Scientex

Focused on Affordable Homes

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MARKET PERFORM ↑

Price:	**RM4.19**
Target Price:	**RM4.15** ↑

SCIENTX's FY24 results met expectations. Despite marginally lower revenue, profit expansion in the packaging business was preserved by efficiency gains. The primary factor for the 17% YoY growth in FY24 core net profits was its robust property earnings as its focus on the affordable housing segment has been bearing fruit. Pencilling in encouraging take-up rates on recent projects, more similar launches are anticipated following active land acquisitions in FY24. These should continue to do well, resulting in us nudging up FY25F earnings by 2%, and in turn lifting our TP by 4% to RM4.15 (from RM4.00). Our new TP commensurates with a MARKET PERFORM from previously UNDERPERFORM.

SCIENTX's FY24 core net profit of RM538.0m met expectations. It declared a DPS of 6 sen in 4QFY24, bringing FY24 dividend to 12 sen which was in line with our expectation.

YoY, its FY24 turnover expanded by 10%, driven mainly by its property segment (+30% YoY) due to steady construction progress and robust demand for new launches in Sungai Dua (Penang), Jenjarom (Selangor), Pulai and Senai (Johor). Meanwhile, its packaging revenue remained flat as weaker consumer packaging demand was offset by better industrial packaging exports.

Its core net profit grew by a sharper 17%, thanks to improved margins from better packaging product mix and enhanced operational efficiency.

QoQ, its 4QFY24 top line inched up by 5% while bottom line rose by 9% largely due to lower effective tax rate. Note that we excluded the RM4.5m forex loss in deriving 4QFY24 core net profit.

The key takeaways from the results briefing are as follows:

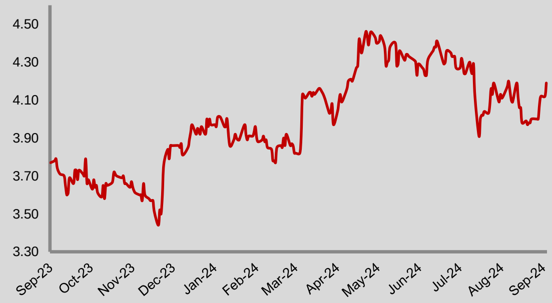
1. SCIENTX guided for slow demand recovery in the packaging division especially in consumer packaging due to constrained purchasing power as well as competitive pricing environment. The current utilisation rate remained around 55%, which is similar to FY23. However, as FY24 production capacity is slightly (4%) higher, the flattish utilisation rate does imply a modest uptick in FY24 orders.

2. SCIENTX recently invested in a new co-extrusion tandem coating or lamination line to target liquid and paste packaging products in the F&B and FMCG sectors. This new machine can laminate multiple layers in a single process thus reducing manpower and improving cost efficiency.

3. Its two Klang Valley new property launches in Jenjarom and Cheras saw strong demand. In the former, shop offices launched in Apr 2024 were fully taken up while two of its residential launches in the same location launched in May and June hit take-up of 95% and 70%, respectively. In the latter, its shop offices in Cheras achieved an 85% take-up rate, with a residential launch planned for FY25.

4. It launched RM1.9b GDV in FY24 with 6,336 units across West Malaysia and aims for at least RM2b GDV in FY25, with several land bank acquisitions to be completed in the near term. The acquisitions in Bestari Jaya (Selangor) and Seberang Perai Selatan (Jawi, Penang) are set to be completed by 4QCY24, while the one in Pulai (Johor) is expected by 1HCY25.

Share Price Performance



KLCI	1,670.37
YTD KLCI chg	14.8%
YTD stock price chg	10.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	6,499.8
Shares Outstanding	1,551.3
52-week range (H)	4.50
52-week range (L)	3.44
3-mth avg. daily vol.	509,277
Free Float	33%
Beta	0.8

Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	11.2%
Scientex Leasing Sdn Bhd	9.1%

Summary Earnings Table

FYE Jul (RM m)	2024A	2025F	2026F
Turnover	4475.6	4917.7	5325.9
EBIT	736.5	796.7	857.5
PBT	728.9	776.6	833.8
Net Profit (NP)	**545.2**	**581.5**	**627.6**
Core NP	**538.0**	**581.5**	**627.6**
Consensus (NP)	-	599.6	642.0
Earnings Revision	-	+2%	NEW
Core EPS (sen)	34.7	37.5	40.5
Core EPS Growth (%)	16.6	8.1	7.9
NDPS (sen)	12.0	12.5	13.0
BVPS (RM)	2.4	2.7	3.0
Core PER (x)	12.1	11.2	10.4
PBV (x)	1.7	1.6	1.4
Net Gearing (x)	0.2	0.2	0.1
Net Div. Yield (%)	2.9	3.0	3.1

Forecasts. We fine-tune our FY25F earnings by a 2% upward adjustment to reflect better demand for its affordable properties. In addition, we introduce our FY26F numbers with 8% YoY core EPS growth.

Valuations. We adjust our TP upward by 4% to RM4.15 (from RM4.00) as we recalibrate our property valuation based on the latest outstanding GDV guidance (see Page 3), which has been adjusted upwards by RM4.5b (mainly due to its new Cheras project). However, our revised TP continues to value the packaging business at an unchanged 12x FY25F PER, a premium to sector's average forward PER of 10x to reflect its size and leadership as one of the largest players in the region. There is no ESG-based adjustment to our TP given its 3-star rating as appraised by us (see Page 5).

Investment case. We like SCIENTX for its competitiveness in the global plastic packaging industry thanks to its scale advantage, low-cost structure (especially, when compared to its overseas rivals), and strong foothold in the affordable housing segment, notably in Johor. While we believe its current valuations have fully reflected its fundamentals, the recent share price correction has balanced out the risk-reward for the stock. Hence, we upgrade our call to **MARKET PERFORM** from **UNDERPERFORM**.

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.

Financial Highlights

FYE July (RM m)	4QFY24	3QFY24	QoQ Chg	4QFY23	YoY Chg	FY24	FY23	YoY Chg
Revenue	1168.3	1108.0	5%	1071.5	9%	4475.6	4076.9	10%
EBIT	180.7	177.4	2%	170.3	6%	729.3	613.0	19%
Interest Income	5.3	4.1	32%	4.1	29%	14.9	12.6	18%
Finance Costs	-5.6	-5.1	9%	-7.5	-26%	-22.6	-33.5	-33%
Exceptional Items	-3.5	2.2	-259%	-21.4	-84%	7.2	-23.4	-131%
PBT	177.0	178.5	-1%	145.6	22%	728.9	568.7	28%
Taxation	-33.8	-40.6	-17%	-37.2	-9%	-159.7	-119.7	33%
Minority Interest	-7.3	-7.4	-1%	6.5	-212%	-24.0	-10.8	122%
Net Profit	**135.9**	**130.5**	**4%**	**114.9**	**18%**	**545.2**	**438.1**	**24%**
Core Net Profit	**139.4**	**128.3**	**9%**	**136.3**	**2%**	**538.0**	**461.6**	**17%**
Effective Tax Rate (%)	19.1	22.8		25.5		21.9	21.1	
EBIT Margin (%)	15.5	16.0		15.9		16.3	15.0	
PBT Margin (%)	15.1	16.1		13.6		16.3	13.9	
CNP Margin (%)	11.9	11.6		12.7		12.0	11.3	

Source: Company, Kenanga Research

Segmental Breakdown

FYE July (RM m)	4QFY24	3QFY24	QoQ Chg	4QFY23	YoY Chg	FY24	FY23	YoY Chg
Turnover								
Packaging	651.3	656.9	-1%	619.7	5%	2594.5	2626.2	-1%
Property	517.0	451.1	15%	451.8	14%	1881.1	1450.7	30%
Group Turnover	**1168.3**	**1108.0**	**5%**	**1071.5**	**9%**	**4475.6**	**4076.9**	**10%**
EBIT								
Packaging	45.2	58.4	-23%	24.3	86%	218.0	184.0	18%
Property	132.0	121.2	9%	124.7	6%	518.5	405.6	28%
Group EBIT	**177.2**	**179.6**	**-1%**	**148.9**	**19%**	**736.5**	**589.6**	**25%**
EBIT Margin								
Packaging	6.9%	8.9%		3.9%		8.4%	7.0%	
Property	25.5%	26.9%		27.6%		27.6%	28.0%	
Group EBIT Margin	**15.2%**	**16.2%**		**13.9%**		**16.5%**	**14.5%**	

Source: Company, Kenanga Research

SCIENTX's Sum-of-Parts Valuation		
Segment	**Valuation (RM m)**	**Valuation Basis**
Packaging	2,303	12x FY25 PER
Property	4,134	50% discount to RNAV (see the following table)
Total	**6,437**	
Paid-up Capital (m shares)	1,551	
SoP per share / TP (RM)	**4.15**	

Source: Kenanga Research

RNAV of SCIENTX's Property Development Projects		
Project	**Outstanding GDV (RM m)**	**NPV of profit (RM m)**
Scientex Tasek Gelugor	306	63
Scientex Ipoh	914	173
Scientex Rawang	691	131
Scientex Kundang Jaya	1,450	275
Scientex Seremban	857	162
Taman Muzaffar Heights	701	133
Scientex Durian Tunggal	416	86
Scientex Jasin & Scientex Bandar Jasin	5,051	776
Taman Scientex Pasir Gudang	227	47
Taman Scientex Kulai	282	58
Taman Mutiara Mas	1,166	179
Taman Scientex Senai	1,935	297
Scientex Pulai	3,177	488
Scientex Kota Tinggi	167	35
Scientex Sg Petani	500	95
Scientex Sungai Dua	1,700	261
Scientex Jenjarom	1,600	246
Scientex Cheras	2,900	445
Scientex Kulai	1,999	307
*Scientex Muar	1,333	205
*Scientex Bestari Jaya	2,238	344
*Scientex Jawi	3,083	474
*Scientex Pulai 4	2,543	391
	35,236	**5,671**
Unbilled Sales (as of Jul-24)	**1,800**	**390**
Property Shareholders Fund		2,206
Total RNAV (RM m)		**8,268**
Discount to RNAV (%)		50%
Discounted RNAV		**4,134**

Source: Kenanga Research, Company

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BM GREENTECH BHD	UP	1.77	1.30	-26.6%	913.3	Y	03/2025	8.0	9.0	22.3%	13.1%	22.2	19.6	3.4	15.8%	1.8	1.0%
BP PLASTICS HOLDINGS BHD	OP	1.26	1.42	12.7%	354.7	Y	12/2024	12.1	14.1	1.5%	16.8%	10.4	8.9	1.3	12.5%	6.5	5.2%
HPP HOLDINGS BHD	MP	0.435	0.290	-33.3%	169.0	Y	05/2025	2.2	3.0	107.3%	38.8%	19.9	14.3	1.3	6.8%	1.5	3.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.690	0.450	-34.8%	370.8	Y	12/2024	2.0	4.4	158.5%	125.5%	35.0	15.5	0.3	1.0%	2.0	2.9%
SCIENTEX BHD	MP	4.19	4.15	-1.0%	6,499.8	Y	07/2025	37.5	40.5	8.1%	7.9%	11.2	10.4	1.5	13.9%	13.0	3.1%
SLP RESOURCES BHD	OP	0.930	1.05	12.9%	294.8	Y	12/2024	5.2	5.9	50.5%	13.4%	18.0	15.9	1.5	8.6%	5.0	5.4%
TECHBOND GROUP BHD	OP	0.430	0.540	25.6%	272.1	Y	06/2025	4.3	5.3	34.9%	23.2%	10.1	8.2	1.2	12.4%	1.3	2.9%
THONG GUAN INDUSTRIES BHD	OP	1.65	2.80	69.7%	662.7	Y	12/2024	21.9	25.4	8.1%	15.8%	7.5	6.5	0.7	9.1%	5.5	3.3%
SECTOR AGGREGATE					**10,524.3**					**26.6%**	**12.1%**	**11.5**	**10.2**	**1.3**	**11.1%**		**3.2%**

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	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★	★		
	Resource Management	★	★	★	★	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
	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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