

13 March 2025

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Neutral (Maintained)

Weak Packaging Segment Drags Earnings

Target Price (Return): MYR3.70 (7%)
 Price (Market Cap): MYR3.44 (USD1,209m)
 ESG score: 3.0 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.84m/0.41m

- **Keep NEUTRAL, new MYR3.70 TP from MYR4.25, 7% upside.** 2QFY25 (Jul) results missed expectations, as the packaging segment continued to post weaker-than-expected contributions. While the property segment remains robust, management believes the global packaging market continues to be challenging in the near term. Regardless, we think the stock is fairly valued, as it is now trading at 10.1x FY25F P/E – in line with its historical mean.
- **Missed expectations.** Scientex posted a 2QFY25 net profit of MYR126m (-2.1% QoQ, -4.4% YoY), bringing 1HFY25 core earnings to MYR255m (-5.6% YoY). This came in below expectations, at 44% of our and Street's full-year estimates – mainly due to lower-than-expected contributions from the packaging segment.
- **Results review.** The packaging segment's operating profit fell 34% YoY in 2QFY25 despite a 1% YoY slip in revenue. This was mainly due to the challenging environment for the industrial packaging sub-segment, as capacity expansion in the market resulted in lower realised ASPs. As a result, this segment's core operating margin thinned to 6.7% in 2QFY25 (2QFY24: 8.6%). This brought 1HFY25 operating profit to MYR73m (-36% YoY). On the property side, revenue and operating profit rose 6% and 5.7% YoY thanks to the higher construction progress and strong take-ups from new launches.
- **Outlook.** Management believes the packaging market will remain challenging in the near term, especially for the industrial sub-segment, with a rebound anticipated in CY26 – offset by returning demand for consumer packaging. Meanwhile, a relatively weak MYR should support Scientex's export markets. Note: The consumer packaging sub-segment roughly makes up 44% of 1HFY25 packaging revenue. The property segment continues to remain robust – driven by strong demand for its affordable housing offerings.
- **We cut our FY25F-27F earnings by 4-10%** after lowering our margin assumptions for the packaging segment to 5.3%, 6.7%, and 6.8% from 7.6%, 8.6%, and 7.8%. This is given the intensifying competition in the industrial packaging sub-segment.
- **Maintain NEUTRAL with a new SOP-based TP of MYR3.70.** Our TP is derived after taking into account a 0% ESG premium/discount, as Scientex's ESG score is 3.0, ie the country median. The group's valuation is now fair – it is 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.

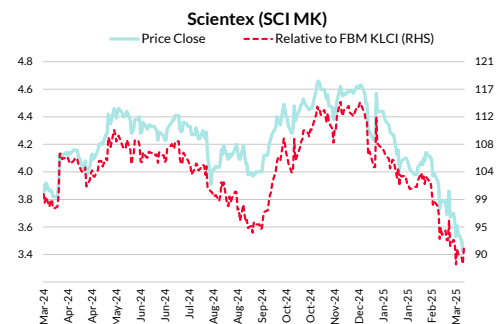
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.5)	(15.7)	(25.7)	(13.6)	(10.7)
Relative	(12.9)	(8.3)	(18.4)	(4.2)	(6.2)
52-wk Price low/high (MYR)	3.42 – 4.66				



Source: Bloomberg

Forecasts and Valuation	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
Total turnover (MYRm)	4,077	4,476	4,915	5,306	5,617
Recurring net profit (MYRm)	462	537	529	599	633
Recurring net profit growth (%)	14.9	16.3	(1.6)	13.3	5.7
Recurring P/E (x)	11.55	9.93	10.09	8.91	8.43
P/B (x)	1.6	1.4	1.3	1.2	1.1
P/CF (x)	6.62	6.21	8.82	7.30	6.61
Dividend Yield (%)	2.9	2.9	4.1	4.4	4.4
EV/EBITDA (x)	8.28	7.14	7.32	6.49	5.93
Return on average equity (%)	13.5	15.2	13.4	14.0	13.6
Net debt to equity (%)	18.6	17.0	16.8	14.2	10.6

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.0 (GOOD)

G Score: 2.8 (GOOD)

Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

In FY24, Scope 1 emissions decreased to 5,509 tonnes of CO₂e (FY23: 6,295 tonnes of CO₂e) while Scope 2 decreased to 147,626 tonnes of CO₂e (FY23: 135,898 tonnes of CO₂e)

Emissions (tCO ₂ e)	Jul-22	Jul-23	Jul-24	Jul-25
Scope 1	6,118	6,295	5,509	na
Scope 2	150,222	135,898	147,626	na
Scope 3	na	na	na	na
Total emissions	156,340	142,193	153,135	na

Source: Company data, RHB

Latest ESG-Related Developments

While Scientex does not have an emission reduction target, it is now adopting renewable energy solutions by installing solar panels at its operation sites to reduce greenhouse gas (GHG) emissions.

ESG Unbundled

Overall ESG Score: 3.0 (out of 4)

Last Updated: 18 December 2024

E Score: 3.0 (GOOD)

Scientex has not established its GHG emissions target at this time, but has consistently reduced GHG emissions since 2020. Scientex has reduced its GHG emissions intensity by 11% from FY20 to FY24. It has also developed various packaging solutions that are 100% recyclable and plans to continue its efforts in providing sustainable packaging solutions.

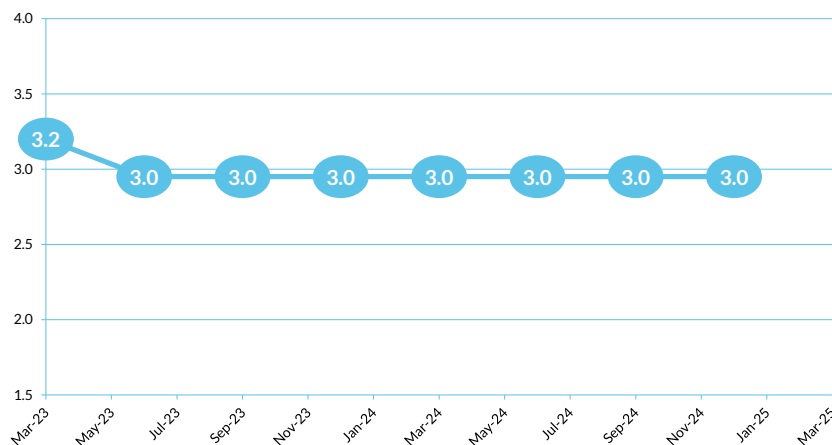
S Score: 3.0 (GOOD)

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 FY24, which outlines its key areas of commitment to meet high standards in terms of occupational safety and health.

G Score: 2.8 (GOOD)

Independent directors make up more than 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. The group only conducts briefings for analysts on a half-yearly basis.

ESG Rating History



Source: RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
Malaysia	Recurring EPS	0.30	0.35	0.34	0.39	0.41
Consumer Non-cyclical	DPS	0.10	0.10	0.14	0.15	0.15
Scientex	BVPS	2.19	2.43	2.64	2.87	3.13
SCI MK	Return on average equity (%)	13.5	15.2	13.4	14.0	13.6
Neutral						
	Valuation metrics	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
Valuation basis	Recurring P/E (x)	11.55	9.93	10.09	8.91	8.43
We use SOP valuation to derive our TP	P/B (x)	1.6	1.4	1.3	1.2	1.1
	FCF Yield (%)	12.8	14.4	8.5	10.9	12.3
Key drivers	Dividend Yield (%)	2.9	2.9	4.1	4.4	4.4
i. Ongoing capacity expansion of its plastic segment;	EV/EBITDA (x)	8.28	7.14	7.32	6.49	5.93
ii. Venture into new film products that bear exciting market opportunities locally;	EV/EBIT (x)	9.95	8.43	8.35	7.37	6.75
iii. Ongoing property launches.						
Key risks	Income statement (MYRm)	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
Key upside risks include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices.	Total turnover	4,077	4,476	4,915	5,306	5,617
The converse of these represent the downside risks.	Gross profit	890	1,009	1,213	1,294	1,389
	EBITDA	737	861	848	951	1,024
	Depreciation and amortisation	(124)	(132)	(104)	(114)	(124)
	Operating profit	613	729	743	837	900
	Net interest	(34)	(23)	(39)	(43)	(46)
	Pre-tax profit	569	729	718	808	854
	Taxation	(120)	(160)	(162)	(178)	(188)
	Reported net profit	438	545	529	599	633
	Recurring net profit	462	537	529	599	633
	Cash flow (MYRm)	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
	Change in working capital	199	126	(81)	(42)	(29)
	Cash flow from operations	806	859	605	731	807
	Capex	(123)	(92)	(150)	(150)	(150)
	Cash flow from investing activities	(270)	(640)	(400)	(400)	(400)
	Dividends paid	(162)	(192)	(217)	(233)	(233)
	Cash flow from financing activities	(561)	(133)	(166)	(185)	(189)
	Cash at beginning of period	191	166	252	291	437
	Net change in cash	(25)	86	39	145	218
	Ending balance cash	166	252	291	437	654
	Balance sheet (MYRm)	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
	Total cash and equivalents	166	252	291	437	654
	Tangible fixed assets	2,983	3,294	3,590	3,876	4,152
	Total investments	118	110	123	137	137
	Total assets	5,505	6,154	6,618	7,188	7,776
	Short-term debt	767	863	963	1,063	1,163
	Total long-term debt	70	70	60	50	40
	Total liabilities	1,899	2,142	2,268	2,439	2,594
	Total equity	3,606	4,011	4,351	4,748	5,182
	Total liabilities & equity	5,505	6,154	6,618	7,188	7,776
	Key metrics	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
	Revenue growth (%)	2.3	9.8	9.8	8.0	5.9
	Recurrent EPS growth (%)	14.9	16.3	(1.6)	13.3	5.7
	Gross margin (%)	21.8	22.5	24.7	24.4	24.7
	Operating EBITDA margin (%)	18.1	19.2	17.2	17.9	18.2
	Net profit margin (%)	10.7	12.2	10.8	11.3	11.3
	Dividend payout ratio (%)	35.4	28.4	41.1	38.9	36.8
	Capex/sales (%)	3.0	2.0	3.1	2.8	2.7
	Interest cover (x)	18.3	32.2	19.0	19.6	19.4

Source: Company data, RHB

Results At a Glance

Figure 1: 1HFY25 results review

FYE Jul (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)	Comments
Revenue	1,092.7	1,109.4	1,105.1	(0.4)	1.1	2,199.2	2,214.6	0.7	YTD: Higher YoY due to increased revenue from the property segment (+5%), offset by lower packaging topline (-2%).
Adjusted EBITDA	215.3	145.3	277.8	91.2	29.0	437.3	423.0	(3.3)	
Adjusted EBITDA margin (%)	19.7	13.1	25.1			19.9	19.1		
Depreciation	(32.9)	32.0	(100.2)	(413.3)	204.4	(66.0)	(68.2)	3.3	
Adjusted operating profit	182.4	177.2	177.6	0.2	(2.6)	371.2	354.8	(4.4)	Lower contributions from the packaging segment (-36% YoY), offset by higher contributions from the property segment (+5% YoY).
Operating margin (%)	16.7	16.0	16.1			16.9	16.0		
El/others	8.9	(0.3)	(2.3)	n.m.	n.m.	8.5	(2.7)	n.m.	
Reported operating profit	191.3	176.9	175.2	(0.9)	(8.4)	379.7	352.1	(7.3)	
Interest expense	(5.0)	(4.8)	(4.8)	(1.5)	(3.9)	(11.9)	(9.6)	(19.1)	
Share of associates	2.3	3.5	3.0	(12.6)	30.6	5.5	6.5	17.7	
Reported PBT	188.7	175.5	173.5	(1.1)	(8.0)	373.4	349.0	(6.5)	
Tax	(43.0)	(41.3)	(40.4)	(2.2)	(6.0)	(85.3)	(81.7)	(4.2)	
Effective tax rate (%)	22.8	23.5	23.3			22.8	23.4		
Minority interest	(4.7)	(5.6)	(9.2)	62.9	97.1	(9.3)	(14.8)	59.7	
Net profit	141.0	128.6	123.9	(3.6)	(12.1)	278.9	252.6	(9.4)	Below our and consensus expectations, at 44%.
Core profit	132.1	128.9	126.3	(2.1)	(4.4)	270.3	255.2	(5.6)	
Core net margin (%)	12.1	11.6	11.4			12.3	11.5		

Source: Company data, RHB

Figure 2: Segmental results review

FYE Jul (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Revenue								
Packaging	635.8	625.7	630.7	0.8	-0.8	1,286.2	1,256.5	-2.3
Property development	456.9	483.7	474.4	-1.9	3.8	913.0	958.1	4.9
Total	1,092.7	1,109.4	1,105.1	-0.4	1.1	2,199.2	2,214.6	0.7
Reported operating profit								
Packaging	64.0	31.0	42.1	36.0	-34.1	114.4	73.1	-36.1
Property development	127.3	145.9	133.1	-8.8	4.5	265.3	279.0	5.2
Total	191.3	176.9	175.2	-0.9	-8.4	379.7	352.1	-7.3
Operating margin (%)								
Packaging	10.1	5.0	6.7			8.9	5.8	
Property development	27.9	30.2	28.1			29.1	29.1	
Total	17.5	15.9	15.9			17.3	15.9	

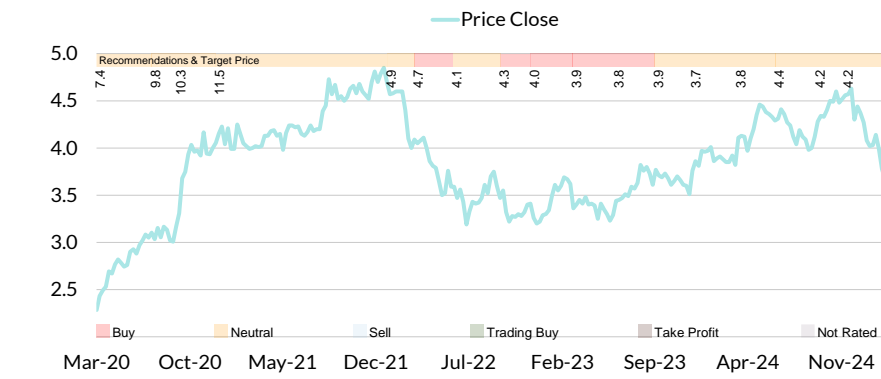
Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	10x P/E on CY25F earnings	972.0
Property	RNAV (Discount of 35%)	4,729.6
Total intrinsic value (MYRm)		5,701.6
Fully diluted share base (m)		1,551.3
Intrinsic value per share		3.70
+0% ESG premium		0.00
TP (MYR)		3.70

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-12-18	Neutral	4.2	4.5
2024-09-25	Neutral	4.2	4.2
2024-06-23	Neutral	4.4	4.3
2024-03-27	Neutral	3.8	4.1
2023-12-15	Neutral	3.7	3.8
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

Source: RHB, Bloomberg

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