

Results Note

RM3.60 @ 14 December 2023

"Higher earnings of RM137.6m (+22% yoy), supported by strong property segment, offsetting the weak plastic packaging demand"

Share price performance



	1M	3M	12M
Absolute (%)	-2.4	-1.4	7.5
Rel KLCI (%)	-2.6	-1.7	9.6

	BUY	HOLD	SELL
Consensus	4	3	1

Source: Bloomberg

Stock Data

Sector	Plastics Packaging
Issued shares (m)	1,551.3
Mkt cap (RMm)/(US\$m)	5584.6/1195.5
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	3.16-3.97
Est free float	33.8%
Stock Beta	0.75
Net cash/(debt) (RMm)	(514.58)
ROE (CY24E)	14.2%
Derivatives	Nil
Shariah Compliant	Yes
FTSE4Good Constituent	Yes
FBM EMAS (Top 200)	Top 26-50%
ESG Risk Rating	19.1 (-17.0 yoy)

Key Shareholders

Scientex Holdings SB	21.0%
Scientex Leasing SB	10.5%
Scientex Infinity SB	9.1%

Source: Bloomberg, Affin Hwang, ESG Risk Rating
Powered by Sustainalytics, Bursa Malaysia

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Scientex (SCI MK)

HOLD (Maintain)

Up/Downside: +8.3%

Price Target: RM3.90

Previous Target (Rating): RM3.95 (HOLD)

Strong property sales offset weak plastic demand

- Scientex's 1QFY24 core net profit of RM137.6m (+22% yoy) was in line with our and consensus expectations
- Rise in earnings (+22% yoy) was driven by higher property sales, which offset weaker export plastic performance, especially in consumer packaging
- Maintain HOLD with a lower 12-month TP of RM3.90

1QFY24 core earnings rose 22% yoy, within expectations

Scientex's 1QFY24 core profit grew by 22% yoy to RM137.6m, mainly attributable to strong property sales (+45% yoy), as the property segment continued to gain momentum on higher progress billing from ongoing projects and the strong response from new launches at Scientex Sungai Dua, Scientex Seremban, and Scientex Bandar Jasin. Strong property earnings mitigated the weaker plastic packaging segment, which saw a revenue decline (-9% yoy), predominantly due to softening in the export markets especially in the consumer packaging segment, along with elevated utility costs. Overall, the operating margin improved 2.8 ppt on the back of a higher property segment contribution where the operating margin was >4x that of the plastic segment.

Sequentially higher earnings by 2% qoq

1QFY24 earnings rose 2% qoq, driven by higher revenue from the property arm (+1.0% qoq) and a slight pick-up in sales from plastic packaging (+5% qoq). The operating margin also improved by 1 ppt was due to margin expansion in its property segment and lower resin prices for plastic packaging. Overall, core net profit was in line with our and street estimates, accounting for 24% and 26% of the respective full-year forecasts. Looking ahead, we expect a slight recovery in the plastic packaging segment with the increase in customer stockpiling and lower resin prices helping to improve its margin.

Maintain HOLD with a lower 12-month TP of RM3.90

Post the release of its annual report, we make some housekeeping changes resulting in slightly lower FY24-26E EPS forecasts by 0.5% to 2.8%. Subsequently, our target price is lowered to RM3.90 (from RM3.95) based on SOTP valuation. Despite trading at 9.9x FY24E PER which is at 1SD below its 5-year mean, we find the stock to be approaching its fair value as weak plastic packaging demand remains a concern to us as a result of the weak global economic environment. Upside/downside risks include fluctuation in resin and building material costs, and lower/higher sales across the packaging and property segments.

Earnings & Valuation Summary

FYE 31 Jul	2022	2023	2024E	2025E	2026E
Revenue (RMm)	3,985.3	4,076.9	4,550.6	4,979.1	5,273.5
EBITDA (RMm)	689.4	745.5	886.8	1,019.7	1,116.5
Pretax profit (RMm)	548.3	568.7	741.5	839.3	907.6
Net profit (RMm)	409.9	438.1	561.7	637.2	690.6
EPS (sen)	26.4	28.3	36.2	41.1	44.6
PER (x)	13.6	12.7	9.9	8.8	8.1
Core net profit (RMm)	418.2	462.4	561.7	637.2	690.6
Core EPS (sen)	27.0	29.8	36.2	41.1	44.6
Core EPS growth (%)	-9.7	10.6	21.5	13.4	8.4
Core PER (x)	13.3	12.1	9.9	8.8	8.1
Net DPS (sen)	9.0	9.0	11.0	13.0	15.0
Dividend Yield (%)	2.5	2.5	3.1	3.6	4.2
EV/EBITDA	9.5	8.4	7.1	6.1	5.5
Chg in EPS (%)			-0.5	-1.6	-2.8
Affin/Consensus (x)			1.0	1.1	1.2

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Jul (RMm)	1Q23	4Q23	1Q24	QoQ % chg	YoY % chg	Comments
Revenue	1,029.9	1,071.5	1,106.5	3.3	7.4	Yoy: Higher revenue from property (+45%), offsetting the weak plastic packaging demand (-9%)
Op costs	(850.5)	(867.8)	(883.8)	1.8	3.9	
EBITDA	179.3	203.7	222.7	9.3	24.2	
<i>EBITDA margin (%)</i>	<i>17.4</i>	<i>19.0</i>	<i>20.1</i>	<i>1.1 ppt</i>	<i>2.7 ppt</i>	
Depn and amort	(30.4)	(31.5)	(32.3)	2.4	6.1	
EBIT	148.9	172.2	190.4	10.6	27.9	Margin improvement due to property segment expansion where the operating margin was >4x that of the plastic segment
<i>EBIT margin (%)</i>	<i>14.5</i>	<i>16.1</i>	<i>17.2</i>	<i>1.1 ppt</i>	<i>2.8 ppt</i>	
Int expense	(8.0)	(7.5)	(6.9)	(8.0)	(13.8)	
Int and other inc	1.4	1.2	1.0	(18.9)	(28.4)	
Exceptional items	(5.5)	(20.3)	0.3	nm	nm	
Pretax profit	136.7	145.6	184.7	26.9	35.1	
Tax	(23.3)	(37.2)	(42.3)	13.7	81.5	
<i>Tax rate (%)</i>	<i>17.0</i>	<i>25.5</i>	<i>22.9</i>	<i>-2.7 ppt</i>	<i>5.9 ppt</i>	
MI	(6.2)	6.5	(4.6)	nm	(26.1)	
Net profit	107.2	114.9	137.8	20.0	28.6	
EPS (sen)	6.9	7.4	8.9	20.0	28.7	
Core net profit	112.7	135.2	137.6	1.8	22.1	Within our and street estimates

Source: Affin Hwang, Company

Fig 2: Results Comparison

FY July (RMm)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	qoq % chg	yoy % chg
Revenue	952.0	993.8	1,111.3	1,029.9	978.4	997.1	1,071.5	1,106.5	3.3	7.4
Packaging	692.8	749.7	740.8	716.0	655.1	635.4	619.7	650.4	4.9	(9.2)
Property	259.2	244.2	370.5	313.9	323.3	361.7	451.8	456.1	1.0	45.3
EBIT	125.9	123.3	178.7	143.4	147.5	149.8	148.9	188.5	26.5	31.4
Packaging	53.7	57.0	62.6	56.9	58.3	44.5	24.3	50.4	107.9	(11.4)
Property	72.2	66.3	116.0	86.5	89.1	105.4	124.7	138.0	10.7	59.6
<i>EBIT margin (%)</i>	<i>13.2</i>	<i>12.4</i>	<i>16.1</i>	<i>13.9</i>	<i>15.1</i>	<i>15.0</i>	<i>13.9</i>	<i>17.0</i>	<i>3.1 ppt</i>	<i>3.1 ppt</i>
<i>Manufacturing (%)</i>	<i>7.7</i>	<i>7.6</i>	<i>8.5</i>	<i>8.0</i>	<i>8.9</i>	<i>7.0</i>	<i>3.9</i>	<i>7.8</i>	<i>3.8 ppt</i>	<i>-0.2 ppt</i>
<i>Property (%)</i>	<i>27.9</i>	<i>27.2</i>	<i>31.3</i>	<i>27.5</i>	<i>27.6</i>	<i>29.1</i>	<i>27.6</i>	<i>30.3</i>	<i>2.7 ppt</i>	<i>2.7 ppt</i>

Source: Affin Hwang, Company

* 4QFY23's manufacturing margin dipped due to write off of RM22.7m from Myanmar operations

Fig 3: Sum of Parts Valuation

Segment	Equity value (RMm)	Comment
Manufacturing	2,800.1	14x PE based on CY24E
Property	3,952.8	30% discount to RNAV
Total equity value (RMm)	6,752.9	
Net cash/(debt)	(710.1)	
Share base (m)	1,551.3	
SOP TP (RM)	3.90	

Source: Affin Hwang forecast

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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