

21 September 2023

Scientex

FY23 Anchored by Property Profits

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SCIENTX's FY23 results met expectations. Its FY23 core net profit grew 17% YoY as stronger property profits more than offset weaker showing from the plastic packaging division. The outlook for its plastic packaging segment will remain weak amidst the global economic slowdown, while the demand for its affordable homes will remain stable. We maintain our FY24F numbers but raise our TP by 8% to RM3.23 (from RM2.99). Maintain UNDERPERFORM.

Within expectations. Its FY23 core net profit of RM461.6m met expectations.

Results' highlights. YoY, its FY23 turnover increased 2%, mainly driven by a 29% rise in property turnover, partially offset by an 8% decline in packaging turnover. The boost in property turnover was attributed to: (i) higher sales and healthy construction progress of affordable property developments, and (ii) strong take-up of more than 80% for its new project launches. Its packaging segment, on the other hand, faced reduced demand for its products due to a softer global market amidst the ongoing economic slowdown.

Its FY23 core net profit grew 17%, which was contributed by better performance from its property segment (+26% YoY), as it experienced higher sales and steady construction progress from its ongoing property development projects, coupled with ease of hurdle in obtaining authority approval for these projects. However, the packaging profits dropped by 13% due to rising operating costs, particularly higher energy costs.

QoQ, its 4QFY23 turnover improved 7%, primarily attributed to higher progress billings from its ongoing projects in Bandar Jasin, Kundang and Tasek Gelugor. Its 4QFY23 core net profit increased by a larger 20%, mainly driven by a 15% increase in property profits. Note that we excluded the goodwill impairment on Myanmar operations of RM22.7m in deriving 4QFY23 core PATAMI since it is a non-recurring item.

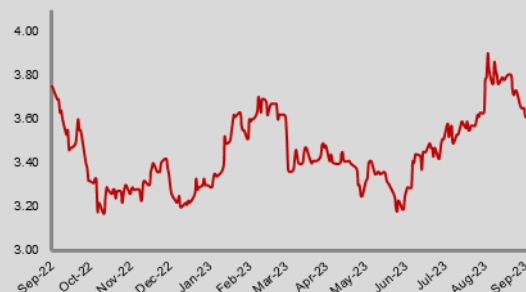
The key takeaways from its results briefing are as follows:

1. Its new automated bag making machine at its Ayer Keroh Plant is anticipated to commence operations in 4QCY23, enhancing its competitiveness in pet food packaging production. This new machine is expected to reduce labour requirements and improve production efficiency (e.g. able to reduce workforce from 90 to 10 employees for a similar capacity).
2. The company is actively working on its rooftop solar photovoltaic (PV) panel project to mitigate energy cost pressures, as well as to reduce carbon footprint as part of its sustainability efforts. The installation of its second solar PV panel project at its Klang manufacturing plant is expected to be completed in 4QCY23. This initiative aims to generate renewable energy to cover 10% to 15% of the plant's electricity requirements.
3. Its unbilled property sales stand at RM1.76b vs. RM1.6b in 2QFY23. It is optimistic of improved sales supported by: (i) resilient demand for its affordable housing, and (ii) new launches in Sungai Dua, Penang. The first phase of Sungai Dua Project, consisting of 309 units of double-storey terrace houses was successfully launched in June 2023.

UNDERPERFORM ↔

Price : RM3.68
Target Price : RM3.23 ↑

Share Price Performance



KLCI	1,451.56
YTD KLCI chg	-2.9%
YTD stock price chg	14.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	5,707.9
Shares Outstanding	1,551.1
52-week range (H)	3.97
52-week range (L)	3.16
3-mth avg daily vol:	411,350
Free Float	33%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	10.4%
Scientex Leasing Sdn Bhd	9.1%

Summary Earnings Table

FYE Jul (RM m)	2023A	2024F	2025F
Turnover	4076.9	4745.2	4906.9
EBIT	589.6	760.2	786.1
PBT	568.7	724.0	749.9
PATAMI	438.1	546.2	565.7
Core PATAMI	461.6	546.2	565.7
Consensus (NP)	-	525.4	577.0
Earnings Revision	-	-	NEW
Core EPS (sen)	28.3	35.2	36.5
Core EPS growth (%)	11.7	18.3	3.6
NDPS (sen)	10.0	10.6	10.9
BVPS (RM)	2.2	2.4	2.7
Core PER (x)	12.4	10.0	9.6
PBV (x)	1.6	1.4	1.3
Net Gearing (x)	0.2	0.3	0.2
Net Div. Yield (%)	2.8	3.0	3.1

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4. It has entered into a joint venture with Mustika Land (Indonesian real estate developer) and Creed Group (Japanese real estate investment group) to build affordable homes in Jakarta, Indonesia. The project is expected to start construction in early 2024, with Phase 1 development size of 12 acres. The GDV for this project is estimated at approx. USD19m. This strategic move aims to expand SCIENTX's footprint in the vast Indonesian affordable housing market.
5. SCIENTX provided a RM1b capex guidance for FY24, with the main focus being its land bank expansion, as well as acquisition of new packaging machinery.

Outlook. SCIENTX is hopeful for better performance from its packaging segment in FY24, as customers' inventories are expected to continue depleting, potentially signaling upcoming restocking activities. Nevertheless, we maintain a cautious outlook on its packaging segment as we believe this uptick is more likely to be a cyclical improvement rather than a strong structural rebound. The short-term prospects for the plastic packaging segment are expected to remain challenging, as there is still no significant pick-up in demand in the global market due to weakened consumer confidence. Not helping either are the elevated operating costs, particularly higher energy and labour costs.

On a positive note, SCIENTX anticipates higher property sales in FY24 as they continue to see robust demand for its newly launched affordable homes in Peninsular Malaysia. Notably, the recent land acquisitions in Jenjarom, Selangor, as well as Tebrau and Kulai in Johor, are expected to be completed in FY24, which will contribute to improved performance in the near future. We align with this optimistic outlook for its property segment, primarily due to the impressive take-up rate of over 80% for its new affordable housing launches.

Forecasts. We maintain our FY24F earnings and introduce our FY25F numbers.

We raise our SoP-TP by 8% to RM3.23 (from RM2.99) after we recalibrate our valuation for its property business (see Page 4). Our revised TP values its packaging business at an unchanged 12x FY24F PER, at a premium to sector's average forward PER of 10x to reflect its size, being one of the largest players in the region. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We like SCIENTX for: (i) the expanding global market share of the local plastic packaging industry due to cost advantages compared to overseas competitors, (ii) its strong market position, being the largest flexible plastic packaging manufacturer in the region, and (iii) the robust demand for its affordable housing with overwhelming take-up achieved. However, its near-term demand outlook for packaging products is weighed down by the global economic slowdown and we deem its valuations rich. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a stronger and sooner recovery in the global economy, (ii) easing of input costs, and (iii) easing of interest rates and inflation, resulting in strong demand for its properties.

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Financial Performance								
FYE July (RM m)	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	FY23	FY22	YoY Chg
Turnover	1071.5	997.1	7%	1111.3	-4%	4076.9	3985.3	2%
EBIT	148.9	149.8	-1%	178.7	-17%	589.6	561.0	5%
Interest income	4.1	3.4	24%	1.1	276%	12.6	7.7	64%
Finance costs	-7.5	-8.2	-8%	-6.2	22%	-33.5	-20.4	64%
PBT	145.6	145.0	0%	173.6	-16%	568.7	548.3	4%
Taxation	-37.2	-30.1	24%	-42.7	-13%	-119.7	-115.7	3%
Net Profit	108.4	114.8	-6%	130.9	-17%	448.9	432.6	4%
Minority interest	-6.5	5.1	-229%	5.9	-211%	0.7	10.2	-93%
PATAMI	114.9	109.8	5%	125.0	-8%	438.1	409.9	7%
Core PATAMI	136.3	113.3	20%	137.1	-1%	461.6	395.5	17%
EBIT margin	13.9%	15.0%		16.1%		14.5%	14.1%	
PBT margin	13.6%	14.5%		15.6%		13.9%	13.8%	
Core PATAMI margin	12.7%	11.4%		12.3%		11.3%	9.9%	
Effective tax rate	25.5%	20.8%		24.6%		21.1%	21.1%	

Source: Company, Kenanga Research

Segmental Performance								
FYE July (RM m)	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	FY23	FY22	YoY Chg
Turnover								
Packaging	619.7	635.4	-2%	740.8	-16%	2,626.2	2,861.4	-8%
Property	451.8	361.7	25%	370.5	22%	1,450.7	1,123.9	29%
Group Turnover	1071.5	997.1	7%	1111.3	-4%	4,076.9	3,985.3	2%
Segment Results								
Packaging	47.0	44.5	6%	62.6	-25%	206.7	238.0	-13%
Property	124.7	105.4	18%	116.0	7%	405.6	323.0	26%
Group EBIT	171.7	149.8	15%	178.7	-4%	612.3	561.0	9%
EBIT Margin								
Packaging	7.6%	7.0%		8.5%		7.9%	8.3%	
Property	27.6%	29.1%		31.3%		28.0%	28.7%	
Group EBIT Margin	16.0%	15.0%		16.1%		15.0%	14.1%	

Source: Company, Kenanga Research

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SCIENTX's Sum-of-Parts Valuation		
Segment	Value (RM m)	Valuation Basis
Packaging	2,622	12x FY24 PER
Property	2,392	60% discount to RNAV (see the following table)
Total	5,013	
Paid-up Capital (m shares)	1,551	
SoP per share / TP (RM)	3.23	

Source: Kenanga Research

RNAV of SCIENTX's Property Development Projects		
Project	Outstanding GDV (RM m)	NPV of profits (effective)
Scientex Tasek Gelugor	643	148
Scientex Ipoh	164	52
Scientex Rawang	830	154
Scientex Kundang Jaya	1,347	192
Scientex Seremban	810	155
Taman Muzaffar Heights	721	122
Scientex Durian Tunggal	379	125
Scientex Jasin	4,780	783
Taman Scientex Pasir Gudang	97	55
Taman Scientex Kulai	282	73
Taman Mutiara Mas	1,166	165
Taman Scienex Senai	1,984	317
Taman Pulai Mutiara	2,830	568
Scientex Kota Tinggi	233	55
Scientex Sg Petani	500	118
Scientex Sungai Dua	1,700	335
	18,466	3,418
Unbilled Sales (as of Jul-23)	1760	397.1
Property Shareholders Fund		2,164
Total RNAV (RM m)		5,978.8
Discount to RNAV (%)		60%
Discounted RNAV		2,392

Source: Kenanga Research, Company

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld. (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.09	1.80	65.1%	1,036.7	Y	05/2024	11.8	13.9	47.1%	23.7%	9.2	7.8	1.7	19.8%	1.0	0.9%
BM GREENTECH BHD	MP	0.920	0.720	-21.7%	474.7	Y	03/2024	4.5	4.4	65.2%	-2.6%	20.4	20.9	1.8	9.0%	1.8	2.0%
BP PLASTICS HOLDINGS BHD	MP	1.26	1.23	-2.4%	354.7	Y	12/2023	11.8	13.7	7.1%	16.3%	10.7	9.2	1.4	13.6%	5.5	4.4%
HPP HOLDINGS BHD	OP	0.440	0.720	63.6%	170.9	Y	05/2024	4.4	5.5	81.7%	27.2%	10.1	7.9	1.2	12.9%	1.5	3.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.715	0.510	-28.7%	384.2	Y	12/2023	1.3	5.1	-73.6%	279.2%	53.4	14.1	0.4	0.7%	0.0	0.0%
SCIENTEX BHD	UP	3.68	3.23	-12.2%	5,707.9	Y	07/2024	35.2	36.5	18.3%	3.6%	10.5	10.1	1.5	16.0%	10.6	2.9%
SLP RESOURCES BHD	MP	0.850	0.900	5.9%	269.4	Y	12/2023	4.8	5.9	-6.8%	23.8%	17.8	14.4	1.4	7.9%	5.5	6.5%
TECHBOND GROUP BHD	OP	0.440	0.450	2.3%	233.0	Y	06/2024	3.8	4.1	112.8%	9.5%	11.6	10.6	1.3	11.5%	1.5	3.4%
THONG GUAN INDUSTRIES BHD	OP	1.99	3.05	53.3%	784.2	Y	12/2023	23.0	27.7	-17.9%	20.3%	8.6	7.2	0.9	10.2%	4.8	2.4%
Sector Aggregate					9,415.8												
										27.0%	11.5%	10.9	9.8	1.3	11.7%		2.9%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	
	Work Site Safety	★	★	★	
	Usage of Biodegradable Materials	★	★	★	★
	Supply Chain Auditing	★	★	★	
	Energy Efficiency	★	★	★	
OVERALL		★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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