

16 Mar 2023

Buy

Price
RM3.51

Target Price
RM4.15

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

Solid 2Q23 with a resilient mix

Financial Highlights

FYE Jul	2021	2022	2023F	2024F	2025F
Revenue (RMm)	3,656.0	3,985.3	4,339.4	4,544.5	4,775.0
Core net profit (RMm)	454.2	419.0	481.3	503.9	538.8
Core EPS (Sen)	29.3	27.0	31.0	32.5	34.7
EPS growth (%)	7.2	(7.8)	14.9	4.7	6.9
DPS (Sen)	17.0	9.0	9.0	10.0	10.0
Core PE (x)	12.0	13.0	11.3	10.8	10.1
Div yield (%)	2.6	2.6	2.8	2.8	3.1
ROE (%)	14.8	12.4	13.2	12.6	12.3
Net Gearing (%)	30.3	31.5	24.1	17.2	10.5
PBV(x)	2.0	1.8	1.6	1.5	1.3

Source: Company, KAF

- 2Q23 posted solid core earnings at RM112m (QoQ: flat, YoY: +12%), bringing 1H22 core earnings to RM225m (YoY: +18%). We deemed the results as in line with ours (47%) and consensus (47%) forecasts. 1H23 revenue posted at RM2b (YoY: +7%)
- No dividends were declared in the quarter under review, as expected.
- On packaging revenue, there is a sequential drop for a straight-three quarters (4Q22: -1%, 1Q23: -3%, 2Q23: -9%) caused by weaker industrial packaging sales as cautious sentiment mount amidst increased market volatility (i.e., continuous downtrend of resin prices since its peak in 1H22 resulted in price competition and global buyers to defer their orders). Notwithstanding this, the overall packaging revenue in 1H23 held firm at RM1.4b (YoY: flat), supported by a resilient demand for its consumer packaging.
- As a result, packaging EBIT down marginally by -3% to RM115m in 1H23. However, we are delighted to note that its EBIT margin improved sequentially by 0.9ppt to 8.9% in 2Q23 (1Q23: 8.0%), on the back of a moderation in resin prices.
- On property revenue, 1H23 revenue posted a strong growth to RM637m (YoY: +25%) boosted by improving sales and steady construction progress for its on-going projects as well as maiden contribution from its project in Kedah. Correspondingly, EBIT posted at RM176m (YoY: +25%), with a healthy EBIT margin at 28%.
- In 1H23, Scientex launched a total of RM1.2b (FY22: RM1.2b) new properties, comprising 3,899 units (FY22: 4,097 units) across 14 launches (FY22: 18 launches) in Kedah, Penang, Selangor, Melaka and Johor. We gathered that average take-up rate is reasonably healthy at 70%, while unbilled sales are currently stood at RM1.6b. Management guided that target launch for the full year FY23F is set at RM2b.
- Recall that in FY22, CCC deferment and delays in obtaining permits and approvals for new launches are among the key obstacles that dragged the segment's performance - of which the situation has now largely improved with the new government step in. Labour shortage issues have also eased, management updated.
- As the results are largely in line with our expectations, we are maintaining our earnings forecasts at this juncture. Looking ahead, while the packaging segment (particularly the industrial packaging) may continue to face headwinds as global demand weaken, we are upbeat on the property segment as the group speed up its new property launches across Peninsular Malaysia, coupled with a robust demand for its affordable housing projects. Further, we also expect steady sales from its consumer packaging.
- As at 1H23, Scientex has a total of 29 developments (12 matured, 11 ongoing and 6 new) with a potential gross development value (GDV) of RM32.9b.

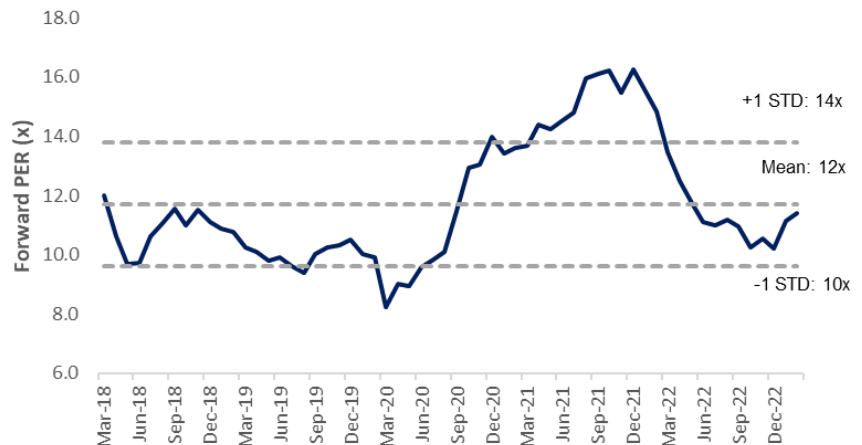
- Excluding the proposed acquisition of 960-acre land in Tebrau, Johor which was terminated in earlier this month and including the proposed acquisition of 251-acre land in Jenjarom which was still pending completion, Scientex has a landbank of 6,705 acres.
- With projected dividend per share (DPS) of 9.0-10.0 sen for FY23-25F, this implies a dividend yield of 2.8-3.1% at current share price.
- Maintain our Buy rating on Scientex with an unchanged TP of RM4.15 pegged to FY23F-based SOP valuation – which implies a 13x FY23F PE.

Exhibit 1: Quarterly financial results

FYE Jul (RM m)	Jan-22	Apr-22	Jul-22	Oct-22	Jan-23	Change (%)		Cumulative		Change (%)	KAF	
	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	QoQ	YoY	1HFY22	1HFY23	YoY	FY23	6M/F
Revenue	952	994	1,111	1,030	978	(5)	3	1,880	2,008	7	4,339	46%
~ Packaging	693	750	741	716	655	(9)	(5)	1,371	1,371	0	3,155	43%
~ Property	259	244	370	314	323	3	25	509	637	25	1,185	54%
Interest Expense	(5)	(5)	(6)	(8)	(10)	22	99	(9)	(18)	93		
Interest Income	0	0	1	1	1	(9)	14	1	1	(1)		
Depreciation	(29)	(29)	(28)	(30)	(31)	2	8	57	61	7		
EBITDA	155	151	208	174	178	3	15	320	356	11		
Operating Profit	126	122	180	143	147	3	17	263	295	12		
~ Packaging	54	56	64	57	58	2	9	118	115	(3)		
~ Property	72	66	116	86	89	3	23	141	176	25		
Reported PBT	124	120	174	137	141	3	14	254	278	9		
Taxation	(25)	(26)	(43)	(23)	(29)	25	16	(47)	(52)	11		
Minority Interest	(5)	(6)	(6)	(6)	(6)	(4)	15	(11)	(12)	16		
Exceptional items	(6)	(10)	(6)	(6)	(6)	7	(8)	6	(11)	(278)		
Reported Profit	94	88	125	107	106	(1)	13	197	213	9		
Adj. Net Profit	100	98	131	113	112	(0)	12	190	225	18	481	47%
EPS (sen)	6	6	8	7	7	(1)	13	13	13	0		
Adj EPS (sen)	6	6	8	7	7	(0)	12	12	15	18		
DPS (sen)	0	4	5	0	0	nm	nm	0	0	nm		
						%-pts	%-pts			%-pts		
Effective tax rate (%)	20	21	25	17	21	4	0	19	19	0		
EBITDA margin (%)	16	15	19	17	18	1	2	17	18	1		
Operating margin (%)	13	12	16	14	15	1	2	14	15	1		
~ Packaging (%)	8	7	9	8	9	1	1	9	8	(0)		
~ Property	28	27	31	28	28	0	(0)	28	28	(0)		
Pretax margin (%)	13	12	16	13	14	1	1	14	14	0		
Net margin (%)	11	10	12	11	11	1	1	10	11	1		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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