

Scientex Berhad

Expect Manufacturing Division to be Impacted by Global Slowdown

TP: RM4.56 (+34.1%)

Last Traded: RM3.40

Buy (ESG: ★★★)

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Review

- Scientex Berhad's IQFY23 core net profit of RM112.7mn came in within expectation at 24% and 22% of our and consensus estimates respectively. The core earnings surged 25.1% YoY on the back of 11.0% YoY growth in revenue for the quarter.
- Manufacturing.** IQFY23 revenue increased 5.6% YoY to RM716mn driven by improved margins in consumer packaging segment following the softening of raw material prices (olefins). The growth in consumer packaging more than offset the slowdown in the industrial packaging amid softening in global demands. Despite growth in revenue, operating profit in the same period fell 12.1% YoY due to higher overall operating costs.
- Property.** IQFY23 revenue registered a growth of 25.5% YoY to RM313.9mn contributed by higher demand to new launches. Operating profit grew 26.3% YoY in line with the revenue improvement.
- IQFY23 vs 4QFY22.** Scientex's revenue dropped 7.3% QoQ due to lower contribution from the Property division (-15.3% QoQ) and Manufacturing division (-3.4% QoQ). As a result, operating profit slumped 19.7% QoQ.
- The group's cash level as of IQFY23 stands at RM89.5mn, less than half of that at 4QFY22. This is driven by the completion of acquisition of Taisei Lamick Malaysia Sdn Bhd (TLM) on 30 September 2022.

Impact

- We adjust our earnings forecast for FY23-FY25 by -0.1% to 0.1% after updating the group's audited annual results.

Outlook

- Manufacturing.** The group foresees a weakening in global demand for plastic packaging in light of global uncertainties and elevated operating costs. However, management's expansion plan remains on track, with plans towards product differentiation and development of value-added products (such as sustainable and recyclable packaging solutions). We expect the acquisition of TLM to be earnings accretive, increasing the group's bottom-line by c.0.1% in FY23.
- Property.** We are sanguine on Scientex's Property segment underpinned by pent up demands for affordable homes. Management does not expect the OPR hike by Bank Negara Malaysia to negatively impact the demand for the group's affordable homes.

Valuation

- Maintain Buy** with the same target price of RM4.56/share based on 20x Manufacturing earnings and 14x Property earnings in CY23.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.0
Market Cap (RMmn)	5,273.4
52-wk Hi/Lo (RM)	5.00/3.02
12-mth Avg Daily Vol ('000 shrs)	645.1
Estimated Free Float (%)	33.8
Beta	0.5
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(0.1)	0.0
Net profit (RMmn)	474.4	583.1
Consensus	509.3	578.0
TA's / Consensus (%)	93.2	100.9
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	4.14	

Financial Indicators

	FY23	FY24
Net debt/ equity (%)	31.9	26.6
ROE (%)	14.5	16.0
ROA (%)	8.3	9.4
NTA/Share (RM)	2.0	2.3
Price/ NTA (x)	1.7	1.5

Scorecard

	% of FY23	
vs TA	24	Within
vs Consensus	22	Within

Share Performance (%)

Price Change	SCI	FBM KLCI
1 mth	5.6	1.7
3 mth	(7.1)	(1.9)
6 mth	(5.6)	(3.8)
12 mth	(25.8)	(1.9)

(12-Mth) Share Price relative to the FBMKLCI



Table 1: 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	783.7	925.8	968.3
EBIT	600.3	561.0	652.0	794.7	837.7
Reported PBT	601.0	548.3	645.0	790.1	837.2
Adj. PBT	597.2	556.0	645.0	790.1	837.2
Reported Net Profit	457.2	409.9	474.4	583.1	616.0
Adj. Net profit	453.5	417.6	474.4	583.1	616.0
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)	11.5	12.9	11.1	9.0	8.6
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: IQFY23 Results Analysis (RM mn)

FYE July (RM mn)	IQFY22	4QFY22	IQFY23	QoQ (%)	YoY (%)
Revenue	928.2	1,111.3	1,029.9	(7.3)	11.0
~ Manufacturing	678.1	740.8	716.0	(3.4)	5.6
~ Property	250.1	370.5	313.9	(15.3)	25.5
Interest Expense	(4.3)	(6.2)	(8.0)	29.8	85.3
Investing Results	1.5	1.1	1.4	23.1	(11.8)
Depreciation	(27.8)	(27.3)	(29.5)	8.0	5.9
EBITDA	161.1	206.0	172.9	(16.1)	7.3
Operating Profit	133.2	178.7	143.4	(19.7)	7.6
~ Manufacturing	64.7	62.6	56.9	(9.1)	(12.1)
~ Property	68.5	116.0	86.5	(25.5)	26.3
EI	12.8	(4.0)	(5.5)	38.4	(143.2)
Reported PBT	130.4	173.6	136.7	(21.2)	4.8
Taxation	(22.2)	(42.7)	(23.3)	(45.5)	4.8
Minority Interest	(5.3)	(5.9)	(6.2)	6.3	17.1
Reported Profit	102.9	125.0	107.2	(14.2)	4.2
Adj. Net Profit	90.1	129.0	112.7	(12.6)	25.1
EPS (sen)	6.6	8.1	6.9	(14.2)	4.2
Adj EPS (sen)	5.8	8.3	7.3	(12.6)	25.1
DPS (sen)	0.0	5.0	0.0	(100.0)	nm
				%-pts	%-pts
EBIT Margin (%)	14.4	16.1	13.9	(2.2)	(0.4)
~ Manufacturing	9.5	8.5	8.0	(0.5)	(1.6)
~ Property	27.4	31.3	27.5	(3.8)	0.2
PBT Margin (%)	14.1	15.6	13.3	(2.3)	(0.8)
Core Net Margin (%)	9.7	11.6	10.9	(0.7)	1.2
Tax rate (%)	17.0	24.6	17.0	(7.6)	0.0

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RMmn)
Manufacturing	CY23 EPS PER 20x	4,265.2
Property	CY23 EPS PER 12x	3,677.4
Equity value (RMmn)		7,942.6
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		8,386.8
Conglomerate Discount		10%
Total SOP		7,548.09
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, December 09, 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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