

16 March 2023

Consumer Non-cyclical | Packaging

## Scientex (SCI MK)

**Buy** (Maintained)

### Higher Property Contribution Drives Earnings; BUY

|                              |                     |
|------------------------------|---------------------|
| Target Price (Return):       | MYR3.91 (+11%)      |
| Price (Market Cap):          | MYR3.51 (USD1,214m) |
| ESG score:                   | 3.20 (out of 4)     |
| Avg Daily Turnover (MYR/USD) | 1.33m/0.30m         |

- **Keep BUY, with new TP of MYR3.91 from MYR3.95, 11% upside and c.3% yield.** Scientex reported 2QFY22 (Jul) results, which were below our and consensus expectations mainly due to lower-than-expected sales from the packaging segment. Regardless, we continue to like this stock for its attractive valuation and solid long-term prospects, backed by a steady demand for affordable housing and its leading position in the plastic packaging segment. This report marks the transfer of coverage to Syahril Hanafiah.

- **Slightly below expectations.** 2QFY23 net profit rose 13% YoY to MYR106.2m, bringing 1HFY23 core earnings to MYR213.3m (+8.6% YoY). This came slightly below our and consensus estimates, at 45% and 44%. The main deviation mainly came from lower-than-expected sales from the packaging segment. However, 1HFY23 EBIT margins improved to 14.5% (1HFY22: 13.8%) on higher contributions from the property unit.

- **Packaging segment's operating profit rose 9% YoY in 2QFY23** despite a 5% YoY decline in revenue. This was mainly due to a better product mix during the period with more consumer packaging products (of higher margins) being sold relative to industrial products. As a result, the packaging segment's operating margin improved to 8.9% in 2QFY23 from 7.7% in 2QFY22. However, its 1HFY23 operating profit dropped 3% YoY due to higher operating costs and weakening industrial packaging sales.

- **Property segment's 1HFY23 operating profit rose 25% YoY**, as the main bottleneck – authority approval process – has improved and expedited during the period. This is coupled with strong take-up rates for the new launches. Meanwhile, the construction progress on its ongoing projects has been steady. In 1HFY23, a total of MYR1.15bn of properties were launched with a take-up rate of 70% – a stark improvement from MYR410m of properties launched in 1HFY22.

- **Outlook.** In the coming quarters, we may see the packaging segment's revenue growth being dragged mainly by the industrial packaging segment in light of waning global demand, while consumer plastic packaging sales is expected to remain robust. On the property side, we are optimistic that Scientex is on track to achieve its property launch target of MYR2bn for FY23. Hence, we continue to expect the property segment to be the main earnings contributor in the coming quarters.

- **Maintain BUY with new MYR3.91 TP** after cutting our FY23F-24F earnings by 0.3-4.8% as we lower packaging utilisation rates. This is in view of the slower industrial packaging demand and increase in the property segment's revenue in light of the improved construction progress. Regardless, valuation remains attractive, with the stock trading at -0.5SD 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.

#### Analyst

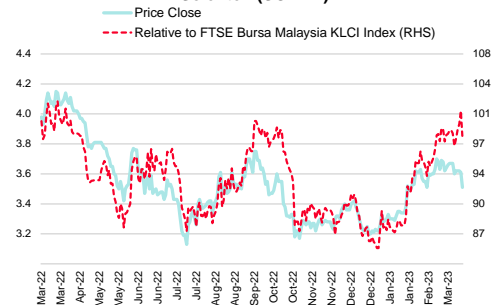
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#### Share Performance (%)

|                            | YTD         | 1m    | 3m   | 6m    | 12m    |
|----------------------------|-------------|-------|------|-------|--------|
| Absolute                   | 9.0         | (2.2) | 6.4  | (6.4) | (11.8) |
| Relative                   | 15.1        | 3.5   | 10.7 | (2.1) | (1.9)  |
| 52-wk Price low/high (MYR) | 3.13 – 4.15 |       |      |       |        |

#### Scientex (SCI MK)



Source: Bloomberg

| Forecasts and Valuation         | Jul-21 | Jul-22 | Jul-23F | Jul-24F | Jul-25F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm)           | 3,656  | 3,985  | 4,023   | 4,356   | 4,561   |
| Recurring net profit (MYRm)     | 462    | 408    | 453     | 533     | 599     |
| Recurring net profit growth (%) | 17.7   | (11.7) | 11.1    | 17.6    | 12.3    |
| Recurring P/E (x)               | 11.77  | 13.34  | 12.01   | 10.21   | 9.09    |
| P/B (x)                         | 1.9    | 1.8    | 1.6     | 1.4     | 1.3     |
| P/CF (x)                        | 7.78   | 7.37   | 10.88   | 7.85    | 7.09    |
| Dividend Yield (%)              | 2.4    | 2.6    | 2.8     | 3.4     | 3.7     |
| EV/EBITDA (x)                   | 8.96   | 9.68   | 9.30    | 8.01    | 7.17    |
| Return on average equity (%)    | 16.8   | 13.7   | 13.9    | 14.9    | 15.1    |
| Net debt to equity (%)          | 28.3   | 29.6   | 31.8    | 29.4    | 25.8    |

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 with 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

|  |                                     |               |               |                |                |                |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Asia</b>  | <b>Financial summary (MYR)</b>      | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
| Malaysia   | Recurring EPS                       | 0.30          | 0.26          | 0.29           | 0.34           | 0.39           |
| Consumer Non-cyclical  | DPS                                 | 0.08          | 0.09          | 0.10           | 0.12           | 0.13           |
| <b>Scientex</b>  | BVPS                                | 1.87          | 2.01          | 2.20           | 2.42           | 2.68           |
| SCI MK   | Return on average equity (%)        | 16.8          | 13.7          | 13.9           | 14.9           | 15.1           |
| Buy  |                                     |               |               |                |                |                |
|  | <b>Valuation metrics</b>            | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
| <b>Valuation basis</b>   | Recurring P/E (x)                   | 11.77         | 13.34         | 12.01          | 10.21          | 9.09           |
| We use SOP valuation to derive our TP  | P/B (x)                             | 1.9           | 1.8           | 1.6            | 1.4            | 1.3            |
|  | FCF Yield (%)                       | 10.6          | 10.2          | 5.5            | 9.1            | 10.4           |
| <b>Key drivers</b>   | Dividend Yield (%)                  | 2.4           | 2.6           | 2.8            | 3.4            | 3.7            |
| i. Ongoing capacity expansion of its plastic segment;  | EV/EBITDA (x)                       | 8.96          | 9.68          | 9.30           | 8.01           | 7.17           |
| ii. Venture into new film products that bear exciting market opportunities locally;  | EV/EBIT (x)                         | 10.59         | 11.67         | 11.25          | 9.52           | 8.46           |
| iii. Ongoing property launches.  |                                     |               |               |                |                |                |
|  | <b>Income statement (MYRm)</b>      | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
| <b>Key risks</b>   | Total turnover                      | 3,656         | 3,985         | 4,023          | 4,356          | 4,561          |
| i. Changes in demand for flexible packaging products and affordable homes  | Gross profit                        | 843           | 845           | 877            | 1,011          | 1,111          |
| ii. Sharp change in raw material prices  | EBITDA                              | 717           | 673           | 721            | 842            | 938            |
|  | Depreciation and amortisation       | (110)         | (114)         | (125)          | (134)          | (143)          |
|  | Operating profit                    | 606           | 559           | 596            | 708            | 795            |
|  | Net interest                        | (11)          | (20)          | (21)           | (31)           | (34)           |
|  | Pre-tax profit                      | 601           | 548           | 589            | 693            | 778            |
|  | Taxation                            | (115)         | (116)         | (112)          | (132)          | (148)          |
|  | Reported net profit                 | 457           | 410           | 453            | 533            | 599            |
|  | Recurring net profit                | 462           | 408           | 453            | 533            | 599            |
| <b>Company Profile</b>   |                                     |               |               |                |                |                |
| 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. | <b>Cash flow (MYRm)</b>             | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
|  | Change in working capital           | 94            | 176           | (109)          | (17)           | (22)           |
|  | Cash flow from operations           | 700           | 738           | 500            | 693            | 768            |
|  | Capex                               | (125)         | (185)         | (200)          | (200)          | (200)          |
|  | Cash flow from investing activities | (776)         | (668)         | (500)          | (500)          | (500)          |
|  | Dividends paid                      | (144)         | (153)         | (155)          | (186)          | (202)          |
|  | Cash flow from financing activities | (93)          | (123)         | (25)           | (67)           | (86)           |
|  | Cash at beginning of period         | 413           | 243           | 191            | 167            | 293            |
|  | Net change in cash                  | (170)         | (52)          | (24)           | 126            | 182            |
|  | Ending balance cash                 | 243           | 191           | 167            | 293            | 475            |
|  | <b>Balance sheet (MYRm)</b>         | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
|  | Total cash and equivalents          | 243           | 191           | 167            | 293            | 475            |
|  | 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         | 5,844          | 6,429          | 7,044          |
|  | 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         | 2,213          | 2,422          | 2,609          |
|  | Total equity                        | 3,097         | 3,308         | 3,631          | 4,006          | 4,435          |
|  | Total liabilities & equity          | 5,100         | 5,475         | 5,844          | 6,429          | 7,044          |
|  | <b>Key metrics</b>                  | <b>Jul-21</b> | <b>Jul-22</b> | <b>Jul-23F</b> | <b>Jul-24F</b> | <b>Jul-25F</b> |
|  | Revenue growth (%)                  | 3.9           | 9.0           | 0.9            | 8.3            | 4.7            |
|  | Recurrent EPS growth (%)            | 17.7          | (11.7)        | 11.1           | 17.6           | 12.3           |
|  | Gross margin (%)                    | 23.1          | 21.2          | 21.8           | 23.2           | 24.4           |
|  | Operating EBITDA margin (%)         | 19.6          | 16.9          | 17.9           | 19.3           | 20.6           |
|  | Net profit margin (%)               | 12.5          | 10.3          | 11.3           | 12.2           | 13.1           |
|  | Dividend payout ratio (%)           | 28.3          | 34.1          | 34.2           | 34.9           | 33.7           |
|  | Capex/sales (%)                     | 3.4           | 4.6           | 5.0            | 4.6            | 4.4            |
|  | Interest cover (x)                  | 54.4          | 27.3          | 28.1           | 23.0           | 23.4           |

Source: Company data, RHB

## Results At a Glance

Figure 1: 1HFY23 results review

| FYE Jul (MYRm)                    | 2Q22         | 1Q23           | 2Q23         | QoQ (%)      | YoY (%)     | 1HFY22         | 1HFY23         | YoY (%)     | Comments   |
|-----------------------------------|--------------|----------------|--------------|--------------|-------------|----------------|----------------|-------------|--|
| <b>Revenue</b>                    | <b>952.0</b> | <b>1,029.9</b> | <b>978.4</b> | <b>(5.0)</b> | <b>2.8</b>  | <b>1,880.2</b> | <b>2,008.3</b> | <b>6.8</b>  | Due to higher revenue from the property segment  |
| <b>Adjusted EBITDA</b>            | <b>154.5</b> | <b>173.8</b>   | <b>178.3</b> | <b>2.6</b>   | <b>15.4</b> | <b>316.4</b>   | <b>352.1</b>   | <b>11.3</b> |  |
| <i>Adjusted EBITDA margin (%)</i> | 16.2         | 16.9           | 18.2         |              |             | 16.8           | 17.5           |             |  |
| Depreciation                      | (28.7)       | (30.4)         | (30.9)       | 1.7          | 7.9         | (57.3)         | (61.4)         | 7.0         |  |
| <b>Adjusted operating profit</b>  | <b>125.8</b> | <b>143.4</b>   | <b>147.3</b> | <b>2.8</b>   | <b>17.1</b> | <b>259.0</b>   | <b>290.7</b>   | <b>12.2</b> | Higher contribution from the property segment (+25% YoY) offset by lower contribution from the packaging segment (-3% YoY) |
| <i>Operating margin (%)</i>       | 13.2         | 13.9           | 15.1         |              |             | 13.8           | 14.5           |             |  |
| El/others                         | 0.0          | 0.0            | 0.1          | 1,177.8      | 150.0       | 0.1            | 0.1            | 138.5       |  |
| <b>Reported operating profit</b>  | <b>125.9</b> | <b>143.4</b>   | <b>147.5</b> | <b>2.8</b>   | <b>17.2</b> | <b>259.1</b>   | <b>290.8</b>   | <b>12.3</b> |  |
| Interest expense                  | (4.9)        | (8.0)          | (9.8)        | 21.5         | 99.1        | (9.2)          | (17.8)         | 92.7        |  |
| Share of associates               | 3.1          | 1.4            | 3.8          | 177.2        | 21.4        | 4.6            | 5.1            | 10.4        |  |
| <b>Reported PBT</b>               | <b>124.1</b> | <b>136.7</b>   | <b>141.5</b> | <b>3.5</b>   | <b>14.0</b> | <b>254.5</b>   | <b>278.2</b>   | <b>9.3</b>  |  |
| Tax                               | (25.1)       | (23.3)         | (29.1)       | 25.1         | 16.0        | (47.3)         | (52.4)         | 10.7        |  |
| <i>Effective tax rate (%)</i>     | 20.3         | 17.0           | 20.6         |              |             | 18.6           | 18.9           |             |  |
| Minority interest                 | (5.2)        | (6.2)          | (6.0)        | (3.5)        | 14.7        | (10.6)         | (12.3)         | 15.9        |  |
| <b>Net profit</b>                 | <b>93.7</b>  | <b>107.2</b>   | <b>106.3</b> | <b>(0.8)</b> | <b>13.5</b> | <b>196.6</b>   | <b>213.5</b>   | <b>8.6</b>  | Below our and consensus expectations, at 44-45%  |
| <b>Core profit</b>                | <b>93.6</b>  | <b>107.2</b>   | <b>106.2</b> | <b>(0.9)</b> | <b>13.4</b> | <b>196.5</b>   | <b>213.3</b>   | <b>8.6</b>  |  |
| <i>Core net margin (%)</i>        | 9.8          | 10.4           | 10.9         |              |             | 10.5           | 10.6           |             |  |

Source: Company data, RHB

Figure 2: SOP valuation

| Divisions     | Method                              | Valuation (MYRm) |
|---------------|-------------------------------------|------------------|
| Manufacturing | 12x P/E on FY24F earnings           | 2,634.2          |
| Property      | RNAV (discount of 50%)              | 3,311.9          |
|               |                                     | 0.0              |
|               | <b>Total intrinsic value (MYRm)</b> | <b>5,946.1</b>   |
|               | Fully diluted share base (m)        | 1,550.9          |
|               | <b>Intrinsic value per share</b>    | <b>3.83</b>      |
|               | + 4% ESG premium                    | 0.08             |
|               | <b>TP (MYR)</b>                     | <b>3.91</b>      |

Source: RHB

## Recommendation Chart

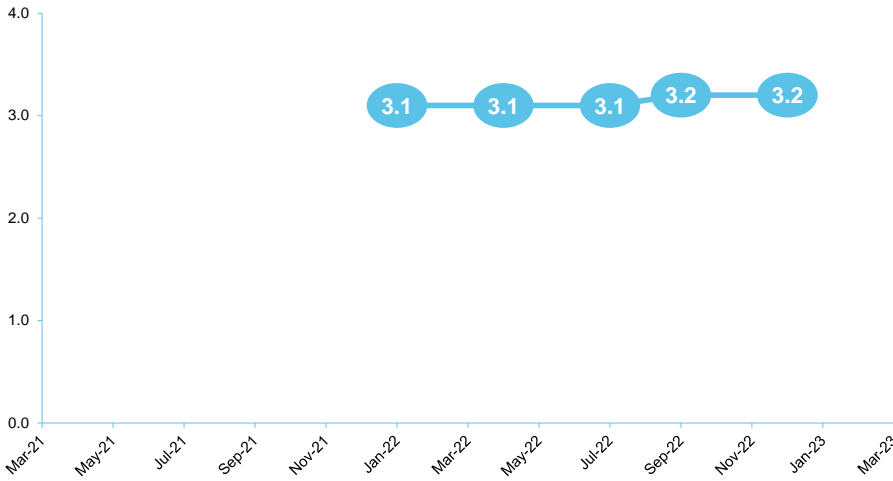


Source: RHB, Bloomberg

| Date       | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2022-12-09 | Buy            | 4.0          | 3.4   |
| 2022-09-30 | Buy            | 4.3          | 3.5   |
| 2022-06-14 | Neutral        | 4.1          | 3.6   |
| 2022-03-17 | Buy            | 4.7          | 4.0   |
| 2022-01-13 | Neutral        | 4.9          | 4.9   |
| 2020-12-18 | Neutral        | 11.5         | 4.1   |
| 2020-09-21 | Neutral        | 10.3         | 3.3   |
| 2020-07-24 | Neutral        | 9.8          | 3.1   |
| 2018-09-21 | Neutral        | 7.4          | 2.9   |
| 2018-06-21 | Neutral        | 7.4          | 2.3   |
| 2018-06-21 | Neutral        | 7.4          | 2.3   |
| 2018-03-23 | Neutral        | 8.7          | 2.7   |
| 2018-02-26 | Neutral        | 9.1          | 2.8   |

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

## RHB Guide to Investment Ratings

|                     |  |
|---------------------|--|
| <b>Buy:</b>         | Share price may exceed 10% over 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>Neutral:</b>     | Share price may fall within the range of +/- 10% over the next 12 months                         |
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| <b>Not Rated:</b>   | Stock is not within regular research coverage  |

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