

Scientex Berhad

Slowdown in Property
TP: RM4.56 (+31.4%)
Last Traded: RM3.47
Buy (ESG: ★★★)

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Review

- Scientex Berhad's FY22 core net profit of RM416.8mn (-8.1% YoY) came in within expectation at 100% and 102% of ours and consensus full-year forecast respectively.
- Manufacturing.** FY22 operating profit decreased 6.1% YoY to RM238.0mn despite a 14.8% YoY surge in revenue. This was mainly due to margin compression on the back of spike in raw material (plastic resin) and operating costs (minimum wage, freight cost). Operating margin for FY22 declined 1.9%-pts YoY to 8.3%.
- Property.** On the back of 3.5% YoY decline in revenue, operating profit was down 6.9% YoY to RM323.0mn. The revenue decrease was driven by deferment of approvals from the governmental authorities and delays in getting Certificate of Completion and Compliance due to material shortage.
- The group declared a final dividend of 5.0sen/share in 4QFY22, bringing the full year DPS to 9.0sen/share (FY21 DPS: 9.0sen/share).

Impact

- We lower our FY23 earnings forecasts by 0.3% to account for less earnings contribution from the property segment partially mitigated by improving margins in the manufacturing segment as raw material costs have stabilised. We also raise FY24 earnings forecast by 4.3% in anticipation of pickup in sales for property division from FY24 onwards. Meanwhile, we introduce FY25 earnings forecast of RM615.6mn.

Outlook

- Manufacturing.** After peaking around March to April, plastic resin prices have declined. LLDPE, the main raw material for stretch film production has declined c.24% from its peak. Consequently, operating margin in 4QFY22 improved 0.9%-pts QoQ to 8.5%. We expect the operating margin to be at higher end of 8-10% guided by the management as we believe plastic resin prices should remain stable due to lack of demand from China. Management believes that some slowdown in demand for plastic packaging may occur in the event of a global recession, but the impact should be low as a large proportion of its packaging revenue is derived from relatively recession-resilient F&B packaging.
- Property.** In FY22, Scientex has launched properties worth c.RM1.2bn, much lower than initial targeted GDV launch of RM2.0bn owing to various delays. Despite multiple headwinds, the group's properties launched in 4QFY22 has a take-up rate of c.85%, suggesting still robust demand for its affordable houses. We anticipate lower sales in FY23 as OPR hike increases borrowing costs and dampens demand.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.0
Market Cap (RMmn)	5,382.0
52-wk Hi/Lo (RM)	5.00/3.02
12-mth Avg Daily Vol ('000 shrs)	653.4
Estimated Free Float (%)	32.6
Beta	0.4
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(0.3)	4.3
Net profit (RMmn)	474.7	583.0
Consensus	509.3	578.0
TA's / Consensus (%)	93.2	100.9
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	4.37	

Financial Indicators

	FY23	FY24
Net debt/ equity (%)	35.4	30.0
ROE (%)	14.3	15.8
ROA (%)	7.9	9.0
NTA/Share (RM)	2.0	2.3
Price/ NTA (x)	1.7	1.5

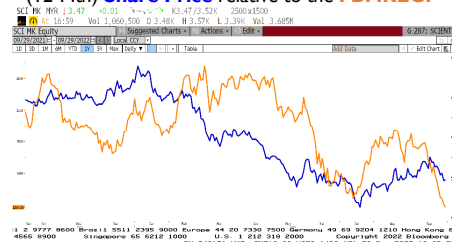
Scorecard

	% of FY22	
vs TA	100	Within
vs Consensus	102	Within

Share Performance (%)

Price Change	SCI MK	FBM KLCI
1 mth	(2.0)	(6.9)
3 mth	1.2	(3.7)
6 mth	(16.2)	(11.7)
12 mth	(24.1)	(9.7)

(12-Mth) Share Price relative to the FBMKLCI



Valuation

- We lower Scientex's target price to RM4.56/share (previously: RM4.66/share) as we decrease our PE valuation for property division to 12x (from 14x previously) due to increase in borrowing cost, which should impact demand for properties. Maintain Buy.

Table I: Earnings Summary (RM mn)

FYE July (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
Revenue	3,656.0	3,985.3	4,460.0	4,874.0	5,199.8
EBITDA	707.2	671.8	783.8	925.9	968.3
EBIT	600.3	561.0	656.8	799.0	841.7
Reported PBT	601.0	548.3	645.3	790.0	836.7
Adj. PBT	597.2	555.2	645.3	790.0	836.7
Reported Net Profit	457.2	409.9	474.7	583.0	615.6
Adj. Net profit	453.5	416.8	474.7	583.0	615.6
Basic EPS (sen)	29.5	26.4	30.6	37.6	39.7
Adj. EPS (sen)	29.2	26.9	30.6	37.6	39.7
PER (x)	11.8	13.1	11.3	9.2	8.7
Net Dividend (sen)	9.0	9.0	11.0	12.0	12.0
Dividend Yield (%)	2.6	2.6	3.2	3.5	3.5

Table 2: 4QFY22 Results Analysis (RM mn)

FYE July (RM mn)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
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)
Interest Expense	(3.5)	(5.0)	(6.2)	23.5	75.9	(11.1)	(20.4)	83.6
Investing Results	2.2	2.0	1.1	(44.1)	(50.1)	11.8	7.7	(34.4)
Depreciation	(26.7)	(27.8)	(27.3)	(1.8)	2.3	(106.8)	(110.8)	3.7
EBITDA	202.5	151.1	206.0	36.3	1.7	707.2	671.8	(5.0)
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)
EI	(8.4)	(9.8)	(4.0)	(59.2)	(52.5)	3.7	(6.9)	(>100)
Reported PBT	174.5	120.3	173.6	44.3	(0.5)	601.0	548.3	(8.8)
Taxation	(26.3)	(25.7)	(42.7)	66.5	62.4	(115.2)	(115.7)	0.5
Minority Interest	(5.6)	(6.3)	(5.9)	(6.6)	5.7	(28.5)	(22.7)	(20.4)
Reported Profit	142.7	88.3	125.0	41.5	(12.4)	457.2	409.9	(10.4)
Adj. Net Profit	151.1	98.1	129.0	31.5	(14.6)	453.5	416.8	(8.1)
EPS (sen)	9.2	5.7	8.1	41.4	(12.4)	29.5	26.4	(10.4)
Adj EPS (sen)	9.7	6.3	8.3	31.4	(14.6)	29.3	26.9	(8.2)
DPS (sen)	5.0	4.0	5.0	25.0	0.0	9.0	9.0	0.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	18.1	12.4	16.1	3.7	(2.0)	16.4	14.1	(2.3)
~ Manufacturing	9.3	7.6	8.5	0.9	(0.8)	10.2	8.3	(1.9)
~ Property	33.5	27.2	31.3	4.2	(2.2)	29.8	28.7	(1.0)
PBT Margin (%)	18.0	12.1	15.6	3.5	(2.4)	16.4	13.8	(2.7)
Core Net Margin (%)	15.6	9.9	11.6	1.7	(4.0)	12.4	10.5	(1.9)
Tax rate (%)	15.1	21.3	24.6	3.3	9.5	19.2	21.1	1.9

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY23 EPS PER 20x	4,268.4
Property	CY23 EPS PER 12x	3,676.8
Equity value (RMmn)		7,945.2
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		8,389.3
Conglomerate Discount		10%
Total SOP		7,550.40
Share cap (mn)		1,551.0
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.3
Target Price (RM)		4.56

Stock Recommendation Guideline

BUY	: Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD	: Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL	: Total return is lower than the required rate of return.
Not Rated:	The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★★★	★★★	★★★★
Remark	Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution.	Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly.	The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
- ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
- ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
- ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
- ★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, September 30, 2022, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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