

Scientex Berhad

Strong Starter for FY24

TP: RM3.89 (+8.1%)

Last Traded: RM3.60

Hold (ESG: ★★★)

Liew Yi Jiet

Tel: +603-2167 9602

yjliew@ta.com.my

www.taonline.com.my

Review

- Scientex Berhad (SCIENTX)'s IQFY24 core net profit of RM136.5mn met ours and consensus expectation, accounting for 25.3% and 25.5% of ours and the street's full-year forecast respectively.
- YoY:** IQFY24 revenue rose 7.4% YoY, largely driven by strong growth in the property segment (+45.3% YoY). This was partially offset by the decline in manufacturing segment (-9.2%) as a result of softer market. Consequently, its operating profit leapt 31.4% YoY to RM188.5mn, driven by a significant growth in property segment.
- QoQ:** The group registered a mild revenue growth of 3.3%, thanks to improvement in the manufacturing segment, which rose 4.9% QoQ, while the rise in the property segment was negligible. The IQFY24 EBIT jumped by 26.5% QoQ in tandem with the revenue growth, alongside margin improvement in the property segment resulted from favourable revenue mix.

Impact

- We adjust our FY24/25/26 earnings mildly lower by 1.1/1.6/2.2% for housekeeping.

Outlook

- Manufacturing.** Despite the company's cautious stance on the prospect, we believe the headwinds could be at tail-end as evidently proven by the moderate pickup in manufacturing division QoQ. To recap, the demand was dampened in previous quarters chiefly underpinned by clients' overstocking stemming from the supply chain disruptions during the pandemic outbreak. That said, we believe the stocking issue has been dissipating and the demand will start to normalise to pre-pandemic level gradually following the easing of global economic uncertainties.
- Furthermore, we gather that SCIENTX has identified potential in various targeted products, particularly for liquid and paste packaging. Hence, the group has expanded its capacity from c.450kMT to c.510kMT to seize the new opportunity and the new utilisation rate was c.53%.
- Property.** We expect the property segment to remain robust, supported by the stabilized Overnight Policy Rate (OPR) and escalating demand in main city areas, by leveraging on its position as one of the key affordable housing builders. As of end-October 2023, the take-up rate for the new launches (with total value of RM275.0mn) in IQFY24 was c.40%. We believe that the take-up rate will improve along with other new projects in the pipeline, backed by its track record. Its historical take-up rate was c.80%.

Valuation

- We reiterate **HOLD** with marginally lower TP of **RM3.89/share** following the housekeeping on our earnings forecast.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.3
Market Cap (RMmn)	5,584.6
52-wk Hi/Lo (RM)	3.97/3.16
12-mth Avg Daily Vol ('000 shrs)	386.9
Estimated Free Float (%)	33.8
Beta	0.6
Major Shareholders (%)	
Scientex Holdings & Related	40.6

Forecast Revision

	FY24	FY25
Forecast Revision (%)	(1.1)	(1.6)
Net profit (RMm)	534.7	589.9
Consensus	535.6	582.5
TA's / Consensus (%)	99.8	101.3
Previous Rating	Hold (Maintained)	
Consensus Target Price (RM)	4.01	

Financial Indicators

	FY24	FY25
Net debt/equity (%)	17.6	14.3
ROE (%)	14.9	14.8
ROA (%)	9.6	10.0
NTA/Share (RM)	2.2	2.5
Price/NTA (x)	1.6	1.4

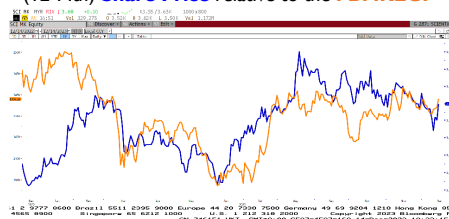
Scorecard

	% of FY
vs TA	25 Within
vs Consensus	25 Within

Share Performance (%)

Price Change	SCIENTX	FBM KLCI
1 m th	(2.4)	0.3
3 m th	(1.4)	0.5
6 m th	10.8	5.1
12 m th	7.5	(1.8)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: Earnings Summary

FYE July (RM mn)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	3,985.3	4,076.9	4,283.7	4,642.4	4,834.9
Gross Profit	845.2	889.5	1,018.9	1,104.3	1,120.1
EBITDA	675.5	621.1	834.0	909.1	916.5
EBIT	561.0	589.6	704.7	773.1	774.3
Reported PBT	548.3	568.7	697.3	768.4	771.1
Adj. PBT	555.7	594.1	697.3	768.4	771.1
Reported Net Profit	409.9	438.1	534.7	589.9	591.7
Adj. Net profit	417.2	463.6	534.7	589.9	591.7
Basic/Diluted EPS (sen)	26.4	28.2	34.5	38.0	38.1
Adj. EPS (sen)	26.9	29.9	34.5	38.0	38.1
PER (x)	13.9	12.3	10.7	9.7	9.6
Net Dividend (sen)	9.0	10.0	12.0	13.0	13.0
Dividend Yield (%)	2.4	2.7	3.3	3.5	3.5

Table 2: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RM mn)
Manufacturing	CY24 EPS PER 15x	3,395.3
Property	CY24 EPS PER 10x	3,313.5
Equity value (RM mn)		6,708.8
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		7,152.9
Conglomerate Discount		10%
Total SOP		6,437.65
Share cap (mn)		1,551.3
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.6
Target Price (RM)		3.89

Table 3: IQFY24 Results Analysis

FYE July (RM mn)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	1,029.9	1,071.5	1,106.5	3.3	7.4
~ Manufacturing	716.0	619.7	650.4	4.9	(9.2)
~ Property	313.9	451.8	456.1	1.0	45.3
Interest Expense	(8.0)	(7.5)	(6.9)	8.0	13.8
Investing Results	1.4	4.1	3.2	(22.4)	137.1
Depreciation	(30.4)	(31.5)	(33.1)	(5.0)	(8.8)
EBITDA	173.8	180.5	224.6	24.4	29.2
Operating Profit	143.4	148.9	188.5	26.5	31.4
~ Manufacturing	56.9	47.0	50.4	7.4	(11.4)
~ Property	86.5	124.7	138.0	10.7	59.6
EI	(5.5)	(21.5)	1.3	>100	>100
Reported PBT	136.7	145.6	187.7	29.0	37.3
Taxation	(23.3)	(37.2)	(42.3)	(13.7)	(81.5)
Minority Interest	(6.2)	6.5	(4.6)	>-100	26.1
Reported Profit	107.2	114.9	137.8	20.0	28.6
Adj. Net Profit	112.7	136.4	136.5	0.1	21.1
EPS (sen)	6.9	7.4	8.9	20.0	28.7
DPS (sen)	0.0	5.0	0.0	nm	nm
				%-pts	%-pts
EBIT Margin (%)	13.9	13.9	17.0	3.1	3.1
~ Manufacturing	8.0	7.6	7.8	0.2	(0.2)
~ Property	27.5	27.6	30.3	2.7	2.7
PBT Margin (%)	13.3	13.6	17.0	3.4	3.7
Core Net Margin (%)	10.9	12.7	12.3	(0.4)	1.4
Tax rate (%)	17.0	25.5	22.5	(3.0)	5.5

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Stock Recommendation Guideline

BUY : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★★	★★★★	★★★★
Remark	Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution.	Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly.	The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%.	

★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, December 15, 2023, the analyst, Liew Yi Jiet, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD 197301001467 (14948-M)
A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my