

# Scientex

## Driven by Property Profits

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**SCIENTX's 1QFY24 results met expectations. Its 1QFY24 core net profit jumped 23% YoY driven by robust sales and deliveries of affordable homes, partially offset by weak packaging profits. A similar trend is likely to persist over the immediate term. We maintain our forecasts but raise our TP by 16% to RM3.75 (from RM3.23) to reflect a property valuation re-rating. Upgrade to MARKET PERFORM from UNDERPERFORM.**

**Within expectations.** Its 1QFY24 core net profit of 137.4m met expectations, coming in at 25% and 26% of our full-year forecast and the full-year consensus estimate respectively.

YoY, its 1QFY24 revenue rose 7%, mainly driven by improved performance of its property segment (+45% YoY). The higher property turnover was fuelled by: (i) strong progress billings, and (ii) a strong take-up for its new launches in Scientex Sungai Dua, Scientex Seremban and Scientex Bandar Jasin. This was partially offset by a 9% decline in packaging turnover due to weaker exports.

Its core net profit surged by a sharper 23% thanks to improved property development margins due to better cost absorption on higher sales coupled with savings from bulk purchasing of construction materials, partially offset by lower packaging margins on weak product prices.

QoQ, its 1QFY24 turnover improved 3% showing marginal growth in both its packaging segment (+5% QoQ) and property segment (+1% QoQ). Its bottom line was flattish.

**Outlook.** We anticipate softer growth in the short term for its packaging segment, dragged down largely by consumer packaging (vs. industrial packaging) amidst a slowing global economy. However, this is partially mitigated by the robust demand for its new affordable housing launches with a strong take-up rate of over 80%. The acquisitions of land in Jenjarom, Selangor, as well as Kulai and Tebrau, Johor, are expected to be completed by mid-2024, which will sustain its project pipeline.

**Forecasts.** Maintained.

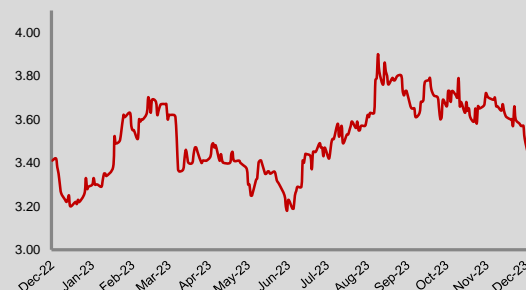
**Valuations.** However, we raise our SoP-TP by 16% to RM3.75 (from RM3.23) to reflect: (i) a lower discount to its property RNAV of 50% (from 60%) as we now apply a lower discount to RNAV for affordable housing developers given the robust demand in the segment, and (ii) enhancement from new land parcels in Jenjarom (Selangor), Tebrau (Johor) and Kulai (Johor). We maintain our valuation basis of 12x FY24F PER for its packaging business, 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).

**Investment case.** We like SCIENTX for: (i) its competitiveness in the global plastic packaging industry given its size and low cost structure (especially, as compared with its overseas rivals), and (ii) its strong foothold in the affordable housing segment in Johor. However, its plastic packaging business is likely to remain in the doldrums over the near term on the back of the slowdown in the global economy. Nonetheless, we upgrade our call to **MARKET PERFORM** from **UNDERPERFORM** given the re-rating of its property valuation as mentioned.

# MARKET PERFORM

Price : **RM3.60**  
Target Price : **RM3.75** 

## Share Price Performance



KLCI 1,456.26  
YTD KLCI chg -2.6%  
YTD stock price chg 11.8%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	5,584.6
Shares Outstanding	1,551.3
52-week range (H)	3.97
52-week range (L)	3.16
3-mth avg daily vol:	343,032
Free Float	34%
Beta	0.7

## Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	10.5%
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
<b>PATAMI</b>	<b>438.1</b>	<b>546.2</b>	<b>565.7</b>
<b>Core PATAMI</b>	<b>414.7</b>	<b>546.2</b>	<b>565.7</b>
Consensus (NP)	-	535.6	582.5
Earnings Revision	-	-	-
Core EPS (sen)	28.3	35.2	36.5
Core EPS growth (%)	4.9	31.7	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	0.4	0.3
Net Div. Yield (%)	2.8	3.0	3.1

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**Risks to our call** include: (i) a sudden spike in resin prices, (ii) weak consumer demand for packaging materials due to prolonged global economic downturn, and (iii) high inflation, elevated mortgage rates and a weak job market, hurting demand for its properties.

<b>Financial Highlights</b>					
<b>FYE July (RM m)</b>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ Chg</b>	<b>1Q23</b>	<b>YoY Chg</b>
Turnover	1106.5	1071.5	3%	1029.9	7%
EBIT	188.5	148.9	27%	143.4	31%
Interest income	3.2	4.1	-22%	1.4	137%
Finance costs	-6.9	-7.5	-8%	-8.0	-14%
PBT	184.7	145.6	27%	136.7	35%
Taxation	-42.3	-37.2	14%	-23.3	82%
Minority interest	-4.6	6.5	nm	-6.2	-26%
<b>Net profit</b>	<b>137.8</b>	<b>114.9</b>	<b>20%</b>	<b>107.2</b>	<b>29%</b>
<b>Core net profit</b>	<b>137.4</b>	<b>136.3</b>	<b>1%</b>	<b>111.3</b>	<b>23%</b>
EBIT margin	17.0%	13.9%		13.9%	
PBT margin	16.7%	13.6%		13.3%	
Core net profit margin	12.4%	12.7%		10.8%	
Effective tax rate	22.9%	25.5%		17.0%	

<b>Segmental Breakdown</b>					
<b>FYE July (RM m)</b>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ Chg</b>	<b>1Q23</b>	<b>YoY Chg</b>
<b>Turnover</b>					
Packaging	650.4	619.7	5%	716.0	-9%
Property	456.1	451.8	1%	313.9	45%
<b>Group Turnover</b>	<b>1106.5</b>	<b>1071.5</b>	<b>3%</b>	<b>1029.9</b>	<b>7%</b>
<b>Segment Results</b>					
Packaging	50.4	24.3	108%	56.9	-11%
Property	138.0	124.7	11%	86.5	60%
<b>Group EBIT</b>	<b>188.5</b>	<b>148.9</b>	<b>27%</b>	<b>143.4</b>	<b>31%</b>
<b>EBIT Margin</b>					
Packaging	7.8%	3.9%		8.0%	
Property	30.3%	27.6%		27.5%	
<b>Group EBIT Margin</b>	<b>17.0%</b>	<b>13.9%</b>		<b>13.9%</b>	

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<b>SCIENTX's Sum-of-Parts Valuation</b>		
<b>Segment</b>	<b>Valuation (RM m)</b>	<b>Valuation Basis</b>
Packaging	2,163	12x FY24 PER
Property	3,659	50% discount to RNAV (see the following table)
<b>Total</b>	<b>5,822</b>	
Paid-up Capital (m shares)	1,551	
<b>SoP per share / TP (RM)</b>	<b>3.75</b>	

Source: Kenanga Research

<b>RNAV of SCIENTX's Property Development Projects</b>		
<b>Project</b>	<b>Outstanding GDV (RM m)</b>	<b>NPV of profits (RM m)</b>
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
*Scientex Jenjarom	1,384	221
*Scientex Tebrau	3,651	583
*Scientex Kulai	1,999	319
	<b>25,500</b>	<b>4,542</b>
<b>Unbilled Sales (as of Oct-23)</b>	<b>1600</b>	<b>361</b>
Property Shareholders Fund		2,416
<b>Total RNAV (RM m)</b>		<b>7,319</b>
Discount to RNAV (%)		50%
<b>Discounted RNAV</b>		<b>3,659</b>

Source: Kenanga Research, Company

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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.				
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.13	1.50	32.7%	1,077.1	Y	05/2024	10.0	12.9	44.4%	31.3%	11.3	8.8	1.9	18.3%	1.0	0.9%
BM GREENTECH BHD	UP	0.925	0.810	-12.4%	477.3	Y	03/2024	5.2	5.1	91.5%	-2.8%	17.7	18.2	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	MP	1.18	1.23	4.2%	332.1	Y	12/2023	11.8	13.7	7.1%	16.3%	10.0	8.6	1.3	13.1%	5.5	4.7%
HPP HOLDINGS BHD	OP	0.335	0.720	114.9%	130.1	Y	05/2024	3.7	5.5	52.7%	51.4%	9.2	6.1	1.0	11.0%	1.5	4.5%
KUMPULAN PERANGSANG SELANGOR	UP	0.720	0.510	-29.2%	386.9	Y	12/2023	1.5	5.1	-70.7%	241.3%	48.4	14.2	0.4	0.8%	0.0	0.0%
SCIENTEX BHD	MP	3.60	3.75	4.2%	5,584.6	Y	07/2024	35.2	36.5	31.7%	3.6%	10.2	9.9	1.4	14.4%	11.0	3.1%
SLP RESOURCES BHD	MP	0.925	0.850	-8.1%	293.2	Y	12/2023	3.8	4.9	-27.3%	30.0%	24.4	18.8	1.5	6.3%	5.0	5.4%
TECHBOND GROUP BHD	OP	0.410	0.450	9.8%	219.5	Y	06/2024	3.8	4.1	112.8%	9.5%	10.9	9.9	1.2	11.5%	1.5	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.88	2.86	52.1%	742.9	Y	12/2023	21.9	26.0	-21.9%	18.4%	8.6	7.2	0.8	9.7%	2.3	1.2%
Sector Aggregate					9,243.8					34.0%	12.2%	10.9	9.7	1.2	11.2%		2.8%

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	☆	
SPECIFIC	Cybersecurity & Data Privacy	★	★	★		
	Network Quality & Coverage	★	★	★	★	
	Digitalisation & Innovation	★	★	★		
	Supply Chain Management	★	★	★	★	
	Talent Management	★	★	★	★	
	Customer Satisfaction	★	★	★		
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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