

Scientex STIK.KL SCI MK

EQUITY: MATERIALS

Property division drives 1H23 earnings

We lower FY23/24F earnings on macro uncertainty; maintain Buy, cut TP to MYR4.40

Property segment drives revenue growth, earnings

Scientex released 1H23 results for the period ended Jan-23, with 1HFY23 earnings of MYR213mn (+9% y-y), comprising 44% of Bloomberg consensus FY23F estimates (see Fig. 1). 1H23 top-line revenue of MYR2.01bn (+7% y-y) was largely driven by double-digit gains (+25% y-y) from the property division, while packaging revenue remained flat y-y. On a quarterly basis, 2Q23 core earnings were MYR100mn (flat y-y, -11% q-q). Key exceptional items included a MYR5.5mn foreign exchange gain.

Segment-wise, packaging revenue in 2Q23 dropped 5% y-y due to the slowdown in demand for industrial products (partly mitigated by better consumer packaging sales) as global buyers remained cautious in the quarter amidst macro uncertainty. Operating profit for the segment improved q-q, attributed by the company to a better product mix of consumer packaging. Property revenue for 2Q23 rose 25% y-y and 3% q-q, driven by better sales and construction progress from existing projects coupled with new launches such as Sungai Petani, Kedah.

Key briefing updates

The company stated that an ongoing (but delayed) landbank deal in Johor Bahru (960 acres for an MYR518mn purchase consideration) has been terminated. The deal was **first announced** on the exchange on 7 May-21. We understand that the seller, SP Setia (SPSB MK, not rated) **cited** non-fulfilment of the Bumiputera equity condition precedent. The company's new robotic stretch film plant commenced operations in 2Q23, with a monthly capacity of 1500mt/month: the first production line began operations in Dec-22 and the second is due to open sometime this month. The company noted that new electricity tariffs will impact costs (~3-4% of revenue), which the company expects to pass on to buyers. Property selling prices were increased by ~3% to factor in higher raw material costs, while unbilled sales stands MYR1.6bn.

Lower earnings for FY23F/24F by 15%/10%; maintain Buy

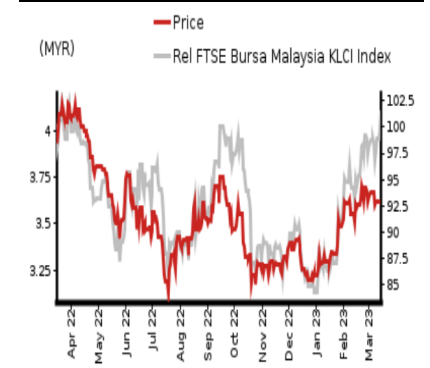
We lower FY23F/FY24F EPS by 14.9%/9.5% on continued operating uncertainty and cost pressures related to the packaging business. We maintain Buy but cut our SOTP-based TP to MYR4.40— we value the packaging division on a DCF basis (unchanged 7.3% WACC) and the property division at a 25% discount to RNAV.

Year-end 31 Jul	FY22		FY23F		FY24F		FY25F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New	
Revenue (mn)	3,985	4,630	4,165	4,811	4,740	5,029		
Reported net profit (mn)	410	526	450	576	521	589		
Normalised net profit (mn)	419	526	450	576	521	589		
FD normalised EPS	27.04c	33.94c	28.98c	37.17c	33.56c	37.95c		
FD norm. EPS growth (%)	-7.9	26.7	7.2	9.5	15.8	13.1		
FD normalised P/E (x)	13.0	—	12.1	—	10.5	—	9.2	
EV/EBITDA (x)	9.6	—	9.3	—	8.5	—	7.8	
Price/book (x)	1.8	—	1.6	—	1.4	—	1.3	
Dividend yield (%)	2.6	—	2.5	—	2.9	—	3.2	
ROE (%)	13.7	15.6	13.8	15.3	14.4	14.7		
Net debt/equity (%)	31.7	48.0	37.0	47.3	40.7	41.0		

Source: Company data, Nomura estimates

Rating	Buy
Remains	
Target price	MYR 4.40
Reduced from MYR	4.80
Closing price	MYR 3.51
15 March 2023	
Implied upside	+25.4%
Market Cap (USD mn)	1,215.2
ADT (USD mn)	0.3

Relative performance chart



Source: Thomson Reuters, Nomura

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Key data on Scientex

Performance

(%)	1M	3M	12M		
Absolute (MYR)	-2.2	6.4	-11.8	M cap (USDmn)	1,215.2
Absolute (USD)	-4.2	4.8	-17.2	Free float (%)	35.3
Rel to FTSE Bursa Malaysia KLCI Index	4.1	11.4	-1.3	3-mth ADT (USDmn)	0.3

Income statement (MYRmn)

Year-end 31 Jul	FY21	FY22	FY23F	FY24F	FY25F
Revenue	3,656	3,985	4,165	4,740	5,029
Cost of goods sold	-3,062	-3,417	-3,550	-4,018	-4,208
Gross profit	594	568	615	721	821
SG&A	0	0	0	0	0
Employee share expense	0	0	0	0	0
Operating profit	594	568	615	721	821
EBITDA	704	683	736	848	953
Depreciation	-110	-114	-121	-126	-132
Amortisation	0	0	0	0	0
EBIT	594	568	615	721	821
Net interest expense	-8	-18	-34	-41	-47
Associates & JCEs	12	8	8	9	9
Other income	0	0	0	0	0
Earnings before tax	598	558	589	689	783
Income tax	-115	-116	-113	-132	-150
Net profit after tax	483	442	476	557	633
Minority interests	-29	-23	-26	-36	-44
Other items	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	454	419	450	521	589
Extraordinary items	3	-9	0	0	0
Reported NPAT	457	410	450	521	589
Dividends	-129	-140	-135	-156	-177
Transfer to reserves	328	270	315	365	412

Valuations and ratios

Reported P/E (x)	11.9	13.3	12.1	10.5	9.2
Normalised P/E (x)	12.0	13.0	12.1	10.5	9.2
FD normalised P/E (x)	12.0	13.0	12.1	10.5	9.2
Dividend yield (%)	2.4	2.6	2.5	2.9	3.2
Price/cashflow (x)	7.8	7.4	9.1	8.5	7.1
Price/book (x)	1.9	1.8	1.6	1.4	1.3
EV/EBITDA (x)	9.1	9.6	9.3	8.5	7.8
EV/EBIT (x)	10.8	11.5	11.1	9.9	9.0
Gross margin (%)	16.3	14.3	14.8	15.2	16.3
EBITDA margin (%)	19.3	17.1	17.7	17.9	18.9
EBIT margin (%)	16.3	14.3	14.8	15.2	16.3
Net margin (%)	12.5	10.3	10.8	11.0	11.7
Effective tax rate (%)	19.3	20.7	19.2	19.2	19.2
Dividend payout (%)	28.3	34.1	30.0	30.0	30.0
ROE (%)	16.8	13.7	13.8	14.4	14.7
ROA (pretax %)	13.4	11.4	11.1	11.6	11.8

Growth (%)

Revenue	3.9	9.0	4.5	13.8	6.1
EBITDA	2.4	-3.1	7.8	15.1	12.4
Normalised EPS	7.1	-7.9	7.2	15.8	13.1
Normalised FDEPS	7.1	-7.9	7.2	15.8	13.1

Source: Company data, Nomura estimates

Cashflow statement (MYRmn)

Year-end 31 Jul	FY21	FY22	FY23F	FY24F	FY25F
EBITDA	704	683	736	848	953
Change in working capital	94	176	-24	-74	-40
Other operating cashflow	-99	-121	-113	-132	-150
Cashflow from operations	700	738	599	641	762
Capital expenditure	-81	-172	-212	-216	-223
Free cashflow	618	566	387	425	540
Reduction in investments	0	0	0	0	0
Net acquisitions	-714	-502	-500	-500	-500
Dec in other LT assets	0	0	0	0	0
Inc in other LT liabilities	0	0	0	0	0
Adjustments	19	7	1	1	0
CF after investing acts	-77	71	-112	-74	40
Cash dividends	-129	-140	-135	-156	-177
Equity issue	0	0	0	0	0
Debt issue	-12	-57	200	200	200
Convertible debt issue	0	0	0	0	0
Others	49	74	-36	-41	-47
CF from financial acts	-93	-123	29	2	-24
Net cashflow	-170	-52	-82	-72	17
Beginning cash	413	243	191	109	37
Ending cash	243	191	109	37	53
Ending net debt	884	986	1,268	1,540	1,724

Balance sheet (MYRmn)

As at 31 Jul	FY21	FY22	FY23F	FY24F	FY25F
Cash & equivalents	243	191	109	37	53
Marketable securities	0	0	0	0	0
Accounts receivable	685	697	728	828	879
Inventories	387	449	467	530	555
Other current assets	625	555	555	555	555
Total current assets	1,940	1,892	1,859	1,950	2,042
LT investments	1,400	1,753	2,261	2,770	3,279
Fixed assets	1,383	1,464	1,559	1,650	1,741
Goodwill	332	330	330	330	330
Other intangible assets	0	0	0	0	0
Other LT assets	45	35	31	30	30
Total assets	5,100	5,475	6,040	6,730	7,422
Short-term debt	823	924	1,124	1,324	1,524
Accounts payable	523	635	660	749	784
Other current liabilities	225	222	222	222	222
Total current liabilities	1,571	1,782	2,006	2,295	2,531
Long-term debt	304	253	253	253	253
Convertible debt	0	0	0	0	0
Other LT liabilities	127	132	132	132	132
Total liabilities	2,003	2,167	2,391	2,680	2,916
Minority interest	202	198	224	261	305
Preferred stock	0	0	0	0	0
Common stock	703	705	705	705	705
Retained earnings	2,192	2,405	2,720	3,084	3,496
Proposed dividends	0	0	0	0	0
Other equity and reserves	0	0	0	0	0
Total shareholders' equity	2,896	3,110	3,424	3,789	4,201
Total equity & liabilities	5,100	5,475	6,040	6,730	7,422

Liquidity (x)

Current ratio	1.23	1.06	0.93	0.85	0.81
Interest cover	74.2	31.0	17.9	17.7	17.6

Leverage

Net debt/EBITDA (x)	1.26	1.44	1.72	1.82	1.81
Net debt/equity (%)	30.5	31.7	37.0	40.7	41.0

Per share

Reported EPS (MYR)	29.54c	26.43c	28.98c	33.56c	37.95c
Norm EPS (MYR)	29.35c	27.04c	28.98c	33.56c	37.95c
FD norm EPS (MYR)	29.35c	27.04c	28.98c	33.56c	37.95c
BVPS (MYR)	1.87	2.00	2.21	2.44	2.71
DPS (MYR)	0.08	0.09	0.09	0.10	0.11

Activity (days)

Days receivable	62.1	63.3	62.4	60.1	62.0
Days inventory	44.2	44.7	47.1	45.4	47.0
Days payable	58.5	61.9	66.6	64.2	66.5
Cash cycle	47.8	46.1	42.9	41.3	42.5

Source: Company data, Nomura estimates

Company profile

Scientex is a leading packaging manufacturer and property developer based in Malaysia. The packaging division manufactures stretch film, custom film and multi-layered flexible plastic packaging (FPP) products for domestic consumption and export. The property division has constructed over 25k affordable homes across Johor, Selangor, Perak, Negeri Sembilan and Penang.

Valuation Methodology

We value Scientex on an SOTP basis. The Packaging division is valued on a DCF basis, discounting free cash flows to the firm by a 7.3% WACC and incorporating a long term growth rate for Malaysia of 1.5%. We value the Property division at a 25% discount to RNAV. This derives a target price of MYR4.40. The benchmark index for this stock is the FBMKLCI index.

Risks that may impede the achievement of the target price

Downside risks to our target price include 1) Prolonged pandemic-linked loss of consumer confidence and spending, reducing the demand for packaging products and property, 2) Environmental regulations prohibiting use of certain packaging materials manufactured by the company, 3) Elevated container freight rates and global supply chain issues impacting imports of raw materials and export demand and 4) Extended MCOs in Malaysia impacting manufacturing processes and property construction and sales schedules .

ESG

Scientex's sustainability statement, "To Grow The Scientex Community for a Better Tomorrow", forms a clear reflection of its commitment to sustainability that extends beyond the products it creates. Providing for the needs of its customers, whether in protection, convenience, hygiene and food or product waste reduction in packaging or through providing affordable yet quality homes to Malaysian house buyers. We ascribe a total score of 3.5 (out of 5) for Scientex which comprises of the following: Environment: Score of 3 (out of 5), given its exposure in plastics. However, we take note on its effort to reduce wastage, which has continued to see an improvement overall. Social: Score of 4 (out of 5) given its ongoing engagement with communities such as charity work and environmental awareness campaigns. Noteworthy to point out is that the company remains committed on the new launches of affordable homes in immediate to longer term. Governance: Score of 3 (out of 5) to reflect the lack of gender diversity in its board composition. The company has also been on an acquisition trail for both the packaging and property side in recent years, although there has not been any related party transactions, we think investors should remain cautious on future transactions, if such issues were to emerge. Our score, to some degree is also reflective to the ownership of the company, which are majority family while the free float is 35%.

Fig. 1: SCI MK : result review

MYRmn unless indicated otherwise

			%chg				%chg				%chg		As a % of full	
	2Q22	1Q23	2Q23	q-q	y-y	1H22	1H23	y-y	FY22	FY23F	y-y	FY22	FY23F	
P&L statement														
Packaging	693	716	655	-9%	-5%	1,371	1,371	0%	2,861	2,852	0%	48%	48%	
Property	259	314	323	3%	25%	509	637	25%	1,124	1,313	17%	45%	49%	
Revenue	952	1,030	978	-5%	3%	1,880	2,008	7%	3,985	4,165	5%	47%	48%	
Costs	(788)	(850)	(803)	-6%	2%	(1,567)	(1,652)	5%	(3,295)	(3,429)	4%	48%	48%	
EBITDA	164	180	176	-2%	7%	314	356	13%	690	736	7%	45%	48%	
Depreciation	(29)	(30)	(31)	2%	8%	(57)	(61)	7%	(114)	(121)	6%	50%	51%	
EBIT	135	150	145	-3%	7%	256	294	15%	576	615	7%	44%	48%	
Finance income	0	1	1	-9%	14%	1	1	-1%	2	1	-31%	54%	78%	
Finance costs	(5)	(8)	(10)	22%	99%	(9)	(18)	93%	(20)	(36)	75%	45%	50%	
PBT	130	142	136	-5%	4%	248	278	12%	557	589	6%	45%	47%	
Tax	(25)	(23)	(29)	25%	16%	(47)	(52)	11%	(116)	(113)	-2%	41%	46%	
MI	(5)	(6)	(6)	-4%	15%	(11)	(12)	16%	(23)	(26)	16%	47%	46%	
Core PATAMI	100	113	100	-11%	0%	190	213	12%	419	450	7%	45%	47%	
EI	(6)	(6)	6	nm	nm	6	0	nm	(9)	-	nm	nm	nm	
Reported PATAMI	94	107	106	-1%	13%	197	213	9%	410	450	10%	48%	47%	
Margins (%)														
Core PATAMI	10.5%	10.9%	10.3%	-0.7	-0.3	10.1%	10.6%	0.5	10.5%	10.8%	0.3	96%	98%	
EBIT	14.2%	14.5%	14.8%	0.3	0.6	13.6%	14.7%	1.0	14.4%	14.8%	0.3	94%	99%	
EBITDA	17.2%	17.5%	18.0%	0.5	0.8	16.7%	17.7%	1.0	17.3%	17.7%	0.4	96%	100%	
Effective tax rate	19.3%	16.4%	21.5%	5.1	2.2	19.1%	18.9%	-0.2	20.8%	19.2%	-1.6	92%	98%	
Reported Segment Operating Profit														
Packaging	54	57	58	2%	9%	118	115	-3%						
Property	72	86	89	3%	23%	141	176	25%						
	126	143	147	3%	17%	259	291	12%						
Packaging margin	7.7%	8.0%	8.9%	1pp	1.2pp	8.6%	8.4%	-0.2pp						
Property margin	27.9%	27.5%	27.6%	0pp	-0.3pp	27.6%	27.6%	-0.1pp						
	13.2%	13.9%	15.1%	1.1pp	1.9pp	13.8%	14.5%	0.7pp						

Source: Company data, Nomura estimates

Fig. 2: SCI MK: Old vs new estimates

MYRmn

	Old estimates				New estimates			%		
	2,021	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Revenue	3,656	4,630	4,811		4,165	4,740	4,740	-10%	-1%	
EBITDA	704	830	890		736	848	848	-11%	-5%	
Core PATAMI	454	526	576		450	521	521	-15%	-10%	

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

I, Ahmad Maghfur Usman, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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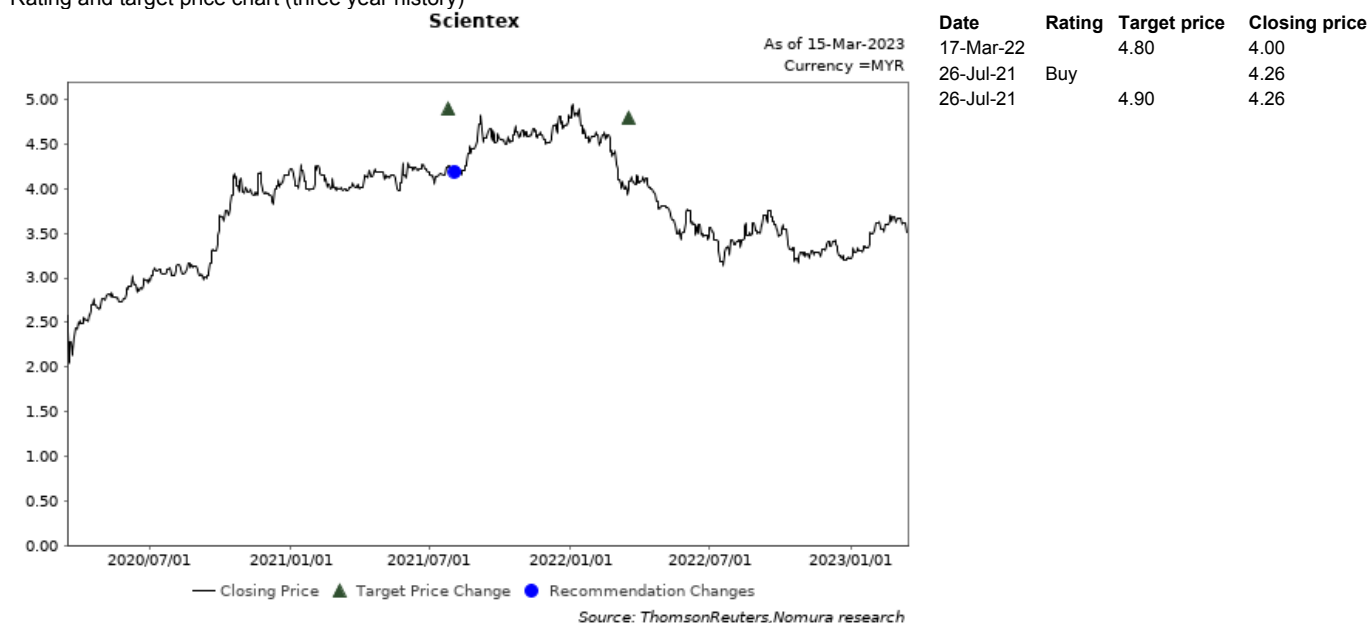
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Scientex	SCI MK	MYR 3.51	15-Mar-2023	Buy	N/A	

Scientex (SCI MK)

MYR 3.51 (15-Mar-2023) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

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Online availability of research and conflict-of-interest disclosures

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As at 31 December 2022.

*The Nomura Group as defined in the Disclaimer section at the end of this report.

** As defined by the EU Market Abuse Regulation

Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as '**Not rated**' or shown as '**No rating**' are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

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A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as '**Not rated**' or shown as '**N/A**' are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

Target Price

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