

Scientex Berhad

Challenging Outlook Ahead

TP: RM4.04 (+15.1%)

Last Traded: RM3.51

Buy (ESG: ★★★)

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Review

- Scientex Berhad's 1HFY23 core net profit of RM213.1mn (+12.1% YoY) came in within ours but below consensus expectations, accounting for 45% and 44% of full-year estimates respectively.
- Manufacturing.** 1HFY23 operating profit slipped 2.7% YoY to RM115.2mn, despite revenue flat at RM1.38bn. This was mainly due to higher input costs from electricity tariff hike and minimum wage. 2QFY23 revenue declined 5.4% YoY driven by lower sales from industrial packaging. Nonetheless, quarterly operating profit advanced 8.7% YoY supported by better product mix of consumer packaging segment.
- Property.** 1HFY23 revenue surged 25.1% YoY to RM637.2mn. This was mainly attributed to higher sales and steady constructional progress from ongoing projects and strong take up rates for new launches. As a result, operating profit soared 24.8% YoY to RM175.6mn. Quarterly revenue and operating profit grew 24.7% and 23.5% YoY respectively due to similar reasons above.
- 2QFY23 vs 1QFY23.** After stripping out extraordinary items including foreign exchange gain of RM5.5mn in 2QFY23, Scientex's core profit plunged 10.9% QoQ to RM100.4mn. Revenue declined 5.0% QoQ to RM978.4mn as revenue contribution from the Manufacturing segment was 8.5% lower QoQ which more than offset the 3.0% QoQ improvement for Property segments.
- No dividend was declared during the quarter under review.

Impact

- No changes to our earnings forecasts.

Outlook

- Manufacturing.** We believe the group's recent acquisition of Taisei Lamick Malaysia would provide a synergistic growth opportunity by widening the group's packaging solutions offering and allowing the group to be a one-stop packaging solution provider over the long-term. However, the near-term growth would remain challenging with the group expecting demand to be weaker due to on-going uncertainties. We believe sales for consumer packaging would remain resilient while industrial packaging will face headwinds from lower global demand and slowdown in economy. Fortunately, we expect margin compression to alleviate partially from the continuous moderation in resin prices.
- Property.** The latest pause in OPR hike by Bank Negara comes as a welcome relief for the group. Scientex believes the current financing cost remains affordable as seen in robust demand for its property launches. The group plans property launches of RM2bn in FY23, which is the same as the initial target the group had in FY22. Note that the property

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.1
Market Cap (RMmn)	5,444.2
52-wk Hi/Lo (RM)	4.18/3.02
12-mth Avg Daily Vol ('000 shrs)	594.2
Estimated Free Float (%)	33.7
Beta	0.5
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY23	FY24
Forecast Revision (%)	-	-
Net profit (RMmn)	474.4	583.1
Consensus	482.7	552.1
TA's / Consensus (%)	98.3	105.6
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	3.97	

Financial Indicators

	FY23	FY24
Net debt/ equity (%)	31.2	25.3
ROE (%)	14.5	16.0
ROA (%)	8.3	9.4
NTA/Share (RM)	2.0	2.3
Price/ NTA (x)	1.8	1.5

Scorecard

	% of FY23	
vs TA	45	Within
vs Consensus	44	Below

Share Performance (%)

Price Change	SCIENTX	FBM KLCI
1 mth	(2.2)	(5.7)
3 mth	6.4	(4.3)
6 mth	(6.4)	(4.3)
12 mth	(11.8)	(9.9)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

launches in FY22 was RM1.2bn. Going forward, we anticipate headwinds to the group's property sales due to inflationary pressure and anticipated resumption in rate hike by Bank Negara Malaysia.

Valuation

- We roll forward our base year to CY24 and lower our PE valuation for manufacturing and property segment to 14x and 10x from 16x and 12x respectively. Hence, we slightly lower our target price to **RM4.04/share** (previously RM4.10/share) based SOP valuation. Maintain **Buy**.

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	555.7	645.0	790.1	837.2
Reported Net Profit	457.2	409.9	474.4	583.1	616.0
Adj. Net profit	453.5	417.2	474.4	583.1	616.0
Basic/Diluted 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)	11.9	13.3	11.5	9.3	8.8
Net Dividend (sen)	9.0	9.0	11.0	12.0	12.0
Dividend Yield (%)	2.6	2.6	3.1	3.4	3.4

Table 2: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RM mn)
Manufacturing	CY24 EPS PER 14x	3,524.2
Property	CY24 EPS PER 10x	3,450.8
Equity value (RMmn)		6,975.0
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		7,419.1
Conglomerate Discount		10%
Total SOP		6,677.20
Share cap (mn)		1,551.1
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.3
Target Price (RM)		4.04

Table 3: 2QFY23 Results Analysis (RM mn)

FYE July (RM mn)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	952.0	1,029.9	978.4	(5.0)	2.8	1,880.2	2,008.3	6.8
~ Manufacturing	692.8	716.0	655.1	(8.5)	(5.4)	1,370.9	1,371.1	0.0
~ Property	259.2	313.9	323.3	3.0	24.7	509.3	637.2	25.1
Interest Expense	(4.9)	(8.0)	(9.8)	21.5	99.1	(9.2)	(17.8)	92.7
Investing Results	3.1	1.4	3.8	>100	21.4	4.6	5.1	10.4
Depreciation	(27.8)	(29.5)	(30.0)	1.7	7.9	(55.6)	(59.5)	6.9
EBITDA	153.7	172.9	177.5	2.7	15.5	314.7	350.4	11.3
Operating Profit	125.9	143.4	147.5	2.8	17.2	259.1	290.8	12.3
~ Manufacturing	53.7	56.9	58.3	2.4	8.7	118.4	115.2	(2.7)
~ Property	72.2	86.5	89.1	3.1	23.5	140.7	175.6	24.8
EI	(6.4)	(5.5)	5.9	(>100)	(>100)	6.4	0.4	(94.4)
Reported PBT	124.1	136.7	141.5	3.5	14.0	254.5	278.2	9.3
Taxation	(25.2)	(23.3)	(29.1)	25.1	15.6	(47.4)	(52.4)	10.5
Minority Interest	(5.2)	(6.2)	(6.0)	(3.5)	14.7	(10.6)	(12.3)	15.9
Reported Profit	93.6	107.2	106.3	(0.8)	13.6	196.5	213.5	8.7
Adj. Net Profit	100.0	112.7	100.4	(10.9)	0.4	190.1	213.1	12.1
EPS (sen)	6.0	6.9	6.9	(0.8)	13.6	12.7	13.8	8.6
Adj EPS (sen)	6.4	7.3	6.5	(10.9)	0.4	12.3	13.7	12.1
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBIT Margin (%)	13.2	13.9	15.1	1.1	1.9	13.8	14.5	0.7
~ Manufacturing	7.7	8.0	8.9	1.0	1.2	8.6	8.4	(0.2)
~ Property	27.9	27.5	27.6	0.0	(0.3)	27.6	27.6	(0.1)
PBT Margin (%)	13.0	13.3	14.5	1.2	1.4	13.5	13.9	0.3
Core Net Margin (%)	10.5	10.9	10.3	(0.7)	(0.2)	10.1	10.6	0.5
Tax rate (%)	20.3	17.0	20.6	3.6	0.3	18.6	18.9	0.2

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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 Thursday, March 16, 2023, 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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