

### COMPANY RESULTS

#### Scientex (SCI MK)

4QFY23: Ending The Year On A Commendable Note

With a marginal 3.6% yoy decline in revenue, Scientex's 4QFY23 core net profit was 0.3% lower yoy at RM136.9m. This mainly reflects lower sales and margin compression for its manufacturing segment on elevated opex. Positively, the property segment recorded improved sales and higher progress billing in tandem with more launches. Management remains confident that both segments will perform better in FY24. Maintain BUY and target price of RM4.36.

#### 4QFY23 RESULTS

Year to 31 Jul (RMm)	4QFY23	qoq % chg	yoy % chg	FY23	yoy % chg
Turnover	1071.5	7.5	(3.6)	4,076.9	2.3
Manufacturing	619.7	(2.5)	(16.3)	2,626.2	(8.2)
Property	451.8	24.9	21.9	1,450.7	29.1
EBIT	171.6	14.6	(3.9)	612.3	9.1
Manufacturing	47.0	5.7	(25.0)	206.7	(13.2)
Property	124.7	18.3	7.5	405.6	25.6
Finance costs	(7.5)	(8.3)	21.6	(33.5)	64.1
PBT	168.3	16.1	(3.1)	591.4	7.9
Core net profit	136.9	20.5	(0.3)	462.7	8.6

Margins	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	16.0	1.0	(0.1)	15.0	0.9
-Manufacturing	7.6	0.6	(0.9)	7.9	(0.4)
-Property	27.6	(1.5)	(3.7)	28.0	(0.8)
PBT	15.7	1.2	0.1	14.5	0.7
Core net profit	12.8	1.4	0.4	11.3	0.7

Source: Scientex, UOB Kay Hian

#### RESULTS

- **Within expectations.** Scientex's 4QFY23 core net profit came in at RM137m (+20.5% qoq, -0.3% yoy) after stripping off a RM22.7m goodwill impairment for its Myanmar operation. This brought FY23 core net profit to RM463m (+8.6% yoy), and accounted for 98% and 100% of our and consensus' estimates respectively.
- **Declares final dividend of 5 sen.** The group has announced a final dividend of 5 sen. Coupled with the 5 sen interim dividend declared earlier, FY23 DPS of 10 sen implies a dividend yield of 2.7%. This represents a payout ratio of 34%, in line with the group's minimum dividend policy of 30%.

#### KEY FINANCIALS

Year to 31 Jul (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	3,985	4,077	4,636	4,962	5,184
EBITDA	675	713	855	926	978
Operating profit	561	590	713	774	817
Net profit (rep./act.)	410	438	550	597	630
Net profit (adj.)	410	462	550	597	630
EPS (sen)	26.4	28.3	35.5	38.5	40.7
PE (x)	13.9	13.0	10.4	9.6	9.0
P/B (x)	1.8	1.7	1.5	1.4	1.2
EV/EBITDA (x)	9.8	9.2	7.7	7.1	6.7
Dividend yield (%)	2.4	2.7	2.9	3.1	3.3
Net margin (%)	10.3	10.7	11.9	12.0	12.2
Net debt/(cash) to equity (%)	31.5	19.8	18.0	13.6	9.2
Interest cover (x)	33.0	21.3	61.7	65.6	74.5
ROE (%)	13.7	13.5	15.3	15.0	14.3
Consensus net profit	-	-	525	577	-
UOBKH/Consensus (x)	-	-	1.05	1.03	-

Source: Scientex, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM3.68
Target Price	RM4.36
Upside	+18.5%

#### COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

#### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,551.1
Market cap (RMm):	5,707.9
Market cap (US\$m):	1,218.1
3-mth avg daily t'over (US\$m):	0.3

#### Price Performance (%)

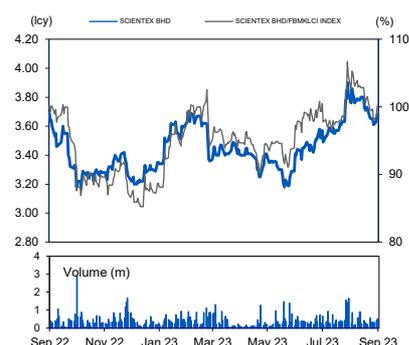
52-week high/low RM3.90/RM3.17

1mth	3mth	6mth	1yr	YTD
(3.7)	7.9	9.2	(0.3)	14.3

#### Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.99
Scientex Infinity Sdn Bhd	10.41
Scientex Leasing Sdn Bhd	9.12
FY24 NAV/Share (RM)	2.44
FY24 Net Debt/Share (RM)	0.44

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Manufacturing: Margin compression in consumer packaging business coupled with yoy revenue drop.** In 4QFY23, manufacturing revenue was lower at RM620m (-16% yoy) due to an overall softening of market demand across all product segments. Meanwhile, adjusted EBIT also declined to RM47m (-25% yoy), mainly reflecting a lower margin (-0.9ppt yoy) as the group's packaging business continued to face headwinds from the surge in operating expenses, particularly energy cost. Positively, margin saw some improvement qoq (+0.6 ppt) and we anticipate this to further improve in sequential quarters.
- Property: Better progress billing and more launches lifted earnings.** The property segment's revenue came in at RM451.8m (+24.9% qoq, +21.9% yoy), lifting EBIT to RM125m (+7.5% yoy). The higher revenue was mainly attributed to strong progress billings for ongoing project developments in Bandar Jasin, Kundang and Tasek Gelugor, alongside robust demand new launches in Pulau Mutiara 2, Kundang, Rawang and Sungai Petani. In 4QFY23, Scientex launched RM700m worth of new properties, with unbilled sales at RM1.76b (3QFY23: RM1.6b). Management alluded that demand for property launches was stable in FY23 with an average take-up rate of about 80%.

### STOCK IMPACT

- Volume growth in FY24 amid trade demand recovery.** With global trade flow poised to recover fully from 2019-22's pandemic-induced disruptions, we expect Scientex to largely benefit from trade demand recovery, easing supply-chain pressure, and capacity expansion for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activities continue to ramp up.
- Manufacturing segment to see better volume and improving utilisation in FY24.** With the successful recruitment of foreign workers alleviating Scientex's earlier worker shortage problem coupled with global demand recovery, we expect Scientex to further ramp up its FY22-23 average utilisation rate of 60% to 65-75% in FY24. We believe Scientex's plastic packaging segment has exhilarating growth potential, underpinned by: a) demand recovery following the global economic reopening; and b) the gradual automation of its production lines, which could potentially increase output by several folds.
- Property segment on track for a flourishing year in FY24.** Recall that Scientex's property segment was aggravated by higher raw material costs, material shortages, and delays in obtaining regulatory approvals in FY22-23. These caused Scientex to complete fewer houses, resulting in lower sales and profits. While we have seen an improvement in launches with a total value of RM2.1b in FY23 and an impressive average take-up rate of c.80%, we expect a brighter outlook from FY24 onwards as the issue of material shortages, delays in obtaining regulatory approvals and worker shortages have been largely resolved.
- Valuation still appeals given visionary mid-to-long-term prospects.** While Scientex's share price merely trades at c.72% of its 2022 peak, we believe that its current valuation of 10.4x FY24F PE (-1SD below 10-year mean) is attractive and possesses about 18.5% upside based on our forecasted FY24 valuations.

### EARNINGS REVISION/RISK

- We introduce our FY26 assumptions.

### VALUATION/RECOMMENDATION

- Maintain BUY with target price of RM4.36**, implying 12.4x FY24F PE (10-year mean).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

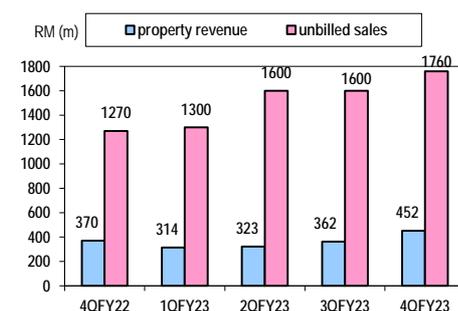
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification.</li> <li>8.2% decrease in group-wide greenhouse gas emissions in FY21.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>Spent RM5.3m in community investment in response to COVID-19.</li> <li>Members of local communities comprise 78% of workforce.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>Comprehended and applied Malaysian Code on Corporate Governance (MCCG).</li> </ul> </li> </ul>
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### KEY ASSUMPTIONS

	FY24F	FY25F	FY26F
Manufacturing	2862.9	2991.5	3257.4
Property	1500.0	1600.0	1700.0
Total Revenue	4362.9	4591.5	4957.4
Manufacturing	272.0	293.2	319.2
Property	435.0	464.0	493.0
EBIT	707.0	757.2	812.2

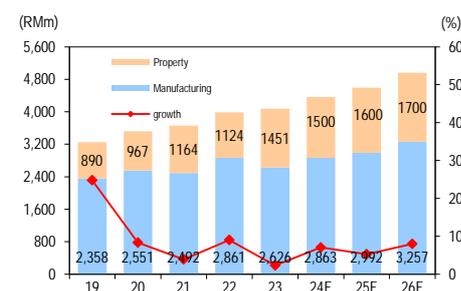
Source: Scientex, UOB Kay Hian

### PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



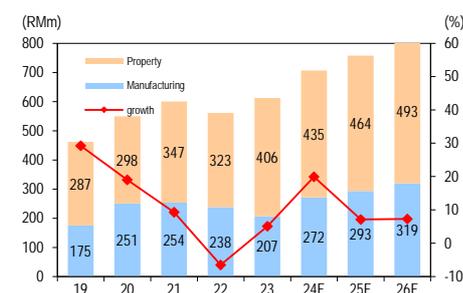
Source: Scientex, UOB Kay Hian

### SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

### EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Net turnover	4,077	4,636	4,962	5,184
EBITDA	713	855	926	978
Deprec. & amort.	124	142	151	160
EBIT	590	713	774	817
Associate contributions	13	13	13	13
Net interest income/(expense)	(34)	(14)	(14)	(13)
Pre-tax profit	569	712	773	817
Tax	(120)	(142)	(155)	(163)
Minorities	(11)	(20)	(22)	(23)
Net profit	438	550	597	630
Net profit (adj.)	438	550	597	630

### CASH FLOW

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Operating	806	683	789	838
Pre-tax profit	569	712	773	817
Tax	(119)	(142)	(155)	(163)
Deprec. & amort.	132	142	151	160
Working capital changes	199	(28)	20	24
Other operating cashflows	26	0	0	0
Investing	(270)	(300)	(300)	(300)
Capex (growth)	(220)	(300)	(300)	(300)
Investments	(65)	0	0	0
Proceeds from sale of assets	4	0	0	0
Others	11	0	0	0
Financing	(561)	(365)	(379)	(389)
Dividend payments	(162)	(165)	(179)	(189)
Issue of shares	0	0	0	0
Proceeds from borrowings	(106)	0	0	0
Loan repayment	(250)	(200)	(200)	(200)
Others/interest paid	(42)	0	0	0
Net cash inflow (outflow)	(25)	18	110	149
Beginning cash & cash equivalent	191	166	185	295
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	166	185	295	444

### BALANCE SHEET

Year to 31 Jul (RMm)	2023	2024F	2025F	2026F
Fixed assets	1,558	2,224	2,372	2,512
Other LT assets	1,881	1,890	1,890	1,890
Cash/ST investment	166	185	295	444
Other current assets	1,900	1,244	1,195	1,138
<b>Total assets</b>	<b>5,505</b>	<b>5,750</b>	<b>6,160</b>	<b>6,593</b>
ST debt	767	565	566	567
Other current liabilities	914	728	698	664
LT debt	70	301	301	302
Other LT liabilities	148	145	145	146
Shareholders' equity	3,392	3,777	4,195	4,636
Minority interest	214	234	256	279
<b>Total liabilities &amp; equity</b>	<b>5,505</b>	<b>5,750</b>	<b>6,160</b>	<b>6,593</b>

### KEY METRICS

Year to 31 Jul (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	17.5	18.4	18.7	18.9
Pre-tax margin	13.9	15.4	15.6	15.8
Net margin	10.7	11.9	12.0	12.2
ROA	8.0	9.8	10.0	9.9
ROE	13.5	15.3	15.0	14.3
<b>Growth</b>				
Turnover	2.3	13.7	7.0	4.5
EBITDA	5.6	19.9	8.2	5.6
Pre-tax profit	3.7	25.2	8.5	5.7
Net profit	6.9	25.5	8.5	5.7
Net profit (adj.)	6.9	25.5	8.5	5.7
EPS	6.9	25.5	8.5	5.7
<b>Leverage</b>				
Debt to total capital	18.8	17.7	16.3	15.0
Debt to equity	24.7	22.9	20.7	18.7
Net debt/(cash) to equity	19.8	18.0	13.6	9.2
Interest cover (x)	21.3	61.7	65.6	74.5

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