

15 December 2023

Scientex (SCI MK)

No Surprises

Consumer Non-cyclical | Packaging

Neutral (Maintained)

Target Price (Return): MYR3.75 (4.0%)
Price (Market Cap): MYR3.60 (USD1,187m)
ESG score: 3.0 (out of 4)
Avg Daily Turnover (MYR/USD) 1.22m/0.26m

- **Maintain NEUTRAL, new SOP-based MYR3.75 TP from MYR3.85, 4% upside and c.4% yield.** Scientex reported 1QFY24 (Jul) results that were in line with expectations. Its double-digit YoY earnings growth was driven by robust demand for its affordable housing offerings, which more than offset the decline in its packaging sales. We think Scientex remains fairly valued, trading at 10x – in line with its historical mean.
- **In line expectations.** 1QFY24 net profit of MYR138.3m (-0.5% QoQ, +29% YoY) came in line with expectations at 26% of our and consensus' full-year estimates. Contributions from the packaging segment continues to slide YoY amidst softer global demand, but this was more than offset by the improving property segment. Consequently, 1QFY24 EBIT margins improved to 17% (FY23: 14.5%).
- **Results review.** 1QFY24 revenue improved 7% YoY (+3% QoQ) on the back of stronger contributions from property development projects. However, the packaging segment saw lower sales – mainly from the consumer packaging sub-segment amidst weaker global trade sentiments. Operating costs were also higher due to elevated energy costs and depreciation from Scientex's capacity expansion. Consequently, while packaging revenue declined 9% YoY, operating profit fell by a higher 11% YoY due to slightly lower margins. On the property side, revenue and operating profit rose 45% and 60% YoY thanks to the smooth construction progress on top of strong take-ups from new launches.
- **Outlook.** We remain optimistic that Scientex will charter stronger numbers for packaging in 2024, as it has started seeing increased demand for packaging solutions over the recent months. Furthermore, the group is well placed to provide sustainable packaging solutions, which we think is likely to be the driver for its future topline. Scientex's property segment continues to remain robust – driven by strong demand for its affordable housing offerings.
- **Maintain NEUTRAL with new MYR3.75 TP** as we fine-tune our RNAV valuation to incorporate Scientex's latest property-related figures. We also make minimal adjustments to our earnings forecasts as results were in line. The group's valuation remains fair, with the stock trading at its historical P/E mean.
- **Key upside risks** include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices. The converse of these represent the downside risks.

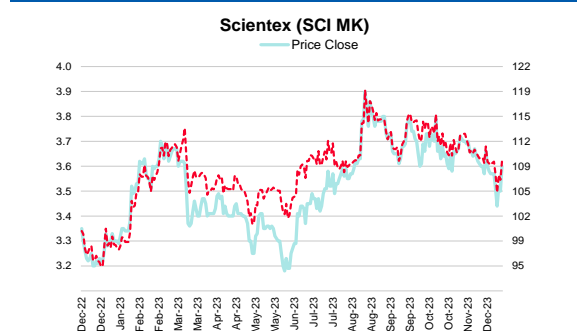
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|------|-------|-------|-------------|-----|
| Absolute | 11.8 | (2.4) | (1.4) | 10.8 | 7.5 |
| Relative | 14.4 | (2.7) | (1.9) | 5.7 | 9.3 |
| 52-wk Price low/high (MYR) | | | | 3.18 – 3.90 | |



Source: Bloomberg

| Forecasts and Valuation | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 3,985 | 4,077 | 4,464 | 4,569 | 4,763 |
| Recurring net profit (MYRm) | 402 | 462 | 554 | 564 | 586 |
| Recurring net profit growth (%) | (13.0) | 14.9 | 20.0 | 1.7 | 4.0 |
| Recurring P/E (x) | 13.89 | 12.09 | 10.08 | 9.90 | 9.52 |
| P/B (x) | 1.8 | 1.6 | 1.5 | 1.4 | 1.3 |
| P/CF (x) | 7.56 | 6.93 | 9.03 | 7.75 | 7.60 |
| Dividend Yield (%) | 2.5 | 2.8 | 3.6 | 4.2 | 5.0 |
| EV/EBITDA (x) | 9.97 | 8.61 | 7.36 | 7.12 | 6.41 |
| Return on average equity (%) | 13.7 | 13.5 | 15.5 | 14.4 | 13.9 |
| Net debt to equity (%) | 29.6 | 18.6 | 17.2 | 14.6 | 4.7 |

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E: GOOD

Scientex does not establish its greenhouse gas (GHG) emission target currently but it has consistently reduced its GHG emission since 2020. Scientex has reduced its GHG emission intensity by 21% from FY20 to FY22. In FY22, Scientex has also developed various packaging solutions that are 100% recyclable and plans to continue its efforts in providing sustainable packaging solutions.

S: GOOD

Scientex complies to all applicable laws in relation to occupational health and safety. Adequate training is provided to its employees on safety and health practices. The group also adopted a group-wide Safety & Health Policy in FY22 that outlines its key areas of commitment to meet high standards of occupational safety and health.

G: GOOD

Independent directors make up 50% of the board and Scientex only has one female director, which is less than 30% of the board composition. Remuneration of its directors are disclosed on a named basis. Scientex only conducts briefings for analysts on a half-yearly basis.

Financial Exhibits

| | | | | | | |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (MYR) | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| Malaysia | Recurring EPS | 0.26 | 0.30 | 0.36 | 0.36 | 0.38 |
| Consumer Non-cyclical | DPS | 0.09 | 0.10 | 0.13 | 0.15 | 0.18 |
| Scientex | BVPS | 2.01 | 2.19 | 2.41 | 2.63 | 2.83 |
| SCI MK | Return on average equity (%) | 13.7 | 13.5 | 15.5 | 14.4 | 13.9 |
| Neutral | | | | | | |
| Valuation basis | Valuation metrics | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| We use SOP valuation to derive our TP | Recurring P/E (x) | 13.89 | 12.09 | 10.08 | 9.90 | 9.52 |
| | P/B (x) | 1.8 | 1.6 | 1.5 | 1.4 | 1.3 |
| | FCF Yield (%) | 9.9 | 12.2 | 8.4 | 10.2 | 13.2 |
| | Dividend Yield (%) | 2.5 | 2.8 | 3.6 | 4.2 | 5.0 |
| Key drivers | EV/EBITDA (x) | 9.97 | 8.61 | 7.36 | 7.12 | 6.41 |
| i. Ongoing capacity expansion of its plastic segment; | EV/EBIT (x) | 12.03 | 10.35 | 8.39 | 8.18 | 7.37 |
| ii. Venture into new film products that bear exciting market opportunities locally; | | | | | | |
| iii. Ongoing property launches. | | | | | | |
| Key risks | Income statement (MYRm) | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| Key upside risks include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices. | Total turnover | 3,985 | 4,077 | 4,464 | 4,569 | 4,763 |
| | Gross profit | 845 | 890 | 1,050 | 1,061 | 1,045 |
| | EBITDA | 668 | 737 | 867 | 892 | 928 |
| | Depreciation and amortisation | (114) | (124) | (106) | (116) | (121) |
| | Operating profit | 553 | 613 | 760 | 776 | 807 |
| | Net interest | (20) | (34) | (34) | (37) | (39) |
| | Pre-tax profit | 548 | 569 | 739 | 752 | 782 |
| | Taxation | (116) | (120) | (156) | (159) | (165) |
| | Reported net profit | 410 | 438 | 554 | 564 | 586 |
| | Recurring net profit | 402 | 462 | 554 | 564 | 586 |
| The converse of these represent the downside risks. | Cash flow (MYRm) | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| | Change in working capital | 176 | 199 | (92) | (13) | (28) |
| | Cash flow from operations | 738 | 806 | 619 | 721 | 735 |
| | Capex | (185) | (123) | (150) | (150) | 0 |
| | Cash flow from investing activities | (668) | (270) | (400) | (400) | 0 |
| | Dividends paid | (153) | (162) | (202) | (233) | (279) |
| | Cash flow from financing activities | (123) | (561) | (186) | (180) | (318) |
| | Cash at beginning of period | 243 | 191 | 166 | 199 | 340 |
| | Net change in cash | (52) | (25) | 33 | 141 | 417 |
| | Ending balance cash | 191 | 166 | 199 | 340 | 757 |
| Company Profile | Balance sheet (MYRm) | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| Scientex is a leading manufacturer of flexible plastic packaging and has a presence across the packaging value chain, from stretch, base, and printed films to bags and multi-layered flexible plastic packaging solutions used in industrial and consumer packaging. The group is also developer of affordable homes in Malaysia. | Total cash and equivalents | 191 | 166 | 199 | 340 | 757 |
| | Tangible fixed assets | 3,119 | 2,983 | 3,277 | 3,561 | 3,440 |
| | Total investments | 103 | 118 | 131 | 145 | 159 |
| | Total assets | 5,475 | 5,505 | 5,987 | 6,460 | 6,838 |
| | Short-term debt | 921 | 767 | 867 | 967 | 967 |
| | Total long-term debt | 250 | 70 | 20 | 10 | 10 |
| | Total liabilities | 2,167 | 1,899 | 1,999 | 2,111 | 2,151 |
| | Total equity | 3,308 | 3,606 | 3,988 | 4,349 | 4,687 |
| | Total liabilities & equity | 5,475 | 5,505 | 5,987 | 6,460 | 6,838 |
| | Key metrics | Jul-22 | Jul-23 | Jul-24F | Jul-25F | Jul-26F |
| | Revenue growth (%) | 9.0 | 2.3 | 9.5 | 2.3 | 4.3 |
| | Recurrent EPS growth (%) | (13.0) | 14.9 | 20.0 | 1.7 | 4.0 |
| | Gross margin (%) | 21.2 | 21.8 | 23.5 | 23.2 | 21.9 |
| | Operating EBITDA margin (%) | 16.8 | 18.1 | 19.4 | 19.5 | 19.5 |
| | Net profit margin (%) | 10.3 | 10.7 | 12.4 | 12.3 | 12.3 |
| | Dividend payout ratio (%) | 34.1 | 35.4 | 36.4 | 41.3 | 47.6 |
| | Capex/sales (%) | 4.6 | 3.0 | 3.4 | 3.3 | 0.0 |
| | Interest cover (x) | 27.1 | 18.3 | 22.1 | 20.8 | 20.7 |

Source: Company data, RHB

Results At a Glance

Figure 1: 1QFY24 results review

| FYE Jul (MYRm) | 1QFY23 | 4QFY23 | 1QFY24 | QoQ (%) | YoY (%) | Comments |
|-----------------------------------|----------------|----------------|----------------|--------------|-------------|---|
| Revenue | 1,029.9 | 1,071.5 | 1,106.5 | 3.3 | 7.4 | YoY rise was due to strong demand for the property segment, mitigated by lower packaging revenue. |
| Adjusted EBITDA | 173.8 | 204.5 | 222.0 | 8.5 | 27.7 | |
| <i>Adjusted EBITDA margin (%)</i> | <i>16.9</i> | <i>19.1</i> | <i>20.1</i> | | | |
| Depreciation | (30.4) | (31.5) | (33.1) | 5.0 | 8.8 | |
| Adjusted Operating Profit | 143.4 | 173.0 | 188.9 | 9.2 | 31.7 | |
| <i>Operating margin (%)</i> | <i>13.9</i> | <i>16.1</i> | <i>17.1</i> | | | |
| El/Others | 0.0 | (24.0) | (0.4) | (98.3) | (4,744.4) | |
| Reported Operating Profit | 143.4 | 148.9 | 188.5 | 26.5 | 31.4 | |
| Interest Expense | (8.0) | (7.5) | (6.9) | (8.0) | (13.8) | |
| Share of Associates | 1.4 | 4.1 | 3.2 | (22.4) | 137.1 | |
| Reported PBT | 136.7 | 145.6 | 184.7 | 26.9 | 35.1 | |
| Tax | (23.3) | (37.2) | (42.3) | 13.7 | 81.5 | |
| <i>Effective tax rate (%)</i> | <i>17.0</i> | <i>25.5</i> | <i>22.9</i> | | | |
| Minority Interest | (6.2) | 6.5 | (4.6) | (170.7) | (26.1) | |
| Net Profit | 107.2 | 114.9 | 137.8 | 20.0 | 28.6 | In line with our and consensus expectations. |
| Core Profit | 107.2 | 138.9 | 138.3 | (0.5) | 29.0 | |
| <i>Core net margin (%)</i> | <i>10.4</i> | <i>13.0</i> | <i>12.5</i> | | | |

Source: Company data, RHB

Figure 2: Segmental results review

| FYE Jul (MYRm) | 1QFY23 | 4QFY23 | 1QFY24 | QoQ (%) | YoY (%) |
|----------------------------------|----------------|----------------|----------------|-------------|-------------|
| Revenue | | | | | |
| Packaging | 716.0 | 619.7 | 650.4 | 4.9 | -9.2 |
| Property development | 313.9 | 451.8 | 456.1 | 1.0 | 45.3 |
| Total | 1,029.9 | 1,071.5 | 1,106.5 | 3.3 | 7.4 |
| Reported operating profit | | | | | |
| Packaging | 56.9 | 24.3 | 50.4 | 107.9 | -11.4 |
| Property development | 86.5 | 124.7 | 138.0 | 10.7 | 59.6 |
| Total | 143.4 | 148.9 | 188.5 | 26.5 | 31.4 |
| Operating margin (%) | | | | | |
| Packaging | 8.0 | 3.9 | 7.8 | | |
| Property development | 27.5 | 27.6 | 30.3 | | |
| Total | 13.9 | 13.9 | 17.0 | | |

Source: Company data, RHB

Figure 3: SOP valuation

| Divisions | Method | Valuation (MYRm) |
|---------------|-------------------------------------|------------------|
| Manufacturing | 12x P/E on FY24F earnings | 1,667.7 |
| Property | RNAV (discount of 50%) | 4,126.2 |
| | | 0.0 |
| | Total intrinsic value (MYRm) | 5,793.9 |
| | Fully diluted share base (m) | 1,551.0 |
| | Intrinsic value per share | 3.74 |
| | + 0% ESG premium | 0.00 |
| | TP (MYR) | 3.74 |

Source: RHB

Figure 4: Key assumptions

| | FY24F | FY25F | FY26F |
|-------------------|-------|-------|-------|
| Packaging | | | |
| Operating margin | 8.8% | 10.4% | 11.1% |
| Volume growth | 1.0% | 5.9% | 6.6% |
| Utilisation rates | 61% | 63% | 66% |
| Property | | | |
| Operating margin | 29.0% | 29.0% | 29.0% |

Source: RHB

Emissions And ESG

Trend analysis

In FY23, Scope 1 emissions increased to 6,300 tonnes of CO₂e (FY22: 6,100 tonnes of CO₂e) while Scope 2 decreased to 134,200 tonnes of CO₂e (FY22: 150,200 tonnes of CO₂e)

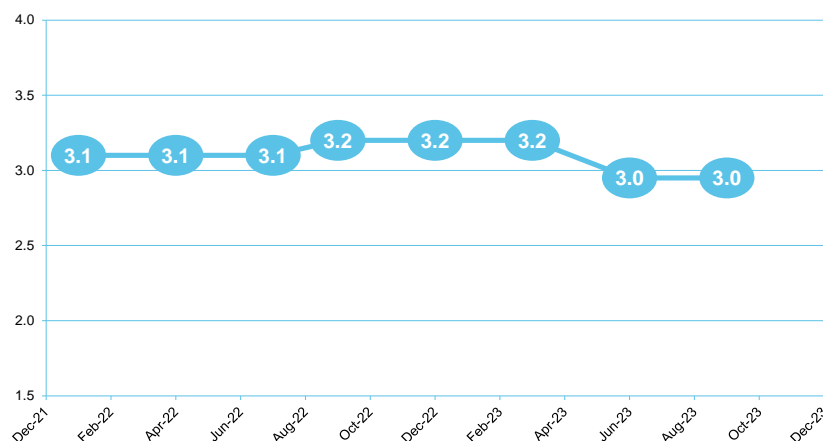
| Emissions (tCO ₂ e) | Jul-21 | Jul-22 | Jul-23 |
|--------------------------------|---------|---------|---------|
| Scope 1 | 6,000 | 6,100 | 6,300 |
| Scope 2 | 152,800 | 150,200 | 134,200 |
| Scope 3 | na | na | na |
| Total emissions | 158,800 | 156,300 | 140,500 |

Source: Company data, RHB

Latest ESG-Related Developments

- While Scientex does not have an emissions reduction target, the group is now adopting renewable energy solutions by installing solar panels at its operation sites to reduce GHG emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2023-09-20 | Neutral | 3.9 | 3.7 |
| 2023-06-21 | Buy | 3.8 | 3.4 |
| 2023-03-16 | Buy | 3.9 | 3.4 |
| 2022-12-09 | Buy | 4.0 | 3.4 |
| 2022-09-30 | Buy | 4.3 | 3.5 |
| 2022-06-14 | Neutral | 4.1 | 3.6 |
| 2022-03-17 | Buy | 4.7 | 4.0 |
| 2022-01-13 | Neutral | 4.9 | 4.9 |
| 2020-12-18 | Neutral | 11.5 | 4.1 |
| 2020-09-21 | Neutral | 10.3 | 3.3 |
| 2020-07-24 | Neutral | 9.8 | 3.1 |
| 2018-09-21 | Neutral | 7.4 | 2.9 |
| 2018-06-21 | Neutral | 7.4 | 2.3 |
| 2018-06-21 | Neutral | 7.4 | 2.3 |
| 2018-03-23 | Neutral | 8.7 | 2.7 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
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| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
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| Not Rated: | Stock is not within regular research coverage |

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