

30 September 2022

Scientex Berhad

Expansion Plans on Track

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SCIENTX's FY22 results beat expectations on stronger performance from plastic packaging. The segment will continue to do well on a slight margin expansion driven by firm product prices while the cost of input resin continues to ease. Its utilisation rate is poised to rise further to 70-75% with the arrival of new foreign workers. We maintain our FY23F earnings and keep our TP relatively unchanged at RM3.32. Maintain MARKET PERFORM.

Its FY22 core PATAMI of RM413.3 beat our forecast by 8% but is in line with consensus estimates. The variation against our forecast came largely from better-than-expected performance from the plastic packaging business.

Its FY22 revenue grew by 9%. A 15% increase in sales from the plastic packaging segment (underpinned by higher sales volume and ASP), was partially offset a 3% contraction in property turnover (due to delays in new launches pending approvals from the authority). Its core PATAMI dipped 7% due to higher input costs at both the plastic packaging and property segments as well as a slightly higher effective tax rate. Its utilisation rate sustained at c.60-65% in 4QFY22 from 65% three months ago as foreign workers started to return.

Key takeaways from the briefing:

1. SCIENTX's plastic packaging segment to continue to do well on a slight margin expansion driven by firm prices for its industrial and consumer packaging products, and continued easing of input resin costs. Its utilisation rate is poised to rise further to 70-75% with an addition of 100 new foreign workers (about one fifth of 550 workers they have applied).
2. Two new plants are completing in the 2HCY22 comprising: (i) one RM80m robotic stretch film plant in Shah Alam with a capacity of 18k MT per year by 4QCY22, and (ii) a RM60m blown film plant in Chemor by 3QCY22. This new Chemor plant has an improved layout that enhances process flow and productivity efficiency of form-fill-seal sacks used in the petrochemical industry. In addition, SCIENTX is commissioning two new cast polypropylene (CPP) lines and a metalizer machine in an existing plant that will add a capacity of 10.8k MT per year for higher barrier packaging (F&B packaging).
3. SCIENTX has embarked on the production of fully recyclable mono-material packaging products which will appeal to F&B and FMCG manufacturer as the products can help them to achieve their sustainable goals.
4. Its unbilled property sales stand at RM1.3b vs. RM1b three months ago. It is optimistic of improved sales underpinned by: (i) the reopening of the Malaysia-Singapore border (enabling Malaysians working in Singapore to return to shop for houses), and (ii) new launches in Sungai Petani, Kedah.

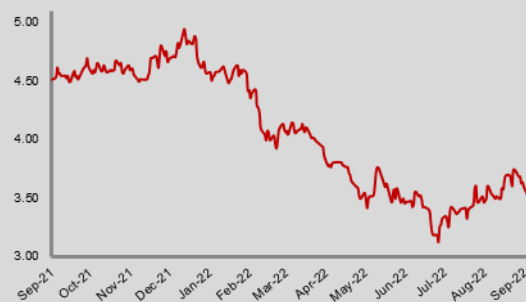
We maintain our FY23F earnings and introduce FY24F numbers. We keep relatively unchanged our TP at RM3.32 (see our SoP valuation on the same page). We continue to value its plastic packaging business at 14x FY23F PER, at a premium to the sector's average forward PER of 10x to reflect its size, being one of the largest players in the region. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**.

Risks to our call include: (i) sustained higher resin cost, (ii) recovery in demand for packaging materials from the pandemic cut short by a global recession, and (iii) prolonged labour shortages.

MARKET PERFORM ↔

Price : **RM3.47**
Target Price : **RM3.32** ↔

Share Price Performance



KLCI 1,397.50
YTD KLCI chg -10.8%
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)	3.02
3-mth avg daily vol:	627,761
Free Float	33%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FYE Jul (RM m)	2022A	2023F	2024F
Turnover	3985.3	4458.1	4731.4
EBIT	561.0	740.9	767.4
PBT	548.3	717.5	752.8
PATAMI	409.9	545.3	572.1
Core PATAMI	413.3	545.3	572.1
Consensus (NP)	410.3	509.3	578.0
Earnings Revision	-	-	-
Core EPS (sen)	26.7	35.2	36.9
Core EPS growth (%)	-6.9	31.9	4.9
NDPS (sen)	9.0	10.6	11.1
BVPS (RM)	2.01	2.25	2.51
Core PER (x)	13.0	9.9	9.4
PBV (x)	1.7	1.5	1.4
Net Gearing (x)	0.3	0.4	0.3
Net Div. Yield (%)	2.6	3.0	3.2

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Segmental Breakdown

FYE July (RM m)	4Q22	3Q22	QoQ Chg	4Q21	YoY Chg	FY22	FY21	YoY Chg
Turnover	1111.3	993.8	12%	970.4	15%	3985.3	3656.0	9%
EBIT	178.7	123.3	45%	175.8	2%	561.0	600.3	-7%
Interest income	1.1	2.0	-44%	2.2	-50%	7.7	11.8	-34%
Finance costs	-6.2	-5.0	24%	-3.5	76%	-20.4	-11.1	84%
PBT	173.6	120.3	44%	174.5	-1%	548.3	601.0	-9%
Taxation	-42.7	-25.7	67%	-26.3	62%	-115.7	-115.2	0%
Net Profit	130.9	94.6	38%	148.2	-12%	432.6	485.8	-11%
Minority interest	5.9	6.3	-7%	5.6	6%	10.2	15.1	-33%
PATAMI	125.0	88.3	41%	142.7	-12%	409.9	457.2	-10%
Core PATAMI	120.6	88.9	36%	139.0	-13%	413.3	443.8	-7%

EBIT margin	16.1%	12.4%		18.1%		14.1%	16.4%
PBT margin	15.6%	12.1%		18.0%		13.8%	16.4%
Core PATAMI margin	10.9%	8.9%		14.3%		10.4%	12.1%
Effective tax rate	24.6%	21.3%		15.1%		21.1%	19.2%

Source: Company, Kenanga Research

Segmental Breakdown

FYE July (RM m)	4Q22	3Q22	QoQ Chg	4Q21	YoY Chg	FY22	FY21	YoY Chg
Turnover								
Manufacturing	740.8	749.7	-1%	617.4	20%	2,861.4	2,491.5	15%
Property	370.5	244.2	52%	352.9	5%	1,123.9	1,164.5	-3%
Group Turnover	1111.3	993.8	12%	970.4	15%	3,985.3	3,656.0	9%

Segment Results

Manufacturing	62.6	57.0	10%	57.4	9%	238.0	253.6	-6%
Property	116.0	66.3	75%	118.4	-2%	323.0	346.8	-7%
Group EBIT	178.7	123.3	45%	175.8	2%	427.8	600.3	-29%

EBIT Margin

Manufacturing	8.5%	7.6%		9.3%		8.3%	10.2%
Property	31.3%	27.2%		33.5%		28.7%	29.8%
Group EBIT Margin	16.1%	12.4%		18.1%		10.7%	16.4%

Source: Company, Kenanga Research

SoP Valuations

Segment	Fair Value (RM m)		Remarks
Property	1258	Discount: 10%	RNAV: RM1,397m
Manufacturing	3894	14.0 PER	Net Profit: RM278m
Sum-of-Parts (RM m)	5151		
No. of Shares (m)	1550.6		
Target Price (RM)	3.32		

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
BOILERMECH HOLDINGS BHD	OP	0.660	0.900	36.36%	340.6	Y	03/2023	4.1	5.6	23.5%	37.6%	16.1	11.8	1.4	8.6%	1.8	2.7%
BP PLASTICS HOLDINGS BHD	OP	1.38	1.63	18.12%	388.4	Y	12/2022	14.5	18.2	-12.1%	25.2%	9.5	7.6	1.5	16.8%	6.0	4.3%
HIL INDUSTRIES BHD	OP	0.920	1.08	17.39%	308.7	Y	12/2022	8.8	11.5	-2.3%	30.5%	10.5	8.0	0.7	7.2%	2.0	2.2%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.675	0.770	14.07%	362.7	Y	12/2022	6.7	7.7	-13.2%	14.4%	10.0	8.8	0.3	3.4%	2.4	3.6%
SCIENTEX BHD	MP	3.47	3.32	-4.03%	5,382.0	Y	07/2023	35.2	36.9	31.9%	4.9%	9.9	9.4	1.7	17.8%	10.0	2.9%
SLP RESOURCES BHD	MP	0.865	0.92	6.36%	274.2	Y	12/2022	5.5	6.6	0.0%	18.9%	15.7	13.2	1.4	9.3%	5.5	6.4%
THONG GUAN INDUSTRIES BHD	OP	2.60	3.99	53.46%	1,011.3	Y	12/2022	30.0	36.4	22.2%	21.2%	8.7	7.2	1.2	14.3%	5.5	2.1%
Simple Average								15.0	17.5	7.1%	21.8%	11.5	9.4	1.2	11.0%		3.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	★	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	
	Work Site Safety	★	★	★	
	Usage of Biodegradable Materials	★	★	★	★
	Supply Chain Auditing	★	★	★	
	Energy Efficiency	★	★	★	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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Published by:

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