

COMPANY RESULTS

Scientex (SCI MK)

1HFY25: Weaker Packaging Drags Earnings

Scientex's 1HFY25 results missed expectations. While the property division posted respectable results, earnings were dragged by margin compression in the packaging segment. Looking forward, the outlook appears mixed with the challenging environment for the packaging segment offsetting growth from the more robust property division. While we lower our target price to RM4.05, we upgrade our call to BUY on valuation grounds.

2QFY25 RESULTS

Year to 31 Jul (RMm)	2QFY25	qoq % chg	yoy % chg	1HFY25	yoy % chg
Turnover	1105.1	(0.4)	1.1	2,214.6	0.7
Manufacturing	630.7	0.8	(0.8)	1,256.5	(2.3)
Property	474.4	(1.9)	3.8	958.1	4.9
EBIT	175.2	(0.9)	(8.4)	352.1	(7.3)
Manufacturing	42.1	36.0	(34.1)	73.1	(36.1)
Property	133.1	(8.8)	4.5	279.0	5.2
Finance costs	(4.8)	(1.5)	(3.9)	(9.6)	(19.1)
PBT	173.5	(1.1)	(8.0)	349.0	(6.5)
Core net profit	125.9	(2.1)	(5.3)	254.6	(5.3)
Margins (%)		qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
EBIT	15.9	(0.1)	(1.6)	15.9	(1.4)
-Manufacturing	6.7	1.7	(3.4)	5.8	(3.1)
-Property	28.1	(2.1)	0.2	29.1	0.1
PBT	15.7	(0.1)	(1.6)	15.8	(1.2)
Core net profit	11.4	(0.2)	(0.8)	11.5	(0.7)

Source: Scientex, UOB Kay Hian

RESULTS

• **Below expectations.** Scientex's 1HFY25 core net profit came in at RM254.3m (-5.3% yoy) after excluding forex losses and disposal gains. This missed both our and consensus' expectations, making up 44% of both forecasts. The negative deviation came largely from weaker-than-expected packaging earnings. The packaging segment faced significant margin compression due to higher competition for industrial packaging, resulting in lower ASPs and EBIT declining to RM73.1m (-36.1%) in 1HFY25. Conversely, property EBIT grew 5.2% to RM279.0m (+5.2%) on the back of higher launches and robust take-up rates.

KEY FINANCIALS

Year to 31 Jul (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	4,077	4,479	4,336	4,861	5,183
EBITDA	713	869	871	939	1010
Operating profit	590	737	709	780	856
Net profit (rep./act.)	438	545	544	599	657
Net profit (adj.)	438	545	544	599	657
EPS (sen)	28.3	35.2	35.1	38.7	42.4
PE (x)	12.3	9.9	9.9	9.0	8.2
P/B (x)	1.6	1.4	1.3	1.2	1.1
EV/EBITDA (x)	8.8	7.2	6.7	6.8	6.4
Dividend yield (%)	2.9	3.5	3.0	3.3	3.7
Net margin (%)	10.7	12.2	12.5	12.3	12.7
Net debt/(cash) to equity (%)	19.8	18.0	4.6	15.2	15.5
Interest cover (x)	21.3	38.4	59.5	71.5	76.9
ROE (%)	13.9	16.3	15.4	16.0	16.6
Consensus net profit	-	-	583	638	679
UOBKH/Consensus (x)	-	-	0.93	0.94	0.97

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM3.44
Target Price	RM4.05
Upside	+16.1%
(Previous TP)	RM4.87

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	1,556.3
Market cap (RMm):	5,353.6
Market cap (US\$m):	1,209.0
3-mth avg daily t'over (US\$m):	0.7

Price Performance (%)

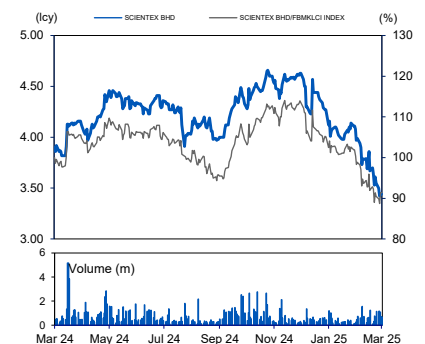
52-week high/low	RM4.66/RM3.42			
1mth	3mth	6mth	1yr	YTD
(15.7)	(25.7)	(13.6)	(10.7)	(22.5)

Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.9
Scientex Infinity Sdn Bhd	11.4
Scientex Leasing Sdn Bhd	9.1

FY25 NAV/Share (RM)	2.5
FY25 Net Debt/Share (RM)	(0.2)

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Industrial packaging facing fierce competition.** Scientex's packaging segment reported revenue of RM630.7m (+0.8% qoq, -0.8% yoy) in 2QFY25. While reported EBIT of RM42.1m grew 36.0% sequentially, yoy earnings declined 34.1% compared to 2QFY24. The large fluctuation in margins was largely due to fiercer competition on the industrial packaging side, largely from new capacity coming online within 1HFY25. While absolute sales volume remains relatively stable, new competition from other countries like China has resulted in lower ASPs, especially for the export market. Positively, this only affects the industrial packaging side, with consumer packaging volume actually picking up yoy. Presently, the split between industrial and consumer packaging stands at 52%/48%.

• **Property earnings remained robust.** The property segment posted EBIT of RM133.1m (-8.8% qoq, +3.8% yoy) on revenue of RM474.4 (-1.9% qoq, +3.8% yoy). The segment was buoyed by steady construction progress for its ongoing projects and strong demand for its new launches. Scientex has already launched RM1.0b in 1HFY25 (FY24: RM1.8b) and is targeting at least an additional RM1.0b in 2HFY25. Unbilled sales stood at RM1.7b as of 2QFY25 and we understand that while take-up rates declined to around 50%, this was largely dragged by launches near the end of 2QFY25 and that unsold inventories are minimal.

STOCK IMPACT.

• **Manufacturing expected to remain soft.** The outlook for Scientex's packaging segment appears cloudy. We understand the market is currently facing some overcapacity following some new capacity coming online. While utilisation rate remained stable at 59%, increased competition has resulted in manufacturers competing on ASPs to maintain market share. While margins did expand sequentially, we expect near-term performance to remain relatively muted.

• **Minimal impact from US tariffs.** Regarding concerns on US tariffs, we foresee minimal impact on Scientex. We understand the US only makes up around 10% of overall revenue and the existing plant in Phoenix, Arizona should minimise the impact of any potential tariffs on exports. Positively, the Arizona plant has been seeing increasing demand with current utilisation coming in at 40%.

• **Property earnings picking up.** The outlook for the property segment appears to be a bright spot for the group. We understand that Scientex may increase the pace of its launches in tandem with the uptick in landbanking. However, we understand that this may not be within FY25 given the time needed to rezone and convert land titles.

EARNINGS REVISION/RISK

• We lower our FY25/26/27 forecasts by 6%/7%/5% respectively, imputing lower manufacturing earnings.

VALUATION/RECOMMENDATION

• **Upgrade to BUY with a lower target price of RM4.05 (previously RM4.87).** Our target price is based on a lower FY25 PER of 11.5x (13x previously) or -1.0SD to its five-year mean. We believe this is justified given the structural challenges faced by the packaging segment at this juncture.

• However, we upgrade our call on valuation grounds as we believe negatives have largely been priced in. Scientex currently trades at below -2.0SD to its mean PE and we believe value has emerged.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental

- First plastic film manufacturer in Malaysia to receive the ISCC Plus Certification.
- 8.2% decrease in groupwide greenhouse gas emissions in FY21.

• Social

- Spent RM5.3m in community investment in response to the COVID-19 pandemic.
- Members of local communities comprise 78% of workforce.

• Governance

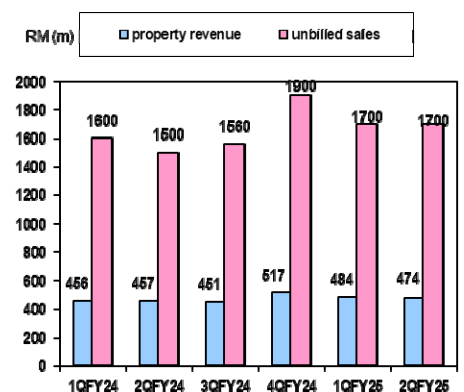
- Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

KEY ASSUMPTIONS

	FY25F	FY26F	FY27F
Manufacturing	2436.0	2861.2	3083.1
Property	1900.0	2000.0	2100.0
Total Revenue	4336.0	4861.2	5183.1
Manufacturing	158.3	200.3	246.6
Property	551.0	580.0	609.0
EBIT	709.3	780.3	855.6

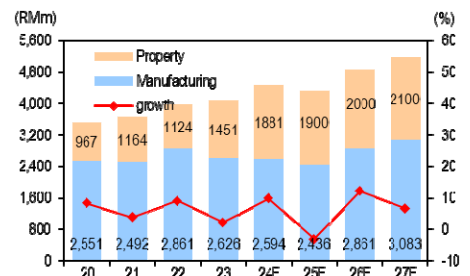
Source: UOB Kay Hian

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



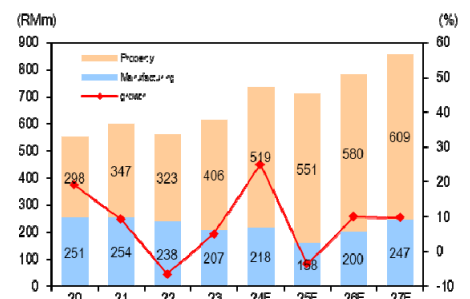
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Net turnover	4479	4336	4861	5183
EBITDA	869	871	939	1010
Deprec. & amort.	132	162	158	155
EBIT	737	709	780	856
Associate contributions	15	15	15	15
Net interest income/(expense)	-23	-15	-13	-13
Pre-tax profit	729	710	782	857
Tax	-160	-142	-156	-171
Minorities	-24	-24	-26	-29
Net profit	545	544	599	657
Net profit (adj.)	545	544	599	657

BALANCE SHEET

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Fixed assets	1,524	2,537	2,479	2,424
Other LT assets	2,231	3,528	4,328	4,728
Cash/ST investment	252	676	173	88
Other current assets	2,146	1,472	1,686	1,947
Total assets	6,154	8,213	8,666	9,187
ST debt	863	566	567	567
Other current liabilities	1054	684	689	721
LT debt	70	301	302	302
Other LT liabilities	155	153	154	154
Shareholders' equity	3776	4157	4576	5036
Minority interest	235	259	285	314
Total liabilities & equity	6,153	6,119	6,573	7,094

CASH FLOW

Year to 31 Jul (RMm)	2024	2025F	2026F	2027F
Operating	859	887	776	813
Pre-tax profit	729	710	782	857
Tax	-132	-142	-156	-171
Deprec. & amort.	166	162	158	155
Working capital changes	126	157	-7	-28
Other operating cashflows	-30	0	0	0
Investing	-640	-1400	-900	-500
Capex (growth)	-699	-100	-100	-100
Investments	0	0	0	0
Proceeds from sale of assets	30	0	0	0
Others	30	-1300	-800	-400
Financing	-133	937	-380	-397
Dividend payments	-192	-163	-180	-197
Issue of shares	0	0	0	0
Proceeds from borrowings	93	1300	0	0
Loan repayment	0	-200	-200	-200
Others/interest paid	-34	0	0	0
Net cash inflow (outflow)	86	423	-503	-84
Beginning cash & cash equivalent	166	252	676	173
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	252	676	173	88

KEY METRICS

Year to 31 Jul (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	19.4	20.1	19.3	19.5
Pre-tax margin	16.3	16.4	16.1	16.5
Net margin	12.2	12.5	12.3	12.7
ROA	9.7	8.2	8.7	9.2
ROE	16.3	15.4	16.0	16.6
Growth				
Turnover	22.5	18.6	33.0	41.8
EBITDA	44.8	45.3	56.5	68.5
Pre-tax profit	48.7	44.8	59.6	74.9
Net profit	57.4	57.0	73.0	89.7
Net profit (adj.)	57.4	57.0	73.0	89.7
EPS	57.4	57.0	73.0	89.7
Leverage				
Debt to total capital	23.3	19.6	17.9	16.2
Debt to equity	24.7	20.9	19.0	17.2
Net debt/(cash) to equity	18.0	4.6	15.2	15.5
Interest cover (x)	38.4	59.5	71.5	76.9

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