

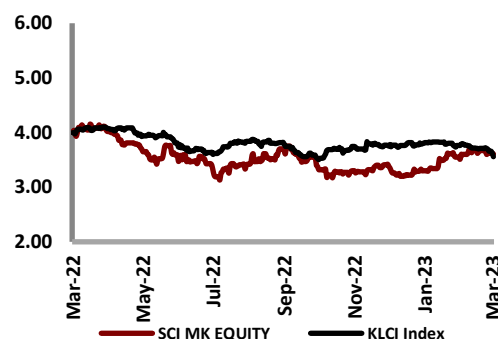
**Scientex Berhad (SCI MK)****Below****BUY**

Share Price RM3.51 +14%  
Target Price RM4.00

**Solid Performance from Property Segment**

- Overview.** Scientex Berhad (Scientex) 2QFY23 core net profit and revenue tumbled by 10.9% QoQ and 5.0% QoQ, no thanks to slower sales from Packaging segment and higher tax expense. It was a contrast however for YoY basis where core net profit and revenue improved by 0.4% YoY and 2.8% amidst strong demand from new launches and hence, Property segment (+24.7% YoY) which substantially offset the decline in Packaging segment (-5.4% YoY). As for 1HFY23, both core net profit and revenue surged 12.1% YoY and 6.8% YoY respectively powered by encouraging sales from Property segment; +25.5% YoY.
- Key highlights.** Industrial packaging demand wobbled slightly as distributors stocked up cautiously due to downward trend in resin price. Packaging segment sales remained intact however as consumer packaging products were used by end users. On property segment, the Group launched RM1.13bn gross development value (GDV) as at 1H23 with 14 launches across Kedah, Penang, Selangor, Melaka, and Johor. The group reported encouraging take-up or on average 70% for these launches. Note that Scientex is targeting to achieve a RM2bn GDV for FY23 with potential maiden launches.
- Against estimates: Inline.** 2QFY23 core PATAMI of RM213.2mn came below ours and consensus estimates, making up only 41.9% and 44.2% of full-year forecast.
- Outlook.** Scientex is adopting a cautious stance on demand for industrial packaging in the near term, owing to unexpected fluctuation in resin prices. Nevertheless, this has been counterbalanced by steady demand for consumer packaging products consistent with encouraging contracts with customers and a cost-plus model is being applied to ensure a commendable profit margin. All in all, the Group is committed to take measures to mitigate the impact of global uncertainties as well as elevated operating costs. Scientex's growth trajectory is set to be driven by resilient demand for its diversified products on top of commendable take-up rate for its housing projects. Overall, we like Scientex due to its: i) organic expansion and M&A activities which may drive long-term growth, ii) steady position as affordable housing developer, and iii) high commitment on sustainability and environment for their plastic products.
- Earnings revision.** In view of lower-than-expected earnings forecast, we tweak down to our FY23F-FY25F earnings forecast to account for lower sales volume from packaging segment.
- Our call.** Maintain a **BUY** call on Scientex with higher target price of RM4.00 (RM3.88 previously), as we roll over our target price to FY24. Note that we give a lower discount for property segment to account for sturdy demand for affordable homes amid current economic recovery post Covid-19 pandemic.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(2.5)	9.4	(8.2)
vs FBM KLCI	3.1	13.4	(0.0)

**Stock Data**

Mkt Cap (RM m)	5,444.2
Free float (%)	59.9
Issued shares (m)	1551.1
52w H/L (RM)	4.18 / 3.02
3m avg daily volume	420,240

**Major Shareholders (%)**

Scientex Holdings Sdn Bhd	21.0
Scientex Infinity Sdn Bhd	10.1
Scientex Leasing Sdn Bhd	9.1

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Table 1: Quarterly figures

Scientex Berhad FYE 31 July (RM'mn)	Quarterly			Change (%)		Cumulative		YTD	BIMB	
	2QFY22	1QFY23	2QFY23	QoQ Chg	YoYChg	FY22	FY23	YTD Chg	BIMB	6M/F
Revenue	952.0	1029.9	978.4	-5.0%	2.8%	1880.2	2008.3	6.8%	4747.7	42.3%
EBITDA	160.4	173.7	18.9	-89.1%	-88.2%	308.7	192.6	-37.6%	842.2	22.9%
Pretax profit	124.1	136.7	141.5	3.5%	14.0%	254.5	278.2	9.3%	711.3	39.1%
Taxation	-25.1	-23.3	-29.1	25.1%	16.0%	-47.3	-52.4	10.7%	-170.7	30.7%
Core Net Profit	100.1	112.7	100.5	-10.9%	0.4%	190.2	213.2	12.1%	508.5	41.9%
Core EPS (sen)	6.5	7.3	6.5	-10.8%	0.4%	12.3	13.7	12.1%	32.8	41.9%
				chg (ppts)				ppts		
EBITDA margin (%)	16.8%	16.9%	1.9%	-14.9%	-14.9%	16.4%	9.6%	-6.8%	30.0%	
PBT margin (%)	13.0%	13.3%	14.5%	1.2%	1.4%	13.5%	13.9%	0.3%	0.0%	
Core Net profit margin (%)	10.5%	10.9%	10.3%	-0.7%	-0.2%	10.1%	10.6%	0.5%	17.7%	
Effective tax rate (%)	20.3%	17.0%	20.6%	3.6%	0.3%	18.6%	18.9%	0.2%	2.3%	

Source: BIMB Securities, Company

Table 2: Segmental breakdown

Scientex Berhad FYE 31 July (RM'mn)	Quarterly			Change (%)		Cumulative		YTD	
	2QFY22	1QFY23	2QFY23	QoQ Chg	YoYChg	FY22	FY23	YTD Chg	
Revenue	952.0	1029.8	978.3	-5.0%	2.8%	1880.3	2008.3	6.8%	
Packaging	692.8	716.0	655.1	-8.5%	-5.4%	1370.9	1371.1	0.0%	
Property	259.2	313.9	323.3	3.0%	24.7%	509.3	637.2	25.1%	
Operating Profit	125.7	143.3	147.4	2.9%	17.3%	259.0	290.8	12.3%	
Packaging	53.7	57.0	58.3	2.3%	8.6%	118.4	115.2	-2.7%	
Property	72.2	86.5	89.1	3.1%	23.5%	140.7	175.6	24.8%	
				chg (ppts)				chg (ppts)	
Operating Margin (%)	13.2	13.9	15.1	1.2	1.9	13.8	14.5	0.7	
Packaging (%)	7.7	8.0	8.9	0.9	1.1	8.6	8.4	-0.2	
Property (%)	27.9	27.5	27.6	0.0	-0.3	27.6	27.6	-0.1	

Source: BIMB Securities, Company

Table 3: Sum-of-Parts (SOP) Valuation

	Segment Value (RM'mn)		Comment
Packaging	FY24F Operating Profit (RM'mn)	Target PER (x)	
	267.1	12.9	10% premium to peer's average PER
Property	RNAV	4,995	
	(-) discount	(1,249)	25% discount to Property RNAV
	Sub-total	3,746.5	
	Holding co net debts	(980.3)	
	Total Equity value	6,203.8	
	Share cap (mn)	1,551.0	
	Target Price (RM)	4.00	
	Implied FY23 PER	13.1	

Source: Bloomberg, BIMB Securities

**Table 2: Earnings forecast**

FYE July (RM'mn)	FY21	FY22	FY23F	FY24F	FY25F
<b>Turnover</b>	<b>3,656.0</b>	<b>3,985.3</b>	<b>4,397.2</b>	<b>4,560.0</b>	<b>4,882.6</b>
EBIT	600.3	561.0	672.7	723.0	784.1
Pretax Profit	601.0	548.3	663.4	711.6	775.0
<b>Core Net Profit</b>	<b>443.4</b>	<b>414.4</b>	<b>474.3</b>	<b>508.7</b>	<b>554.1</b>
Core EPS (sen)	28.6	26.7	30.6	32.8	35.7
Consensus NP			482.7	552.1	597.3
PER (x)	12.3	13.1	11.5	10.7	9.8
DPS (sen)	9.0	9.0	9.0	9.0	10.0
D. Yield (%)	2.3	2.3	2.3	2.3	2.5
<b>Key Ratios (%)</b>					
ROE	15.3	13.3	13.8	13.4	13.2
EBIT margin	16.4	14.1	15.3	15.9	16.1
Pretax margin	16.4	13.8	15.1	15.6	15.9
Core PATAMI margin	12.1	10.4	10.8	11.2	11.3

**Source: Bloomberg, BIMB Securities**

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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A handwritten signature in black ink, appearing to read "Rosnani Rasul".

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