

Scientex Berhad

TP: RM3.95 (+7.3%)

FY23 Results Spot On

Last Traded: RM3.68

Hold (ESG: ★★★)

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Review

- Scientex Berhad (SCIENTX)'s FY23 core earnings met expectations after excluding the one-off items, accounting for 103% and 100% of ours and market's full-year projections, respectively.
- An interim dividend of 5sen/share was proposed for 4QFY23 (4QFY22: 5sen/share), bringing the YTD dividend to 10.0sen/share (FY22: 9.0sen/share).
- YoY:** FY23 revenue rose marginally by 2.3%, driven by higher take up rate in property division, partly offset by lower demand in the manufacturing division due to global economic uncertainty and clients' inventories adjustment. As a result, SCIENTX registered a double-digit core earnings growth of 11.1% in tandem with topline expansion.
- QoQ:** 4QFY23 revenue grew 7.5% compared to the preceding quarter, largely underpinned by strong sales growth in the property segment (+24.9% QoQ), offset by lower contribution from the manufacturing division (-2.5% QoQ). Consequently, the core net profit advanced by a larger magnitude of 19.6%, excluding the one-off expense items. Notably, the company incurred a RM22.7mn goodwill impairment loss in regard to its Myanmar operations in the quarter under review to reflect actual value of the assets, which could be due to local political tension and deteriorating economic conditions.

Impact

- We tone up our FY24/25 earnings forecasts by 3.2%/5.1%, respectively, to reflect brighter outlook in its property segment. We also introduce our FY26 projections, expecting little changed in profit.

Outlook

- Manufacturing.** Despite the cloudy outlook in the packaging industry, we foresee gradual economic improvement that should help mitigating these issues. However, the subdued demand is expected to persist until 1QFY24 due to inventory adjustments made by customers who previously overstocked to hedge against market risks. Notably, the FY23 segmental OP margin should log at 7.9%, excluding the RM22.7mn goodwill impairment loss. Conversely, SCIENTX may not benefit from reduced resin costs, given its primarily cost-plus and contractual order practice. Nonetheless, we anticipate the OP margin recovery through accelerated solar facility adoption at manufacturing sites and automated production to bring down labour and utility costs.
- Property.** We expect its property segment will remain robust on the back of stabilised OPR hikes and inflationary tension. Recap, the take up rate for FY23 stood at c.85% following new GDV launch amounting up to RM2.1bn. In FY24, the company is set to launch affordable housing projects of c.RM2.6bn GDV amidst expanding its landbank with CAPEX

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.1
Market Cap (RMmn)	5,707.9
52-wk Hi/Lo (RM)	3.97/3.16
12-mth Avg Daily Vol ('000 shrs)	402.7
Estimated Free Float (%)	33.4
Beta	0.6
Major Shareholders (%)	
Scientex Holdings & Related	57.8

Forecast Revision

	FY24	FY25
Forecast Revision (%)	3.2	5.1
Net profit (RMm)	540.4	599.4
Consensus	525.4	577.0
TA's / Consensus (%)	102.9	103.9
Previous Rating	Buy (Downgraded)	
Consensus Target Price (RM)	3.93	

Financial Indicators

	FY24	FY25
Net debt/ equity (%)	14.4	10.2
ROE (%)	15.0	15.0
ROA (%)	9.6	9.9
NTA/Share (RM)	2.2	2.5
Price/ NTA (x)	1.6	1.5

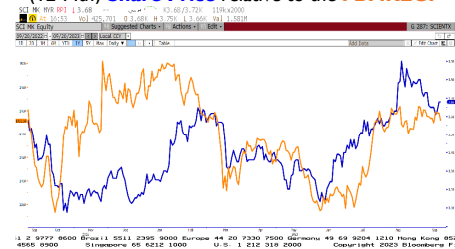
Scorecard

	% of FY23	
vs TA	103	Within
vs Consensus	100	Within

Share Performance (%)

Price Change	SCIENTX	FBM KLCI
1 mth	(3.7)	0.4
3 mth	7.9	4.6
6 mth	9.2	3.5
12 mth	(0.3)	(0.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

allocation of c.RM1bn.

Valuation

- We adjusted our TP to **RM3.95/share** (previously RM3.77/share) based on sum-of-parts valuation, in line with our forecast adjustment. Given that the CY24 total return of 10.7% is below our RRR+5% threshold, we downgrade Scientex to **Hold**.

Table 1: Earnings Summary

FYE July (RM mn)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	3,985.3	4,076.9	4,283.7	4,642.4	4,834.9
EBITDA	675.5	621.1	834.0	909.1	916.5
EBIT	561.0	589.6	712.1	784.9	790.1
Reported PBT	548.3	568.7	703.8	779.4	786.0
Adj. PBT	555.7	594.1	703.8	779.4	786.0
Reported Net Profit	409.9	438.1	540.4	599.4	604.8
Adj. Net profit	417.2	463.6	540.4	599.4	604.8
Basic/Diluted EPS (sen)	26.4	28.2	34.8	38.6	39.0
Adj. EPS (sen)	26.9	29.9	34.8	38.6	39.0
PER (x)	13.9	12.3	10.6	9.5	9.4
Net Dividend (sen)	9.0	10.0	12.0	13.0	13.0
Dividend Yield (%)	2.4	2.7	3.3	3.5	3.5

Table 2: 4QFY23 Results Analysis

FYE July (RM mn)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	1,111.3	997.1	1,071.5	7.5	(3.6)	3,985.3	4,076.9	2.3
~ Manufacturing	740.8	635.4	619.7	(2.5)	(16.3)	2,861.4	2,626.2	(8.2)
~ Property	370.5	361.7	451.8	24.9	21.9	1,123.9	1,450.7	29.1
Interest Expense	(6.2)	(8.2)	(7.5)	8.3	(21.6)	(20.4)	(33.5)	(64.1)
Investing Results	1.1	3.4	4.1	23.7	276.1	7.7	12.6	63.6
Depreciation	(27.3)	(30.9)	(31.5)	(1.9)	(15.5)	(113.5)	(123.9)	(9.1)
EBITDA	206.0	180.8	180.5	(0.2)	(12.4)	674.6	713.5	5.8
Operating Profit	178.7	149.8	148.9	(0.6)	(16.6)	561.0	589.6	5.1
~ Manufacturing	62.6	44.5	47.0	5.7	(25.0)	238.0	184.0	(22.7)
~ Property	116.0	105.4	124.7	18.3	7.5	323.0	405.6	25.6
EI	(4.0)	(4.3)	(21.5)	(398.9)	(439.1)	(7.4)	(25.5)	(246.0)
Reported PBT	173.6	145.0	145.6	0.4	(16.1)	548.3	568.7	3.7
Taxation	(42.7)	(30.1)	(37.2)	(23.5)	12.9	(115.8)	(119.7)	(3.4)
Minority Interest	(5.9)	(5.1)	6.5	228.8	211.1	(22.7)	(10.8)	52.5
Reported Profit	125.0	109.8	114.9	4.7	(8.1)	409.8	438.1	6.9
Adj. Net Profit	129.0	114.1	136.4	19.6	5.8	417.1	463.6	11.1
EPS (sen)	8.1	7.1	7.4	4.7	(8.1)	26.4	28.2	6.9
Adj EPS (sen)	8.3	7.4	8.8	19.6	5.8	26.9	29.9	11.1
DPS (sen)	5.0	5.0	5.0	0.0	0.0	9.0	10.0	11.1
				%-pts	%-pts			%-pts
EBIT Margin (%)	16.1	15.0	13.9	(1.1)	(2.2)	14.1	14.5	0.4
~ Manufacturing	8.5	7.0	7.6	0.6	(0.9)	8.3	7.0	(1.3)
~ Property	31.3	29.1	27.6	(1.5)	(3.7)	28.7	28.0	(0.8)
PBT Margin (%)	15.6	14.5	13.6	(1.0)	(2.0)	13.8	13.9	0.2
Core Net Margin (%)	11.6	11.4	12.7	1.3	1.1	10.5	11.4	0.9
Tax rate (%)	24.6	20.8	25.5	4.8	0.9	21.1	21.1	(0.1)

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RM mn)
Manufacturing	CY24 EPS PER 15x	3,507.6
Property	CY24 EPS PER 10x	3,311.9
Equity value (RM mn)		6,819.5
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		7,263.6
Conglomerate Discount		10%
Total SOP		6,537.27
Share cap (mn)		1,551.1
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.3
Target Price (RM)		3.95

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, September 21, 2023, the analyst, Raymond Ng Ing Yeow, 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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