

A sequential recovery of packaging in 1Q24 Quick Note

In-line forecasts. Packaging saw second consecutive q-q improvement, while Property remains robust

Scientex reported higher 1Q24 core net profit of MYR137mn, up 1% q-q and 21% y-y on the back of revenue of MYR1.107bn (+3% q-q /+7% y-y) – in line with our forecast (accounting for 26% of our full-year estimate) but slightly ahead of the Bloomberg consensus estimate which is 30% of our full-year estimate.

The growth of profitability continues to be driven by the Property segment given the continued ramp-up in new launches in Sungai Dua, Seremban and Bandar Jasin, where take-up has started at 40%, which we find encouraging. On an overall basis, we think take-up across the entire Property segment still looks solid at an historical average level of 80%. According to management, unbilled sales stood at MYR1.6bn whilst ongoing gross development value stands at MYR3.6bn. The current landbank potential GDV (gross development value) stands at MYR28.9bn across ~8,000 acres. Of this amount, 60% is located across various parts in Johor notably Kulai, Pasir Gudang and Mukim Tebrau. We see Scientex as being a key beneficiary of the potential pickup in property demand in Johor.

Management pointed out in the media statement that its latest land acquisitions in Jejarom, Tebrau and Kulai are expected to be completed in 2024, as per the original timeline, with its affordable home sales target still intact – currently standing at 50,000 by 2028 with 32,700 affordable homes sold so far.

Packaging saw a sharp improvement in profitability (+108% q-q), likely due to a combination of improving demand amidst lower raw material prices, though it remains lower y-y on both revenue (albeit pace of the decline in volumes is moderating) and earnings (on higher raw material prices y-y). Overall utilisation rate stands at 53%, which one needs to note that this includes the recent capacity expansion.

A better outlook into FY24F. Reiterate Buy and TP of MYR4.40.

We maintain our earnings forecast on which we expect to grow 15% y-y on the back of 17% growth in revenue, largely underpinned by a recovery of packaging revenue and ongoing cost efficiencies such as automation of its production lines and a higher mix of renewable energy. The recovery of packaging stems from renewed demand as customer stockpiles are depleted. In addition, margin recovery could also be supported by increasing demand for Scientex's recyclable products, which are gaining traction amongst customers. We maintain our SOTP derived TP of MYR4.40 – whereby we value the packaging division on a DCF basis (7.3% WACC) and the property division at a 25% discount to RNAV.

Rating Remains	Buy
Target price Remains	MYR 4.40
Closing price 14 December 2023	MYR 3.60

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Fig. 1: Results review table

MYR'mn

P&L (MYRmn)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	% q-q	% y-y	FY24F	1Q/FY24F
Revenue	675.7	711.7	797.0	802.8	690.0	780.4	13%	10%	2,860.5	27%
Malaysia	374.6	411.1	446.2	472.2	306.5	394.8	29%	-4%		
Overseas	301.0	300.6	350.8	330.6	383.5	385.7	1%	28%		
Net opex	(524.3)	(599.1)	(685.3)	(683.9)	(555.3)	(629.7)	13%	5%	(2,285.3)	28%
EBITDA	151.3	112.6	111.7	118.9	134.8	150.8	12%	34%	575.3	26%
Depreciation / amortisation	(67.1)	(56.3)	(58.4)	(65.1)	(73.9)	(78.0)	6%	39%	(275.0)	28%
EBIT	84.2	56.3	53.3	53.8	60.9	72.7	19%	29%	300.3	24%
Net interest income / (expense)	(12.5)	(9.1)	(9.1)	(11.5)	(9.1)	(7.9)	-13%	-14%	(24.7)	32%
Profit before associates and JV	71.7	47.1	44.1	42.3	51.8	64.9	25%	38%	275.6	24%
Malaysia	70.0	35.0	20.0	15.0	(15.4)	(15.7)	2%	-145%		
International	1.7	12.2	24.1	27.3	67.2	80.6	20%	562%		
Associates/ JV	54.6	84.1	97.4	100.4	82.1	93.9	14%	12%	365.2	26%
Malaysia	54.6	59.0	78.8	80.4	63.7	82.1	29%	39%		
International	(0.1)	25.1	18.6	20.0	18.3	11.9	-35%	-53%		
Core PBT	126.3	131.3	141.6	142.7	133.9	158.8	19%	21%	640.8	25%
Malaysia	124.6	94.0	98.8	95.4	48.4	66.3	37%	-29%		
International	1.6	37.3	42.7	47.4	85.5	92.5	8%	148%		
Tax	(11.0)	(7.2)	(8.8)	(7.2)	(10.1)	(11.0)	9%	53%	(48.3)	23%
PAT	115.3	124.1	132.7	135.5	123.8	147.9	19%	19%	592.5	25%
MI	2.5	5.6	(3.9)	(3.2)	(8.5)	(10.0)	18%	nm	(14.7)	68%
Core PATAMI	117.9	129.7	128.8	132.3	115.3	137.8	20%	6%	577.9	24%
Exceptional items	0.4	(3.9)	(1.7)	(1.5)	11.5	(5.7)	-149%	47%	-	nm
Reported PATAMI	118.2	125.8	127.2	130.8	126.8	132.2	4%	5%	577.9	23%
Margins (%)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	% q-q	% y-y	FY24F	1Q/FY24F
Core PBT (ex associates/ JV)	10.6%	6.6%	5.5%	5.3%	7.5%	8.3%	0.8pp	1.7pp	9.6%	-1.3pp
Core PATAMI (ex associates / JV)	9.4%	6.4%	3.9%	4.0%	4.8%	5.6%	0.8pp	-0.8pp	7.4%	-1.8pp
Effective tax rate (ex associates / JV)	-15.3%	-15.2%	-20.0%	-17.0%	-19.4%	-16.9%	2.5pp	-1.7pp	-17.5%	0.6pp
Free cash flow analysis (MYRmn)	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	% q-q	% y-y	FY24F	1Q/FY24F
Operating profit before working capital changes	150.4	118.2	114.0	119.4	134.8	154.7	15%	31%	575.3	27%
Net cash from operating activities	71.1	83.3	266.0	115.0	285.9	329.8	15%	296%	694.6	47%
Additions of intangible assets	(37.7)	(36.0)	(71.2)	(61.1)	(42.9)	(45.3)	6%	26%	-	nm
Development of tank terminals	(5.8)	(7.7)	(8.3)	(8.7)	(21.5)	(6.6)	-70%	-15%	(46.2)	14%
Purchases of property, plant and equipment	23.8	(7.9)	(53.1)	19.0	(20.8)	(13.8)	-33%	75%	(87.6)	16%
Total capex	(19.8)	(51.5)	(132.5)	(50.8)	(85.2)	(65.7)	-23%	27%	(133.8)	49%
Free cash flow (firm)	51.3	31.7	133.5	64.2	200.7	264.1	32%	732%	560.8	47%
Net change in borrowings	(64.0)	61.0	(94.1)	(137.7)	(134.7)	(177.9)	32%	nm	-	nm
Free cash flow (equity)	(12.7)	92.8	39.4	(73.5)	66.0	86.2	31%	-7%	560.8	15%

Source: Company data, Nomura estimates

Appendix A-1

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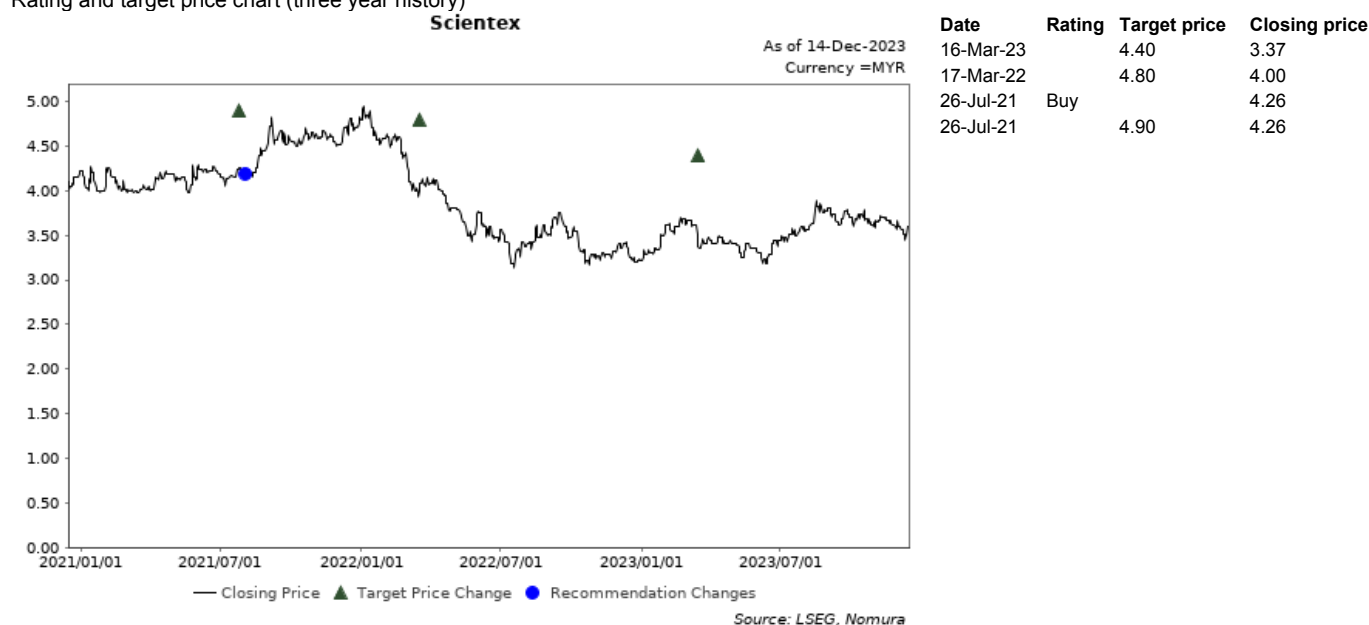
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Scientex	SCI MK	MYR 3.60	14-Dec-2023	Buy	N/A	

Scientex (SCI MK)

MYR 3.60 (14-Dec-2023) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Scientex on an SOTP basis. The Packaging division is valued on a DCF basis, discounting free cash flows to the firm by a 7.3% WACC and incorporating a long term growth rate for Malaysia of 1.5%. We value the Property division at a 25% discount to RNAV. This derives a target price of MYR4.40. The benchmark index for this stock is the FBKLCI index.

Risks that may impede the achievement of the target price Downside risks to our target price include 1) Prolonged pandemic-linked loss of consumer confidence and spending, reducing the demand for packaging products and property, 2) Environmental regulations prohibiting use of certain packaging materials manufactured by the company, 3) Elevated container freight rates and global supply chain issues impacting imports of raw materials and export demand and 4) Extended MCOs in Malaysia impacting manufacturing processes and property construction and sales schedules.

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As at 30 September 2023.

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