

COMPANY RESULTS

Scientex (SCI MK)

4QFY22: Record-high Revenue Of >RM1b, Elevated Costs Compressed Margins

Scientex registered a record-high quarterly revenue, surpassing RM1b for the first time (+15% yoy). This reflects firm demand of its manufacturing segment and better progress billing in the property segment. Despite strong revenue growth, EBIT only grew marginally by 1.6% yoy due to margin compression on higher input inflations. Moving forward, we expect resilient earnings growth in FY23 following the easing of costs on a higher revenue base. Upgrade to BUY, Maintain target price of RM4.01.

4QFY22 RESULTS

Year to 31 Jul (RMm)	4QFY22	qoq % chg	yoy % chg	FY22	yoy % chg
Turnover	1111.3	11.8	14.5	3,985.3	9.0
Manufacturing	740.8	(1.2)	20.0	2,861.4	14.8
Property	370.5	51.7	5.0	1,123.9	(3.5)
EBIT	178.7	44.9	1.6	561.0	(6.5)
Manufacturing	62.6	10.0	9.1	238.0	(6.1)
Property	116.0	75.0	(2.0)	323.0	(6.9)
Finance costs	(6.2)	23.5	75.9	(20.4)	83.6
PBT	173.6	44.3	(0.5)	548.3	(8.8)
Core net profit	137.3	38.5	(11.6)	426.1	(6.9)

Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	16.1	3.7	(2.0)	14.1	(2.3)
-Manufacturing	8.5	0.9	(0.8)	8.3	(1.9)
-Property	31.3	4.2	(2.2)	28.7	(1.0)
PBT	15.6	3.5	(2.4)	13.8	(2.7)
Core net profit	12.4	2.4	(3.7)	10.7	(1.8)

Source: Scientex, UOB Kay Hian

RESULTS

- **Within expectations.** Scientex's 4QFY22 core net profit came in at RM137m (+38.5% qoq, -11.6% yoy), bringing FY22 core net profit to RM426m (-6.9% yoy), and accounting for 101% and 104% of our and consensus estimates respectively.
- **Declares final dividend of 5 sen.** The group has announced a final dividend of 5 sen, implying a FY22 dividend yield of 2.5%. This represents a payout ratio of 34%, in line with the group's minimum dividend policy of 30%.

KEY FINANCIALS

Year to 31 Jul (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	3,656	3,985	4,281	4,636	4,962
EBITDA	600	675	784	870	930
Operating profit	490	561	647	723	774
Net profit (rep./act.)	346	410	493	553	593
Net profit (adj.)	346	410	493	553	593
EPS (sen)	22.4	26.4	31.8	35.7	38.2
PE (x)	15.5	13.1	10.9	9.7	9.1
P/B (x)	1.9	1.7	1.6	1.4	1.3
EV/EBITDA (x)	10.9	9.7	8.4	7.5	7.1
Dividend yield (%)	2.6	2.6	2.7	3.1	3.3
Net margin (%)	9.5	10.3	11.5	11.9	11.9
Net debt/(cash) to equity (%)	30.3	31.5	14.1	5.5	(2.4)
Interest cover (x)	53.8	33.0	47.3	61.7	65.9
ROE (%)	12.7	13.7	15.0	15.2	14.6
Consensus net profit	-	-	509	578	-
UOBKH/Consensus (x)	-	-	0.97	0.96	-

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM3.47
Target Price	RM4.01
Upside	+15.6%

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,551.0
Market cap (RMm):	5,382.0
Market cap (US\$m):	1,159.8
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

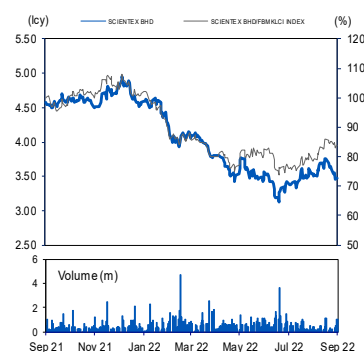
52-week high/low	RM4.95/RM3.13			
1mth	3mth	6mth	1yr	YTD
(2.0)	1.2	(16.2)	(24.1)	(27.6)

Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.0
Scientex Infinity Sdn Bhd	10.0
Scientex Leasing Sdn Bhd	9.12

FY23 NAV/Share (RM)	2.23
FY23 Net Debt/Share (RM)	0.31

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Manufacturing: Margin compression in the consumer packaging business offset by yoy revenue growth.** In 4QFY22, manufacturing revenue was relatively higher at RM741m (+20% yoy) but EBIT grew at a slower rate to RM63m (+9.1% yoy). The slower growth for EBIT mainly reflects lower margin (-0.8ppt yoy) as the group's packaging business continued to face headwinds from the surge in raw material costs and elevated operating expenses. Positively, on a qoq basis, EBIT margin recovered 0.9% to reflect easing spot resin prices, which have declined 8% qoq in 4QFY22 and dropped >20% from Jan 22.
- Property: Better progress billing lifted revenue despite headwinds from higher material costs.** The property segment's revenue came in at RM370.5m (+51.7% qoq, +5.0% yoy) but EBIT slipped marginally to RM116m (-2% yoy). The higher revenue was mainly attributed to strong progress billings for ongoing project developments and more new properties launched, but EBIT declined on higher construction material prices and operating expenses. In 4QFY22, Scientex launched RM415m worth of new properties, with unbilled sales at RM1.27b (3QFY22: RM1.1b). Management alluded that demand for property launches was stable in FY22 with a take-up rate of about 85%.

STOCK IMPACT

- Healthy demand traction spurring Scientex's growth in FY23.** With Malaysia and other countries globally shifting away from the pandemic-induced full-scale lockdowns towards full economic reopening, we deem that Scientex will largely benefit from demand recovery, easing supply chain disruptions as well as capacity expansion for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activities largely resume. We are forecasting a 7.4% revenue growth for Scientex in FY23.
- Easing input inflation for manufacturing segment, but margin compression for property segment unlikely to abate soon.** While resin prices eased 8-9% qoq in 4QFY22 and declined >20% from Jan 22, we believe that the manufacturing segment's margin will recover in FY23 onwards. As for the property segment, the ytd steep increase in prices of building materials such as cement and steel since Jan 22 are still expected to put downward pressure on the segment's profitability margin recovery to pre-pandemic levels. While overall cost for both manufacturing and property segments remains higher than pre-pandemic levels, we note that resin and building material costs have been easing in recent months, which will likely lead to EBIT margin recovery in sequential quarters.
- Palatable valuations for resilient long-term prospects.** Following Scientex's share price retracement of about 28% since Jan 22, we deemed that current valuations are fair and possess about 14% upside based on our forecasted FY23 valuations. We also believe that managements' effective execution, as proven by the group's stellar track record (five-year net profit CAGR of 14% in 2016-21) will allow investors to be more confident in the group's long-term outlook, so that they will look past the temporary cost headwinds that will gradually moderate.

EARNINGS REVISION/RISK

- We introduce our FY25 assumptions.

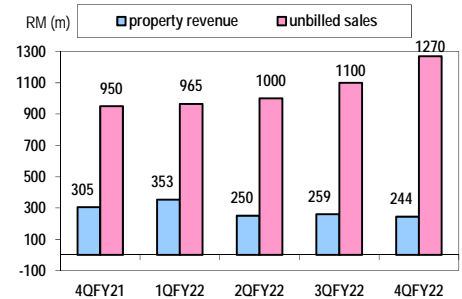
VALUATION/RECOMMENDATION

- Upgrade to long-term BUY with target price of RM4.01**, which implies 12.6x FY23F PE (10-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

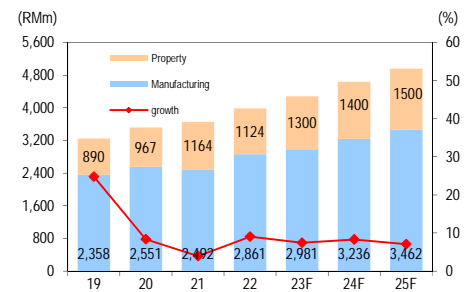
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> 1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification 8.2% decrease in group-wide greenhouse gas emissions in FY21. Social <ul style="list-style-type: none"> Spent RM5.3m in community investment in response to COVID-19. Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG).
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PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



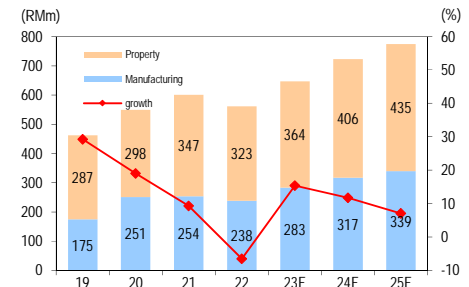
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



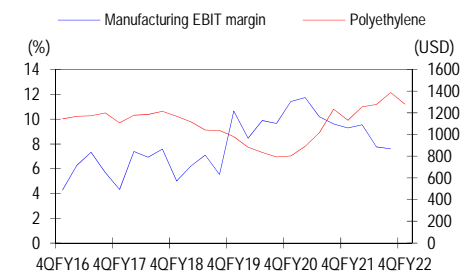
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

MANUFACTURING EBIT MARGIN VS PE PRICE



Source: Scientex, Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Net turnover	3,985	4,281	4,636	4,962
EBITDA	675	784	870	930
Deprec. & amort.	114	137	146	156
EBIT	561	647	723	774
Associate contributions	8	8	8	8
Net interest income/(expense)	(20)	(17)	(14)	(14)
Pre-tax profit	548	638	717	768
Tax	(116)	(128)	(143)	(154)
Minorities	(23)	(18)	(20)	(21)
Net profit	410	493	553	593
Net profit (adj.)	410	493	553	593

BALANCE SHEET

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,464	2,141	2,294	2,439
Other LT assets	2,119	2,131	2,131	2,131
Cash/ST investment	191	380	656	968
Other current assets	1,701	1,302	1,244	1,195
Total assets	5,475	5,341	5,713	6,121
ST debt	921	565	565	566
Other current liabilities	861	673	638	607
LT debt	250	301	301	301
Other LT liabilities	135	132	132	132
Shareholders' equity	3,110	3,454	3,842	4,258
Minority interest	198	216	236	258
Total liabilities & equity	5,475	5,341	5,713	6,121

CASH FLOW

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Operating	738	636	742	790
Pre-tax profit	548	638	717	768
Tax	(116)	(128)	(143)	(154)
Deprec. & amort.	126	137	146	156
Working capital changes	176	(11)	23	20
Other operating cashflows	3	0	0	0
Investing	(668)	(300)	(300)	(300)
Capex (growth)	(721)	(300)	(300)	(300)
Investments	0	0	0	0
Proceeds from sale of assets	47	0	0	0
Others	7	0	0	0
Financing	(123)	(148)	(166)	(178)
Dividend payments	(153)	(148)	(166)	(178)
Issue of shares	0	0	0	0
Proceeds from borrowings	103	0	0	0
Loan repayment	(62)	0	0	0
Others/interest paid	(11)	0	0	0
Net cash inflow (outflow)	(52)	188	277	312
Beginning cash & cash equivalent	243	191	380	656
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	191	380	656	968

KEY METRICS

Year to 31 Jul (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.9	18.3	18.8	18.7
Pre-tax margin	13.8	14.9	15.5	15.5
Net margin	10.3	11.5	11.9	11.9
ROA	7.8	9.1	10.0	10.0
ROE	13.7	15.0	15.2	14.6
Growth				
Turnover	9.0	7.4	8.3	7.0
EBITDA	12.6	16.0	10.9	6.9
Pre-tax profit	11.9	16.4	12.3	7.1
Net profit	18.3	20.2	12.3	7.2
Net profit (adj.)	18.3	20.2	12.3	7.2
EPS	18.3	20.2	12.3	7.2
Leverage				
Debt to total capital	26.2	19.1	17.5	16.1
Debt to equity	37.7	25.1	22.5	20.4
Net debt/(cash) to equity	31.5	14.1	5.5	(2.4)
Interest cover (x)	33.0	47.3	61.7	65.9

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