

9 December 2022

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Buy (Maintained)

Moderating Demand For Packaging; BUY

Target Price (Return): MYR3.95 (16.2%)
 Price (Market Cap): MYR3.40 (USD1,199m)
 ESG score: 3.20 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.30m/0.28m

- Maintain BUY, with lower SOP-based MYR3.95 TP from MYR4.31, 16% upside and c.3% yield.** Scientex recorded 1QFY23 (Jul) results that were below expectations, with the packaging segment reporting lower sales as customers turn more cautious amid growing market uncertainty. That said, we continue to like the stock for its attractive valuation. The group's long-term prospects remain solid, backed by steady demand for affordable housing and Scientex's leading position in the plastic packaging segment.
- Slightly below expectations.** 1QFY23 net profit of MYR107.2m (-14% QoQ, +4.2% YoY) was below expectations at 22% of our and consensus' full-year estimates. Despite lower raw material prices, EBIT margin dropped slightly to 13.9% (1Q22: 14.4%) due to lower sales from the packaging division and higher utility costs.
- Results review.** 1Q23 revenue improved 11% YoY (-7.3% QoQ) on the back of contributions from its consumer packaging products and property development projects. However, the industrial packaging products segment saw lower sales as customers turn more cautious about global trade sentiments. Operating costs were also higher due to higher utility costs and depreciation costs from the ongoing capacity expansion. As a result, while packaging revenue increased 5.6% YoY, operating profit fell 12.1% YoY from lower margins. On the property side, revenue and operating profit rose 25.5% and 26.3% YoY. The higher revenue was mainly from the development projects in Johor and Melaka, as well as strong demand from the group's new launches.
- Outlook.** Having missed its original FY22 target to launch MYR2bn in GDV due to deferred government approvals, we think Scientex should be able to exceed the MYR1.2bn launched last year, once the external issues are resolved. On the packaging side, while resin prices fell by -17% QoQ (-11% YoY), management's tone turned more cautious as the demand for packaging products has declined. With the group's expansion plans remaining on track, we think utilisation rates could be hampered in the short term if demand remains low.
- We lower our FY23F-25F earnings by 6-9%** as we adjust our packaging utilisation rates assumption to be more cautious, in view of the slower demand. While we are cautious on the outlook, valuation is still attractive, with the stock trading at -1SD from its historical P/E mean. Our TP incorporates a 4% ESG premium, based on our in-house methodology. Downside risks to our call are higher-than-expected costs, weaker product demand, and softer property sales.

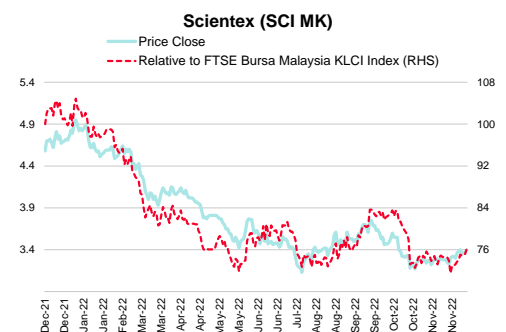
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.0)	5.6	(7.1)	(5.6)	(25.8)
Relative	(22.5)	3.9	(5.2)	(1.8)	(23.9)
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	4,074	4,360	4,521
Recurring net profit (MYRm)	462	408	471	538	595
Recurring net profit growth (%)	17.7	(11.7)	15.5	14.3	10.5
Recurring P/E (x)	11.41	12.92	11.19	9.80	8.87
P/B (x)	1.8	1.7	1.6	1.4	1.3
P/CF (x)	7.54	7.14	10.27	7.49	6.85
Dividend Yield (%)	2.5	2.6	3.5	3.8	3.8
EV/EBITDA (x)	8.72	9.43	8.81	7.77	7.05
Return on average equity (%)	16.8	13.7	14.5	15.1	15.1
Net debt to equity (%)	28.3	29.6	32.4	30.1	26.5

Source: Company data, RHB

Overall ESG Score: 3.20 (out of 4)

E: GOOD

The group has developed an Environmental Policy in FY21 that establishes its key objectives and commitments towards integrating the concept of environmental sustainability into its facilities. The key pillars of this 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. Adequate trainings are provided to its employees on safety and health practices. The group also adopted a group-wide Safety and Health Policy in FY21 that outlines its 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 it 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	0.30	0.26	0.30	0.35	0.38
Consumer Non-cyclical	DPS	0.08	0.09	0.12	0.13	0.13
Scientex	BVPS	1.87	2.01	2.19	2.41	2.66
SCI MK	Return on average equity (%)	16.8	13.7	14.5	15.1	15.1
Buy						
	Valuation metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Valuation basis	Recurring P/E (x)	11.41	12.92	11.19	9.80	8.87
We use SOP valuation to derive our TP	P/B (x)	1.8	1.7	1.6	1.4	1.3
	FCF Yield (%)	10.9	10.5	5.9	9.6	10.8
Key drivers	Dividend Yield (%)	2.5	2.6	3.5	3.8	3.8
i. Ongoing capacity expansion of its plastic segment;	EV/EBITDA (x)	8.72	9.43	8.81	7.77	7.05
ii. Venture into new film products that bear exciting market opportunities locally;	EV/EBIT (x)	10.31	11.36	10.58	9.23	8.32
iii. Ongoing property launches.						
	Income statement (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Key risks	Total turnover	3,656	3,985	4,074	4,360	4,521
i. Changes in demand for flexible packaging products and affordable homes	Gross profit	843	845	904	1,020	1,105
ii. Sharp change in raw material prices	EBITDA	717	673	744	848	932
	Depreciation and amortisation	(110)	(114)	(125)	(134)	(143)
	Operating profit	606	559	619	714	790
	Net interest	(11)	(20)	(21)	(31)	(34)
	Pre-tax profit	601	548	612	699	773
	Taxation	(115)	(116)	(116)	(133)	(147)
	Reported net profit	457	410	471	538	595
	Recurring net profit	462	408	471	538	595
Company Profile						
Scientex is a leading manufacturer of flexible plastic packaging and has presence across the packaging value chain, from stretch films, base films, and printed films to bags and multi-layered flexible plastic packaging solutions used in industrial and consumer packaging. The group is also developer of affordable homes in Malaysia.						
	Cash flow (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Change in working capital	94	176	(114)	(11)	(16)
	Cash flow from operations	700	738	514	704	769
	Capex	(125)	(185)	(200)	(200)	(200)
	Cash flow from investing activities	(776)	(668)	(500)	(500)	(500)
	Dividends paid	(144)	(153)	(186)	(202)	(202)
	Cash flow from financing activities	(93)	(123)	(56)	(82)	(86)
	Cash at beginning of period	413	243	191	149	271
	Net change in cash	(170)	(52)	(42)	122	184
	Ending balance cash	243	191	149	271	455
	Balance sheet (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Total cash and equivalents	243	191	149	271	455
	Tangible fixed assets	2,688	3,119	3,494	3,860	4,217
	Total investments	99	103	117	133	150
	Total assets	5,100	5,475	5,841	6,407	7,010
	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	2,423	2,602
	Total equity	3,097	3,308	3,619	3,984	4,408
	Total liabilities & equity	5,100	5,475	5,841	6,407	7,010
	Key metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Revenue growth (%)	3.9	9.0	2.2	7.0	3.7
	Recurrent EPS growth (%)	17.7	(11.7)	15.4	14.3	10.5
	Gross margin (%)	23.1	21.2	22.2	23.4	24.4
	Operating EBITDA margin (%)	19.6	16.9	18.3	19.5	20.6
	Net profit margin (%)	12.5	10.3	11.6	12.3	13.2
	Dividend payout ratio (%)	28.3	34.1	39.5	37.5	33.9
	Capex/sales (%)	3.4	4.6	4.9	4.6	4.4
	Interest cover (x)	54.4	27.3	29.2	23.3	23.2

Source: Company data, RHB

Results At a Glance

Figure 1: 1Q23 results review

FYE Jul (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
Revenue	928.2	1,111.3	1,029.9	(7.3)	11.0	YoY revenue growth hampered by lower sales in industrial packaging products
Adjusted EBITDA	161.9	200.7	173.8	(13.4)	7.4	
<i>Adjusted EBITDA margin (%)</i>	17.4	18.1	16.9			
Depreciation	(28.7)	(28.3)	(30.4)	7.7	6.2	
Adjusted Operating Profit	133.2	172.4	143.4	(16.9)	7.6	
<i>Operating margin (%)</i>	14.4	15.5	13.9			
El/Others	0.0	6.2	0.0	(99.9)	50.0	
Reported Operating Profit	133.2	178.7	143.4	(19.7)	7.6	
Interest Expense	(4.3)	(6.2)	(8.0)	29.8	85.3	
Share of Associates	1.5	1.1	1.4	23.1	(11.8)	
Reported PBT	130.4	173.6	136.7	(21.2)	4.8	
Tax	(22.2)	(42.7)	(23.3)	(45.5)	4.8	
<i>Effective tax rate (%)</i>	17.0	24.6	17.0			
Minority Interest	(5.3)	(5.9)	(6.2)	6.3	17.1	
Net Profit	102.9	125.0	107.2	(14.2)	4.2	Lower than our and consensus expectations
Core Profit	102.9	118.8	107.2	(9.8)	4.2	
<i>Core net margin (%)</i>	11.1	10.7	10.4			

Source: Company data, RHB

Figure 2: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	2,580.2
Property	RNAV (discount of 50%)	3,311.9
	Total intrinsic value (MYRm)	5,892.1
	Fully diluted sharebase (m)	1,550.9
	Intrinsic value per share	3.80
	+ 4% ESG premium	0.15
	TP (MYR)	3.95

Source: RHB

Recommendation Chart

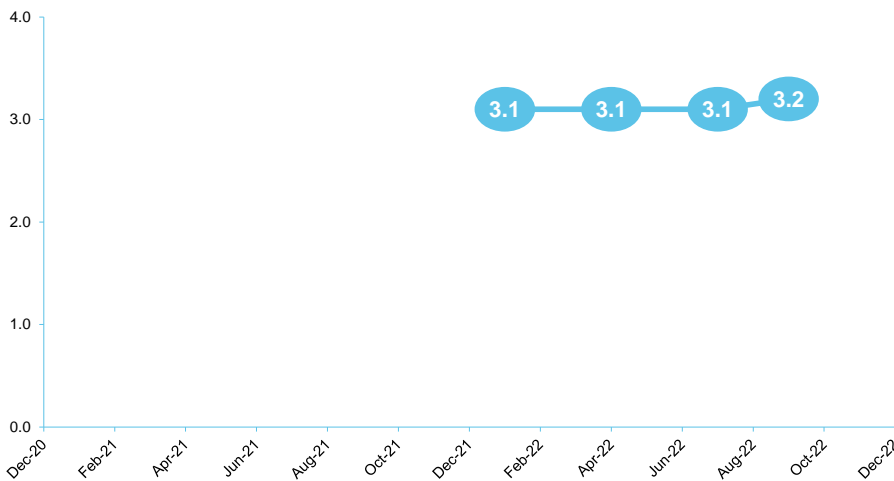


Source: RHB, Bloomberg

Date	Recommendation	Target Price
2022-09-30	Buy	4.3
2022-06-14	Neutral	4.1
2022-03-17	Buy	4.7
2022-01-13	Neutral	4.9
2020-12-18	Neutral	11.5
2020-09-21	Neutral	10.3
2020-07-24	Neutral	9.8
2018-09-21	Neutral	7.4
2018-06-21	Neutral	7.4
2018-06-21	Neutral	7.4

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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