Scientex STIK.KL SCI MK

EQUITY: MATERIALS

Property shines; packaging recovery underway

Quick Note

Rating Remains	**Buy**
Target price Remains	**MYR 4.40**
Closing price 25 March 2024	**MYR 3.82**

Research Analysts

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2Q24 slightly ahead as strong Property business offsets softness in Packaging

Scientex reported 2Q24 core PATAMI of MYR132mn, bringing 1H24 earnings to MYR269mn (+26% y-y). 1H24 profit improvement was mainly due to increased contribution from the Property division driven by higher sales and steady construction progress, while the Packaging division's contribution largely remained flat y-y.

1H24 profit formed 52% of our and 49% of Bloomberg consensus' FY24 earnings estimates, vs 46% for the corresponding period last year. We deem this slightly ahead of our estimates, as management expects second-half earnings to improve from the first half for both the Packaging and Property segments. Our FY24F core PATAMI estimate of MYR521mn implies a 13% improvement from last year, mainly driven by the performance of its Property segment.

2Q24 revenue of MYR1,093mn was up 12% y-y (down 1% q-q), implying 1H24 revenue of MYR2.2bn (up 10% y-y). This accounts for 46%/49% of our/Bloomberg consensus revenue estimates. The revenue improvement in 1H24 was largely due to higher contribution from Property development, while Packaging's contribution tracked lower on softer consumer packaging exports demand.

Packaging seeing signs of a recovery

Packaging revenue was MYR636mn for the quarter (-3% y-y), down mainly due to softening of export market demand from the consumer packaging segment. However, the segment's operating profit was higher at MYR64mn, up 10% y-y, mainly due to the initiatives taken by the company to enhance competitiveness, as well as a favorable product mix. According to management, the Packaging business saw a utilization rate of 55-60% in 1H24, and the company is working to increase it along with a gradual improvement in the global economy. Management expects the utilization rate to inch up and possibly reach 60% in 2H24F, which may be driven by both the consumer and industrial packaging segments.

Management targets capex of ~MYR17mn in FY24E for the Packaging segment. This is on the back of significant investments over the past three years. Going forward, the focus will shift to increasing utilization from the current 55-60% level.

Another robust performance by the Property segment

Revenue for the Property segment increased 41% y-y on steady construction progress across all developments, as demand for affordable new homes continued to be strong. The segment's operating margin improved by 1.5pp y-y to 29.1% in 1H24 mainly due to higher sales. Scientex launched 2,137 units across 10 launches in 1H24, worth MYR657mn in terms of total GDV (Gross Development Value). Scientex also acquired two land parcels in 1H24 (total 802 acres) for MYR507mn. Furthermore, SCI announced two more land acquisitions of 443 acres and 826 acres in February and March 2024, respectively, worth a combined MYR536mn. Currently, there are 33 projects under development across Malaysia over 9,216 acres, with a potential GDV of MYR36.7bn. 2Q24 new launches were reported at MYR303mn, while the take-up rate for financial year launches as at Jan-24 was ~60%, according to management. Going forward, management will continue to explore acquisition opportunities in land bank to grow the business.

Outlook

Management expects global demand for packaging to gradually improve and expects the

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second half to be better than 1H24. There are signs of a recovery in overseas markets such as Japan, Australia, and SouthEast Asia. The US business has seen utilization going up from 30% last year to 40% currently, and it is now profitable.

For the Property division, management expects robust demand to continue in the affordable segment, and SCI will continue to launch new phases of developments at affordable pricing and at strategic locations. SCI will continue to look for acquisition opportunities in land bank to utilize its balance sheet and maximize shareholders value. Management is comfortable taking net leverage to 0.5x from the current 0.15x level if opportunities arise.

Maintain Buy rating and target price of MYR4.40

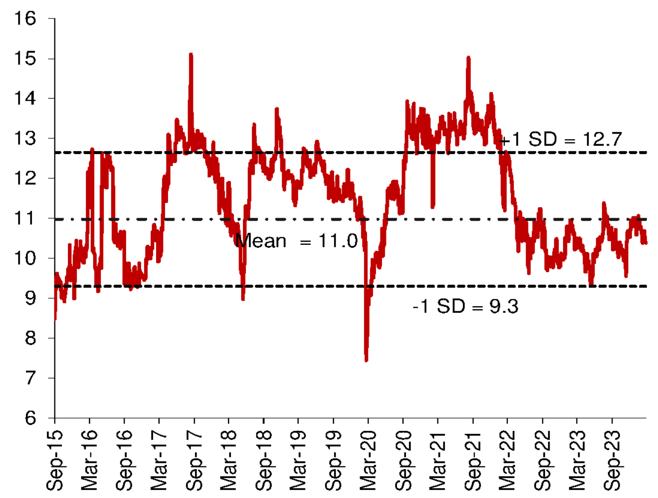
We maintain our earnings estimates and Buy rating with a target price of MYR4.40. Our FY24F earnings estimate of MYR521mn implies a 13% y-y increase from FY23 core earnings. We value the packaging division on a DCF basis (unchanged 7.3% WACC) and the property division at a 25% discount to RNAV. The stock is currently trading at a FY25F (July year-end) P/E of 9.8x compared with the historical average one-year forward P/E of 11.0x.

Fig. 1: 2Q24 results

				%chg y-y				% chg			% chg	As a %
	2Q23	**1Q24**	**2Q24**	**q-q**	**y-y**	**1H23**	**1H24**	**y-y**	**FY23**	**FY24F**	**y-y**	**FY24F**
P&L statement												
Packaging	655	650	636	-2%	-3%	1,371	1,286	-6%	2,626	3,378	29%	
Property	323	456	457	0%	41%	637	913	43%	1,451	1,361	-6%	
Revenue	**978**	**1,107**	**1,093**	**-1%**	**12%**	**2,008**	**2,199**	**10%**	**4,077**	**4,740**	**16%**	**46%**
Costs	(806)	(887)	(879)	-1%	9%	(1,658)	(1,766)	7%	(3,331)	(3,892)	17%	45%
EBITDA	**172**	**219**	**214**	**-2%**	**24%**	**351**	**433**	**24%**	**746**	**848**	**14%**	**51%**
Depreciation	(31)	(33)	(33)	-1%	6%	(61)	(66)	8%	(124)	(126)	2%	52%
EBIT	**141**	**186**	**181**	**-3%**	**28%**	**289**	**367**	**27%**	**622**	**721**	**16%**	**51%**
Finance income	1	1	1	24%	104%	1	2	75%	5	1	-85%	282%
Finance costs	(10)	(7)	(5)	-28%	-49%	(18)	(12)	-33%	(34)	(41)	23%	29%
Share of results of associates	4	3	2	-28%	-38%	5	6	8%	13	9	-33%	65%
PBT	**136**	**183**	**180**	**-2%**	**33%**	**278**	**363**	**31%**	**606**	**689**	**14%**	**53%**
Tax	(29)	(42)	(43)	2%	48%	(52)	(85)	63%	(120)	(132)	10%	65%
MI	(6)	(5)	(5)	1%	-23%	(12)	(9)	-24%	(24)	(36)	53%	25%
Core PATAMI	**100**	**137**	**132**	**-3%**	**31%**	**213**	**269**	**26%**	**462**	**521**	**13%**	**52%**
EI	6	1	9	588%	53%	0	10	nm	(24)	-	nm	nm
Reported PATAMI	106	138	141	2%	33%	213	279	31%	438	521	19%	54%
Margins (%)												
Core PATAMI	10.3%	12.3%	12.1%	-0.3pp	1.8pp	10.6%	12.2%	1.6pp	11.3%	11.0%	-0.4pp	111%
EBIT	14.4%	16.8%	16.6%	-0.3pp	2.2pp	14.4%	16.7%	2.3pp	15.3%	15.2%	0pp	110%
EBITDA	17.6%	19.8%	19.6%	-0.2pp	2pp	17.5%	19.7%	2.2pp	18.3%	17.9%	-0.4pp	110%
Effective tax rate	21.5%	23.1%	23.9%	0.9pp	2.4pp	18.9%	23.5%	4.6pp	19.8%	19.2%	-0.6pp	123%
Reported Segment Operating Profit												
Packaging	58	50	64	27%	10%	115	114	-1%				
Property	89	138	127	-8%	43%	176	265	51%				
Total	**147**	**188**	**191**	**2%**	**30%**	**291**	**380**	**31%**				
Packaging margin	8.9%	7.8%	10.1%	2.3pp	1.2pp	8.4%	8.9%	0.5pp				
Property margin	27.6%	30.3%	27.9%	-2.4pp	0.3pp	27.6%	29.1%	1.5pp				
Total	**15.1%**	**17.0%**	**17.5%**	**0.5pp**	**2.4pp**	**14.5%**	**17.3%**	**2.8pp**				

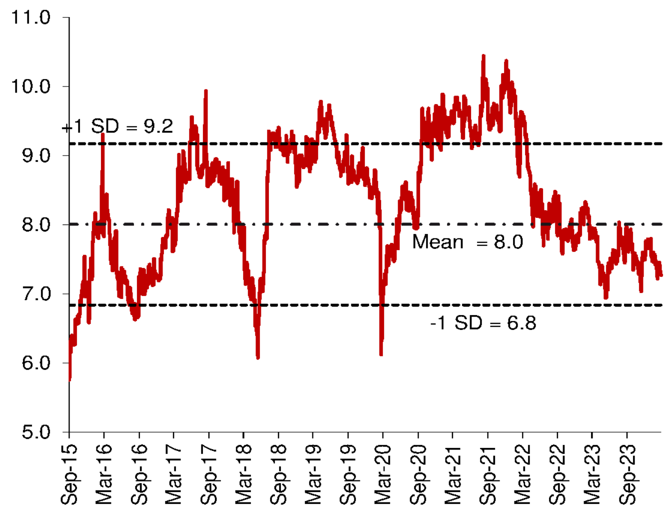
Source: Company data, Nomura estimates

Fig. 2: SCI: 12-month forward P/E



Source: Bloomberg Finance L.P., Nomura research

Fig. 3: SCI: 12-month forward EV/EBITDA



Source: Bloomberg Finance L.P., Nomura research

Appendix A-1

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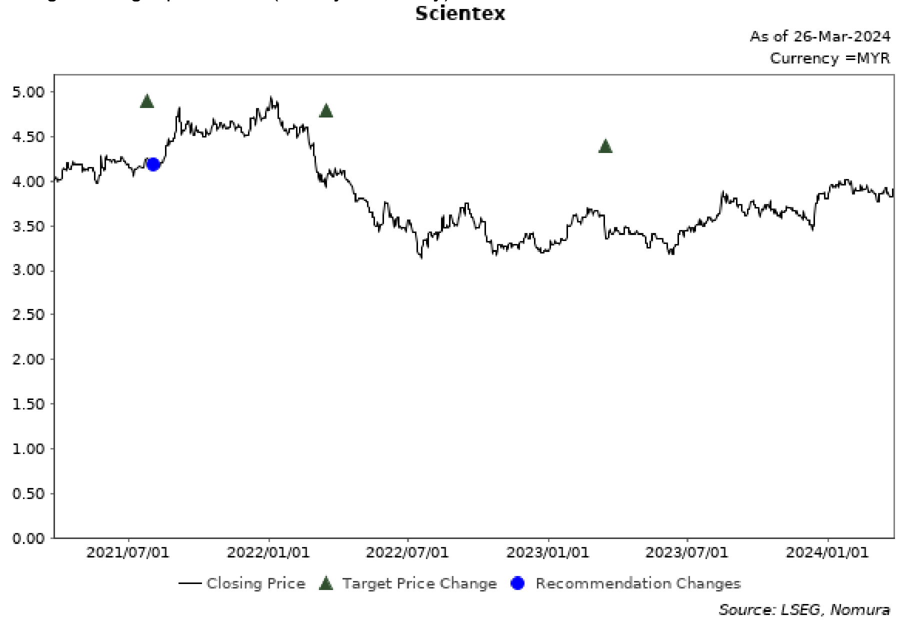
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Scientex	SCI MK	MYR 3.82	25-Mar-2024	Buy	N/A	

Scientex (SCI MK) **MYR 3.82 (25-Mar-2024)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
16-Mar-23		4.40	3.37
17-Mar-22		4.80	4.00
26-Jul-21	Buy		4.26
26-Jul-21		4.90	4.26

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 FBMKLCI 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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