

30 September 2022

Consumer Non-cyclical | Packaging

## Scientex (SCI MK)

**Buy** (Maintained)

### Margins Slowly Recovering; Still BUY

Target Price (Return):	MYR4.31 (24.2%)
Price (Market Cap):	MYR3.47 (USD1,160m)
ESG score:	3.20 (out of 4)
Avg Daily Turnover (MYR/USD)	2.04m/0.46m

- Maintain BUY, with new MYR4.31 TP from MYR4.12, 24% upside and c.3% yield.** Scientex's FY22 results were in line with expectations, with the group reporting lower YoY earnings from compressed margins. However, we think margins will recover as raw material prices normalise. Valuation is still attractive, as the stock is trading at -1SD from its historical P/E mean, and the group's long-term prospects remain solid, supported by strong demand for plastic packaging and affordable housing.
- Results in line.** 4QFY22 core net profit of MYR118.8m (+37% QoQ, -15% YoY) brought full-year earnings to MYR402m (-11.6% YoY). This was in line with expectations at 104% and 98% of our and consensus' estimates. EBIT margin recovered to 15.5% during the quarter (3Q22; 12.2%) as raw material prices came down from the peak in April. Scientex declared a dividend of 5 sen/share, bringing the total to 9 sen/share for the year.
- Results review.** 4QFY22 revenue improved by 11.8% QoQ to MYR1.1bn (FY22 revenue: +9% YoY), marking the group's highest quarterly revenue to date. This was on the back of strong demand for the packaging segment in both domestic and export markets. However, despite a 14.8% higher YoY packaging revenue in FY22, operating profit for the division fell 6% due to raw material price volatility. The property division missed its original target to launch MYR2bn GDV in FY22, only managing MYR1.2bn (FY21; MYR1.5bn). This was mainly attributed to deferred government approvals which delayed launches. As a result, the property division's revenue fell 3.5% YoY, and operating profit was lower by 6.9%.
- Outlook.** We expect to see improving margins for the packaging division moving forward, as resin prices have retracted 15% YTD, or 27% from the peak in early April. Scientex's new robotics stretch film plant is expected to commence production in 4QCY22 with a capacity of 18,000MT pa, bringing the division's total capacity to 450,000MT pa. The utilisation rate is currently at c.63%, with management hoping that it could improve to 70% in FY23 as foreign workers slowly return. On the property side, management refrained from providing a target GDV for FY23 due to the operating challenges – however, we foresee demand remaining strong, with take-up rates for new launches in FY22 ranging at 75-85%.
- We adjust FY22F-24F earnings by -5 to -8%,** as we lower our property sales assumption. We also lower our ascribed P/E for the manufacturing segment from 14x to 12x to reflect the more cautious market sentiment. Rolling forward our valuation to FY24, we derived an SOP-based TP of MYR4.66 and incorporated a 4% ESG premium based on our in-house methodology (bringing our TP to MYR4.31). We have raised the ESG score to 3.2 following the group's inclusion into the FTSE4Good Bursa Malaysia Index in June. Downside risks to our call: Higher-than-expected costs, weaker product demand, and softer property sales.

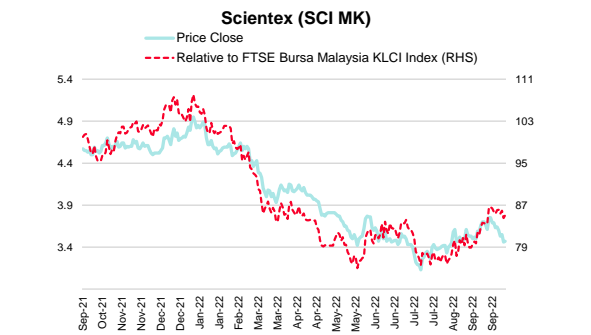
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(27.6)	(2.0)	1.2	(16.2)	(24.1)
Relative	(16.7)	4.9	4.9	(4.4)	(14.4)
52-wk Price low/high (MYR)	3.13 – 4.95				



Source: Bloomberg

Forecasts and Valuation	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Total turnover (MYRm)	3,656	3,985	4,415	4,727	4,855
Recurring net profit (MYRm)	452	402	501	590	694
Recurring net profit growth (%)	15.0	(11.1)	24.8	17.8	17.6
Recurring P/E (x)	11.91	13.40	10.74	9.12	7.75
P/B (x)	1.9	1.7	1.6	1.4	1.2
P/CF (x)	7.69	7.29	12.23	7.12	6.21
Dividend Yield (%)	2.4	2.6	3.5	3.7	3.7
EV/EBITDA (x)	9.03	9.71	8.62	7.36	6.24
Return on average equity (%)	16.7	13.6	15.3	16.3	17.1
Net debt to equity (%)	28.3	29.6	34.1	30.0	23.7

Source: Company data, RHB

#### Overall ESG Score: 3.20 (out of 4)

##### E: EXCELLENT

The group has developed an Environmental Policy in FY21 that establishes their key objectives and commitments towards integrating the concept of environmental sustainability into their facilities. The key pillars of this Environmental Policy include energy and emissions, waste management, resource utilisation and biodiversity.

##### S: EXCELLENT

Scientex complies to all applicable laws in relation to occupational health and safety (OHS). Adequate trainings are provided to its employees on safety and health practices. The group has also adopted a Group-wide Safety and Health Policy in FY21 that outlined their key areas of commitment to meet high standards of occupational safety and health.

##### G: GOOD

Scientex has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that independent directors do not comprise majority of the board and has yet to achieve the target of having 30% of women on the board.

## Financial Exhibits

Asia	Financial summary (MYR)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Malaysia	Recurring EPS	0.29	0.26	0.32	0.38	0.45
Consumer Non-cyclical	DPS	0.08	0.09	0.12	0.13	0.13
<b>Scientex</b>	BVPS	1.87	2.00	2.21	2.46	2.78
SCI MK	Return on average equity (%)	16.7	13.6	15.3	16.3	17.1
Neutral						
	Valuation metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Recurring P/E (x)	11.91	13.40	10.74	9.12	7.75
	P/B (x)	1.9	1.7	1.6	1.4	1.2
	FCF Yield (%)	10.7	10.3	4.5	10.3	12.4
	Dividend Yield (%)	2.4	2.6	3.5	3.7	3.7
	EV/EBITDA (x)	9.03	9.71	8.62	7.36	6.24
	EV/EBIT (x)	10.70	11.73	10.23	8.60	7.20
	Income statement (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Total turnover	3,656	3,985	4,415	4,727	4,855
	Gross profit	843	877	935	1,094	1,102
	EBITDA	705	665	782	915	1,060
	Depreciation and amortisation	(110)	(114)	(123)	(132)	(141)
	Operating profit	594	551	658	782	919
	Net interest	(11)	(20)	(21)	(31)	(34)
	Pre-tax profit	601	546	651	767	902
	Taxation	(116)	(116)	(124)	(146)	(171)
	Reported net profit	457	408	501	590	694
	Recurring net profit	452	402	501	590	694
	Cash flow (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Change in working capital	94	176	(218)	(12)	(23)
	Cash flow from operations	700	738	440	756	867
	Capex	(125)	(185)	(200)	(200)	(200)
	Cash flow from investing activities	(776)	(668)	(500)	(500)	(500)
	Dividends paid	(144)	(140)	(186)	(202)	(202)
	Cash flow from financing activities	(93)	(123)	(56)	(82)	(86)
	Cash at beginning of period	413	243	191	76	250
	Net change in cash	(170)	(52)	(116)	174	281
	Ending balance cash	243	191	76	250	531
	Balance sheet (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Total cash and equivalents	243	191	76	250	531
	Tangible fixed assets	2,688	3,119	3,496	3,863	4,222
	Total investments	99	103	117	133	150
	Total assets	5,100	5,475	5,873	6,494	7,194
	Short-term debt	819	921	1,021	1,121	1,221
	Total long-term debt	301	250	300	350	400
	Total liabilities	2,003	2,167	2,222	2,424	2,595
	Total equity	3,097	3,308	3,651	4,070	4,599
	Total liabilities & equity	5,100	5,475	5,873	6,494	7,194
	Key metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Revenue growth (%)	3.9	9.0	10.8	7.1	2.7
	Recurrent EPS growth (%)	15.0	(11.1)	24.8	17.8	17.6
	Gross margin (%)	23.1	22.0	21.2	23.1	22.7
	Operating EBITDA margin (%)	19.3	16.7	17.7	19.3	21.8
	Net profit margin (%)	12.5	10.2	11.4	12.5	14.3
	Dividend payout ratio (%)	28.3	34.2	37.1	34.2	29.0
	Capex/sales (%)	3.4	4.6	4.5	4.2	4.1
	Interest cover (x)	53.4	27.4	31.1	25.5	27.0

Source: Company data, RHB

## Results At a Glance

Figure 1: FY22 results review

FYE Jul (MYRm)	4Q21	3Q22	4Q22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
<b>Revenue</b>	<b>970.4</b>	<b>993.8</b>	<b>1,111.3</b>	<b>11.8</b>	<b>14.5</b>	<b>3,656.0</b>	<b>3,985.3</b>	<b>9.0</b>	Strong demand for the packaging segment, mitigated by lower property revenue
<b>Adjusted EBITDA</b>	<b>201.8</b>	<b>150.5</b>	<b>200.7</b>	<b>33.3</b>	<b>(0.6)</b>	<b>708.3</b>	<b>667.6</b>	<b>(5.7)</b>	
<i>Adjusted EBITDA margin (%)</i>	20.8	15.1	18.1			19.4	16.8		
Depreciation	(28.1)	(28.9)	(28.3)	(2.1)	0.5	(110.2)	(114.5)	3.8	
<b>Adjusted Operating Profit</b>	<b>173.7</b>	<b>121.7</b>	<b>172.4</b>	<b>41.7</b>	<b>(0.7)</b>	<b>598.1</b>	<b>553.1</b>	<b>(7.5)</b>	Impacted by increased raw material and freight costs
<i>Operating margin (%)</i>	17.9	12.2	15.5			16.4	13.9		
El/Others	2.1	1.6	6.2	281.0	197.1	2.3	7.9	248.3	
<b>Reported Operating Profit</b>	<b>175.8</b>	<b>123.3</b>	<b>178.7</b>	<b>44.9</b>	<b>1.6</b>	<b>600.3</b>	<b>561.0</b>	<b>(6.5)</b>	
Interest Expense	(3.5)	(5.0)	(6.2)	23.5	75.9	(11.1)	(20.4)	83.6	
Share of Associates	2.2	2.0	1.1	(44.1)	(50.1)	11.8	7.7	(34.4)	
<b>Reported PBT</b>	<b>174.5</b>	<b>120.3</b>	<b>173.6</b>	<b>44.3</b>	<b>(0.5)</b>	<b>601.0</b>	<b>548.3</b>	<b>(8.8)</b>	
Tax	(26.3)	(25.7)	(42.7)	66.5	62.4	(115.2)	(115.7)	0.5	
<i>Effective tax rate (%)</i>	15.1	21.3	24.6			19.2	21.1		
Minority Interest	(5.6)	(6.3)	(5.9)	(6.6)	5.7	(28.5)	(22.7)	(20.4)	
<b>Net Profit</b>	<b>142.7</b>	<b>88.3</b>	<b>125.0</b>	<b>41.5</b>	<b>(12.4)</b>	<b>457.2</b>	<b>409.9</b>	<b>(10.4)</b>	In line with expectations
<b>Core Profit</b>	<b>140.6</b>	<b>86.7</b>	<b>118.8</b>	<b>37.0</b>	<b>(15.5)</b>	<b>455.0</b>	<b>402.0</b>	<b>(11.6)</b>	
<i>Core net margin (%)</i>	14.5	8.7	10.7			12.4	10.1		

Source: Company data, RHB

Figure 2: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	3,113.6
Property	RNAV (Discount of 50%)	3,311.9
	<b>Total Intrinsic Value (MYRm)</b>	<b>6,425.5</b>
	Fully diluted sharebase (m)	1,551.0
	<b>Intrinsic value per share</b>	<b>4.14</b>
	+ 4% ESG premium	0.17
	<b>TP (MYR)</b>	<b>4.31</b>

Source: RHB

## Recommendation Chart

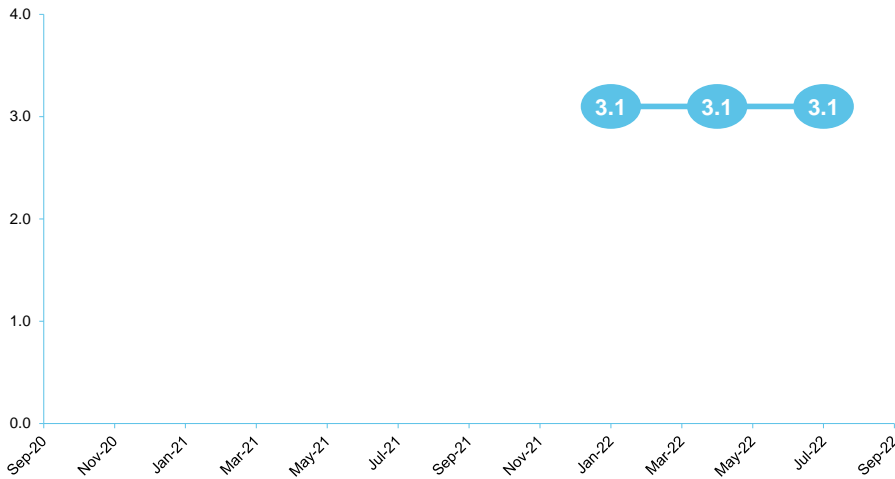


Date	Recommendation	Target Price	Price
2022-06-14	Neutral	4.1	3.6
2022-03-17	Buy	4.7	4.0
2022-01-13	Neutral	4.9	4.9
2020-12-18	Neutral	11.5	4.1
2020-09-21	Neutral	10.3	3.3
2020-07-24	Neutral	9.8	3.1
2018-09-21	Neutral	7.4	2.9
2018-06-21	Neutral	7.4	2.3
2018-06-21	Neutral	7.4	2.3
2018-03-23	Neutral	8.7	2.7
2018-02-26	Neutral	9.1	2.8

Source: RHB, Bloomberg

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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