9 December 2022

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note RM3.37 @ 8 December 2022

Scientex (SCI MK)

HOLD (maintain)
Up/Downside: +6.8%

Price Target: RM3.60
Previous Target (Rating): RM3.75 (HOLD)

"Results within expectations"

Cautious of weakening global demand for packaging

- **Scientex's 1Q23 core net profit of RM112.7m (+26% yoy, -14% qoq) came in within our and consensus estimates**
- **Its 1Q23 EBIT margin expanded by 2ppt yoy, partially offset by a compressed margin (-2ppt yoy) in the packaging segment due to high operating costs**
- **Tweaking our FY23-25E earnings. Maintain HOLD rating with a lower TP of RM3.60 based on CY23E SOP valuation**

1Q23 core net profit increased by 26.2% yoy

Scientex's 1Q23 core net profit of RM112.7m (+26.2% yoy) came in within our and consensus estimates accounting for 25% and 23% of the respective full-year forecasts. Revenue increased to RM1.0bn (+11.0% yoy) on the back of positive sales contributions from the packaging (+5.6%) and property (+25.5%) segments. The overall EBIT margin improved to 14.5% (+1.6ppt yoy) despite a lower EBIT margin from the packaging (-1.6ppt yoy) segment due to lower demand for industrial packaging products coupled with higher operating costs.

Sequentially weaker core net profit by 13.8%

Sequentially, 1Q23 revenue decreased by 7.3% dragged down by lower sales in the packaging (-3.4%) and property (-15.3%) segments due to weakening demand. The EBIT margin was compressed by 2.2ppt qoq attributable to rising operational costs across the business segments. In 1Q23, Scientex saw strong take-up rates for its new property launches in Scientex Tasek Gelugor, Scientex Jasin, Taman Pulai Mutiara 2, and Scientex Kota Tinggi. No dividend was declared for the quarter under review.

Maintain HOLD with lower 12-month TP of RM3.60

We tweak our earnings forecasts for FY23-25E following the release of its audited FY22 results. We reiterate our HOLD rating with a lower TP of RM3.60 based on an unchanged CY23E derived SOP valuation. The share price has corrected by c.30% ytd, and is currently at 11x forward PE which is -0.5SD below the five-year forward mean. Considering the challenging operational outlook, we find the stock to be approaching its fair value. Upside/downside risks: 1) lower/higher-than-expected cost of sales from changes in resin prices and building material costs, 2) decreasing/increasing supply chain disruptions due to the Russia-Ukraine war, 3) higher/lower-than-expected sales across business segments, and 4) improvement/deterioration of the labour shortage issue.

Share price performance

	1M	3M	12M
Absolute (%)	5.6	-7.1	-25.8
Rel KLCI (%)	3.8	-5.3	-24.3

	BUY	HOLD	SELL
Consensus	7	2	-

Source: Bloomberg

Stock Data

Sector	Plastics Packaging
Issued shares (m)	1,551.0
Mkt cap (RMm)/(US$m)	5,273.6/1,198.3
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	3.02-5
Est free float	33.8%
Stock Beta	0.68
Net cash/(debt) (RMm)	(986.2)
ROE (CY23E)	12.4%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Top 25%
FBM EMAS (Top 200)	No
ESG Risk Rating	36.1 (na yoy)

Key Shareholders

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

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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Earnings & Valuation Summary

FYE 31 Jul	2021	2022	2023E	2024E	2025E
Revenue (RMm)	3,656.0	3,985.3	4,405.6	4,826.3	5,423.2
EBITDA (RMm)	725.1	689.4	727.3	883.1	1,024.4
Pretax profit (RMm)	601.0	548.3	584.9	695.7	796.4
Net profit (RMm)	457.2	409.9	431.1	517.1	585.1
EPS (sen)	29.5	26.4	27.8	33.3	37.7
PER (x)	11.4	12.7	12.1	10.1	8.9
Core net profit (RMm)	463.1	418.2	431.1	517.1	585.1
Core EPS (sen)	29.9	27.0	27.8	33.4	37.7
Core EPS growth (%)	9.3	-9.7	3.0	20.0	13.2
Core PER (x)	11.3	12.5	12.1	10.1	8.9
Net DPS (sen)	9.0	9.0	10.0	11.0	12.0
Dividend Yield (%)	2.7	2.7	3.0	3.3	3.6
EV/EBITDA	8.5	9.2	8.8	7.3	6.3
Chg in EPS (%)			-3.8	+1.2	+0.7
Affin/Consensus (x)			0.9	0.9	1.0

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Jul (RMm)	1Q22	4Q22	1Q23	QoQ % chg	YoY % chg	Comments
Revenue	928.2	1,111.3	1,029.9	*(7.3)*	*11.0*	Yoy: Higher revenue from packaging (+5.6%) and property (+25.5%) segments Qoq: Dragged by lower sales from packaging (-3.4%) and property (-15.3%) segments
Op costs	780.7	898.2	850.5	*(5.3)*	*8.9*	
EBITDA	**147.5**	**213.1**	**179.3**	***(15.8)***	***21.6***	
EBITDA margin (%)	15.9	19.2	17.4	*-1.8 ppt*	*1.5 ppt*	
Depn and amort	(27.8)	(28.3)	(30.4)	*7.7*	*9.3*	
EBIT	*119.6*	*184.9*	*148.9*	*(19.5)*	*24.5*	
EBIT margin (%)	*12.9*	*16.6*	*14.5*	*-2.2 ppt*	*1.6 ppt*	Yoy: Better property segment mix partially offset by higher input costs from the packaging segment
Int expense	(4.3)	(6.2)	(8.0)	*29.8*	*85.3*	
Int and other inc	1.5	0.6	1.4	*111.0*	*(11.8)*	
Exceptional items	13.6	(5.8)	(5.5)	*(4.0)*	*(140.6)*	
Pretax profit	**130.4**	**173.6**	**136.7**	***(21.2)***	***4.8***	
Tax	(22.2)	(42.7)	(23.3)	*(45.5)*	*4.8*	
Tax rate (%)	17.0	24.6	17.0	*-7.6 ppt*	*0.0 ppt*	Qoq: Lower tax rate due to utilisation of tax incentives by certain subsidiaries
MI	(5.3)	(5.9)	(6.2)	*6.3*	*17.1*	
Net profit	102.9	125.0	107.2	*(14.2)*	*4.2*	
EPS (sen)	6.6	8.1	6.9	*(14.3)*	*4.2*	
Core net profit	**89.3**	**130.7**	**112.7**	***(13.8)***	***26.2***	Within our estimates

Source: Affin Hwang, Company

Fig 2: Sum of Parts Valuation

Segment	Equity value (RMm)	Comment
Manufacturing	3,093.6	**14x PE based on CY23E**
Property	2,646.6	**35% discount to RNAV**
Total equity value (RMm)	5,740.1	
Net cash/(debt)	(158.6)	
Share base (m)	1,551.0	
SOP TP (RM)	**3.60**	

Source: Affin Hwang forecast

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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