
Minority Interest	(6)	(5)	(5)	(6)	(6)	(7)	6	(29)	(23)	(20)		
Exceptional items	(9)	13	(6)	(10)	(6)	(41)	(36)	3	(9)	(405)		
Reported Profit	143	103	94	88	125	42	(12)	457	410	(10)		
<b>Adj. Net Profit</b>	<b>152</b>	<b>90</b>	<b>100</b>	<b>98</b>	<b>131</b>	<b>33</b>	<b>(14)</b>	<b>454</b>	<b>419</b>	<b>(8)</b>	<b>476</b>	<b>88%</b>
EPS (sen)	9	7	6	6	8	42	(12)	29	26	(10)		
Adj EPS (sen)	10	6	6	6	8	33	(14)	29	27	(8)		
DPS (sen)	5	0	0	4	5	nm	nm	9	9	-		
						<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>		
Effective tax rate (%)	15	17	20	21	25	3	10	19	21	2		
EBITDA margin (%)	21	17	16	15	19	3	(2)	19	17	(2)		
Operating margin (%)	18	14	13	12	16	4	(2)	16	14	(2)		
~ Packaging (%)	9	10	8	7	9	1	(1)	10	8	(2)		
~ Property	34	27	28	27	31	4	(2)	30	29	(1)		
Pretax margin (%)	18	14	13	12	16	4	(2)	16	14	(3)		
Net margin (%)	16	10	11	10	12	2	(4)	12	11	(2)		

Source: Company, KAF

**Income Statement**

<b>FYE Jul (RMm)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Revenue	3,656	3,985	4,339	4,545	4,775
EBITDA	711	681	777	811	860
Depreciation/Amortisation	(110)	(114)	(121)	(125)	(129)
Operating income (EBIT)	600	567	656	686	731
Other income & associates	12	8	6	7	8
Net interest	(11)	(20)	(21)	(22)	(22)
Exceptional items	3	(9)	0	0	0
<b>Pretax profit</b>	<b>601</b>	<b>548</b>	<b>641</b>	<b>672</b>	<b>717</b>
Taxation	(115)	(116)	(135)	(142)	(151)
Minorities/pref dividends	(29)	(23)	(25)	(26)	(27)
<b>Net profit</b>	<b>457</b>	<b>410</b>	<b>481</b>	<b>504</b>	<b>539</b>
Core net profit	454	419	481	504	539

**Balance Sheet**

<b>FYE Jul (RMm)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	1,383	1,464	1,513	1,557	1,598
Intangible assets	332	330	330	330	330
Other long-term assets	1,440	1,783	1,883	1,983	2,083
<b>Total non-current assets</b>	<b>3,160</b>	<b>3,582</b>	<b>3,731</b>	<b>3,876</b>	<b>4,017</b>
Cash & equivalent	243	191	240	318	431
Stock	387	449	489	512	538
Trade debtors	898	872	949	994	1,045
Other current assets	412	380	380	380	380
Total current assets	1,940	1,892	2,058	2,204	2,394
Trade creditors	708	820	893	935	983
Short-term borrowings	819	921	821	821	821
Other current liabilities	40	38	38	38	38
<b>Total current liabilities</b>	<b>1,567</b>	<b>1,779</b>	<b>1,752</b>	<b>1,794</b>	<b>1,842</b>
Long-term borrowings	301	250	250	150	50
Other long-term liabilities	127	132	132	132	132
<b>Total long-term liabilities</b>	<b>428</b>	<b>382</b>	<b>382</b>	<b>282</b>	<b>182</b>
<b>Shareholders' funds</b>	<b>2,896</b>	<b>3,110</b>	<b>3,451</b>	<b>3,800</b>	<b>4,184</b>
Minority interests	202	198	198	198	198

**Cash flow Statement**

<b>FYE Jul (RMm)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Pretax profit	601	548	641	672	717
Depreciation/Amortisation	110	114	121	125	129
Net change in working capital	94	176	(44)	(26)	(29)
Others	(106)	(101)	(114)	(120)	(129)
<b>Cash flow from operations</b>	<b>700</b>	<b>738</b>	<b>604</b>	<b>651</b>	<b>688</b>
Capital expenditure	(81)	(172)	(100)	(100)	(100)
Net investments & sale of fixed assets	(651)	(487)	(170)	(170)	(170)
Others	(44)	(8)	(25)	(26)	(27)
<b>Cash flow from investing</b>	<b>(776)</b>	<b>(668)</b>	<b>(295)</b>	<b>(296)</b>	<b>(297)</b>
Debt raised/(repaid)	73	45	(100)	(100)	(100)
Equity raised/(repaid)	0	0	0	0	0
Dividends paid	(144)	(153)	(140)	(155)	(155)
Others	(23)	(15)	(21)	(22)	(22)
<b>Cash flow from financing</b>	<b>(93)</b>	<b>(123)</b>	<b>(261)</b>	<b>(277)</b>	<b>(277)</b>
<b>Net cash flow</b>	<b>(170)</b>	<b>(52)</b>	<b>48</b>	<b>78</b>	<b>114</b>
<b>Net cash/(debt) b/f</b>	<b>413</b>	<b>243</b>	<b>191</b>	<b>240</b>	<b>318</b>
<b>Net cash/(debt) c/f</b>	<b>243</b>	<b>191</b>	<b>240</b>	<b>318</b>	<b>431</b>

**Key Ratios**

<b>FYE Jul</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>
Revenue growth (%)	3.9	9.0	8.9	4.7	5.1
EBITDA growth (%)	7.6	(4.1)	14.1	4.3	6.1
Pretax margins (%)	16.4	13.8	14.8	14.8	15.0
Net profit margins (%)	12.5	10.3	11.1	11.1	11.3
Interest cover (x)	53.9	27.7	31.2	31.6	32.7
Effective tax rate (%)	19.2	21.1	21.1	21.1	21.1
Net dividend payout (%)	30.5	34.1	32.2	30.8	31.7
Debtors turnover (days)	90	80	80	80	80
Stock turnover (days)	39	41	41	41	41
Creditors turnover (days)	71	75	75	75	75

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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