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Buy

Price
RM3.41

Target Price
RM4.15

Bloomberg code
SCI MK

Equity | Malaysia | Consumer
Flashnote

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Scientex

Buoyed by property; expect better 4Q23

Financial Highlights

FYE Jul	2021	2022	2023F	2024F	2025F
Revenue (RMm)	3,656.0	3,985.3	4,339.4	4,544.5	4,775.0
Core net profit (RMm)	454.2	419.0	481.3	503.9	538.8
Core EPS (Sen)	29.3	27.0	31.0	32.5	34.7
EPS growth (%)	7.2	(7.8)	14.9	4.7	6.9
DPS (Sen)	17.0	9.0	9.0	10.0	10.0
Core PE (x)	11.7	12.7	11.0	10.5	9.8
Div yield (%)	2.6	2.6	2.9	2.9	3.2
ROE (%)	14.8	12.4	13.2	12.6	12.3
Net Gearing (%)	30.3	31.5	24.1	17.2	10.5
PBV(x)	1.9	1.8	1.6	1.4	1.3

Source: Company, KAF

- Scientex's core earnings continued to show resilience in 3Q23, at RM114m (QoQ: +2%, YoY: +16%), bringing 9M23 core earnings to RM339m (YoY: +18%).
- We deem the results to be in line with our estimate (70%) and consensus (73%) as we expect a back-end-loaded result (driven by the property development segment) in 4Q23, in line with the historical trend. 9M23 revenue posted at RM3b (YoY: +5%).
- The group declared a 5.0 sen single-tier interim DPS in 3Q23 (3Q22: 4.0 sen), which translates to a 9M23 dividend payout ratio of 24%. Note that Scientex tends to declare dividends in 3Q and 4Q, and with a dividend payout policy of not less than 30% of the group's normalised reported net profit attributable to shareholders, we expect the group to declare another 5.0 sen DPS in 4Q23, totalling a 2.9% yield for the year.
- By segment, packaging revenue logged a fourth-straight QoQ decline at a still-moderate pace (4Q22: -1%, 1Q23: -3%, 2Q23: -9%, 3Q23: -3%) to RM635m, largely due to the overall softening of market demand across all its product segments. The utilisation rate averaged 60% as of 3Q23. 9M23 packaging revenue thus fell to RM2.0b (YoY: -5%).
- EBIT-wise, the packaging segment posted a far weaker result, at RM44m (QoQ: -24%, YoY: -21%) in 3Q23, bringing 9M23 EBIT to RM160m (YoY: -8%). The decline stemmed mainly from the drop in revenue coupled with a rise in operating costs e.g., hike in electricity costs.
- Looking at the property segment, revenue grew strongly to RM362m (QoQ: +12%, YoY: +48%) in 3Q23, driven by higher progress billings as it secured higher sales (from its ongoing projects and new launches) and achieved better progress from its construction works, along with labour shortage issues being progressively resolved. 9M23 property revenue thus expanded to RM999m (YoY: +33%).
- Correspondingly, EBIT for the property development segment also grew to RM105m (QoQ: +18%, YoY: +59%) in 3Q23, bringing 9M23 EBIT to RM281m (YoY: +36%).
- In 3Q23, new launches of Scientex stood at RM235m (9M23: RM1.4b; FY22: RM1.2b). We understand that the take-up rate for its overall projects was reasonably robust, at 80% as of May 2023, while unbilled sales were recorded at RM1.6b as of end-Apr 2023.
- Recall that in FY22, certificate of completion and compliance (CCC) deferment and delays in obtaining permits and approvals for new launches were among the key hurdles that dragged the segment's performance down. We understand that the situation has now largely improved and labour shortage issues have also eased gradually, contributing to the strong growth in the property development segment to date.

- We expect a stronger 4Q23 driven by the property segment, as historically (at least since FY18) it has been the strongest quarter of the year.
- We also expect the growth momentum of its property development segment to carry through to FY24F given the focus and wide market acceptance of its affordable housing projects thus far in Peninsular Malaysia (e.g., Melaka, Selangor, Johor, Penang, Kedah, etc.). This should cushion the negative impact of still-sluggish global demand on its packaging segment in the near term.
- We maintain our earnings forecasts as the results are largely in line with our estimates. With a projected dividend per share (DPS) of 10.0-11.0 sen for FY23F-25F, this implies a dividend yield of 2.9-3.2% at the current share price.
- We maintain our Buy rating on Scientex with an unchanged TP of RM4.15 pegged to the FY24F-based SOP valuation – which implies a 13x FY24F PE.

Exhibit 1: Quarterly financial results

FYE Jul (RM m)	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Change (%)		Cumulative		Change (%)	KAF	
	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	QoQ	YoY	9MFY22	9MFY23	YoY	FY23	9M/F
Revenue	994	1,111	1,030	978	997	2	0	2,874	3,005	5	4,339	69%
~ Packaging	750	741	716	655	635	(3)	(15)	2,121	2,006	(5)	3,155	64%
~ Property	244	370	314	323	362	12	48	753	999	33	1,185	84%
Interest Expense	(5)	(6)	(8)	(10)	(8)	(16)	64	(14)	(26)	83		
Interest Income	0	1	1	1	2	352	660	1	4	144		
Depreciation	(29)	(28)	(30)	(31)	(31)	0	7	86	92	7		
EBITDA	151	208	174	178	181	1	20	474	533	13		
Operating Profit	122	180	143	147	150	2	22	388	441	14		
~ Packaging	56	64	57	58	44	(24)	(21)	174	160	(8)		
~ Property	66	116	86	89	105	18	59	207	281	36		
Reported PBT	120	174	137	141	145	2	21	375	423	13		
Taxation	(26)	(43)	(23)	(29)	(30)	3	17	(73)	(83)	13		
Minority Interest	(6)	(6)	(6)	(6)	(5)	(16)	(19)	(17)	(17)	3		
Exceptional items	(10)	(6)	(6)	(6)	(4)	(27)	(56)	(3)	(16)	366		
Reported Profit	88	125	107	106	110	3	24	285	323	13		
Adj. Net Profit	98	131	113	112	114	2	16	288	339	18	481	70%
EPS (sen)	6	8	7	7	7	3	24	18	21	13		
Adj EPS (sen)	6	8	7	7	7	2	16	19	22	18		
DPS (sen)	4	5	-	-	5	nm	nm	4	5	25		
						%-pts	%-pts			%-pts		
Effective tax rate (%)	21	25	17	21	21	0	(1)	19	20	0		
EBITDA margin (%)	15	19	17	18	18	(0)	3	16	18	1		
Operating margin (%)	12	16	14	15	15	(0)	3	13	15	1		
~ Packaging (%)	7	9	8	9	7	(2)	(0)	8	8	(0)		
~ Property	27	31	28	28	29	2	2	27	28	1		
Pretax margin (%)	12	16	13	14	15	0	2	13	14	1		
Net margin (%)	10	12	11	11	11	(0)	2	10	11	1		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart



Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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