

21 June 2023

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Buy (Maintained)

Affordable Homes Demand Stays Robust; Still BUY

Target Price (Return): MYR3.80 (11.4%)
 Price (Market Cap): MYR3.41 (USD1,142m)
 ESG score: 3 (out of 4)
 Avg Daily Turnover (MYR/USD) 1.01m/0.22m

- **Still BUY, new MYR3.80 TP from MYR3.91, 11% upside and c.3% yield.** Scientex reported 3QFY23 (Jul) results that were broadly in line with expectations. It booked double-digit YoY earnings growth driven by robust demand for its affordable housing offerings that offset the decline in packaging sales. We continue to like this stock for its attractive valuation and solid long-term prospects, backed by a steady demand for affordable homes and leading position in the plastic packaging segment.

- **Results review.** 3QFY23 net profit rose 26.6% YoY (+3.4% QoQ) to MYR109.7m, bringing 9MFY23 core earnings to MYR323.1m (+14.1% YoY). This is broadly in line with expectations at 71% and 70% of our and Street's full-year estimates. Contributions from the packaging segment continues to slide sequentially amidst softer global demand and higher energy costs, but this was offset by the improving property segment. Consequently, 9MFY23 EBIT margins improved to 14.7% (9MFY22: 13.2%). Scientex also declared a dividend of 5 sen/share (3QFY22: 4 sen).

- **Packaging wing continues to slip.** 3QFY23 packaging revenue declined 3% QoQ (-15.2% YoY) while operating profit fell 23.8% QoQ (-22% YoY) due to the full quarter impact of the higher electricity tariff – this led to a lower EBIT margin of just 7% (2QFY23: 8.9%, 3QFY22: 7.6%). While global demand for packaging products is set to stay soft in the near term, we believe this will be partially cushioned by robust sales from the consumer packaging sub-segment. At the same time, Scientex continues to innovate with new sustainably produced products that we think are likely to drive future topline growth.

- **Robust demand in the property segment.** 3QFY22 revenue increased 11.9% QoQ (+48.1% YoY) amid higher progress billings from on-going projects and robust demand from new launches. This was also aided by speedier authority approvals and processes, which had delayed revenue recognition in the past. We are optimistic that Scientex is on track to achieve its property launch target of MYR2bn for FY23, as demand for affordable homes should remain healthy – this is reflected in the 80% take-up rate for its new launches. Hence, we continue to expect the property segment to be the main earnings driver in the near term.

- **Maintain BUY with new MYR3.80 TP.** We make minimal adjustments to our earnings forecast as results were in line, but lower our ESG premium to 0% from 4% after tweaking our ESG weightage, given the greater emphasis on the E pillar. Scientex's valuation remains attractive, with the stock trading at -0.5SD from its historical P/E mean. Downside risks to our call are higher-than-expected costs, weaker products demand, and softer property sales.

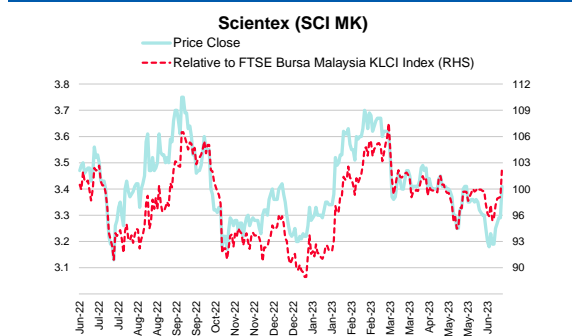
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.9	0.0	1.2	5.9	(1.7)
Relative	13.1	2.8	2.2	11.3	2.0
52-wk Price low/high (MYR)				3.13	– 3.75



Source: Bloomberg

Overall ESG Score: 3 (out of 4)

E: GOOD

At this time, Scientex has not established its greenhouse gas (GHG) emissions target, but has consistently reduced GHG emissions since 2020. The group has reduced its GHG emissions intensity by 21% from FY20 to FY22. In FY22, Scientex also developed various packaging solutions that are 100% recyclable and plans to continue its efforts in providing sustainable packaging solutions.

S: GOOD

Scientex complies with all applicable laws in relation to occupational health and safety. Adequate trainings are provided to its employees on safety and health practices. The group also adopted a group-wide safety and health policy in FY22, which outlines its key areas of commitment towards meeting high standards of occupational safety and health.

G: GOOD

Independent directors make up 50% of the board and Scientex only has one female director, which is less than 30% of the board's composition. Remuneration of its directors are disclosed on a named basis. Scientex only conducts briefings for analysts on a half-yearly basis.

Forecasts and Valuation	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Total turnover (MYRm)	3,656	3,985	4,023	4,356	4,561
Recurring net profit (MYRm)	462	408	451	536	600
Recurring net profit growth (%)	17.7	(11.7)	10.5	18.8	12.0
Recurring P/E (x)	11.44	12.96	11.73	9.87	8.81
P/B (x)	1.8	1.7	1.6	1.4	1.3
P/CF (x)	7.56	7.16	10.29	7.48	6.76
Dividend Yield (%)	2.4	2.6	2.9	3.5	3.8
EV/EBITDA (x)	8.74	9.45	8.92	7.69	6.90
Return on average equity (%)	16.8	13.7	13.8	15.0	15.2
Net debt to equity (%)	28.3	29.6	31.8	29.3	25.6

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
Malaysia	Recurring EPS	0.30	0.26	0.29	0.35	0.39
Consumer Non-cyclical	DPS	0.08	0.09	0.10	0.12	0.13
Scientex	BVPS	1.87	2.01	2.20	2.42	2.68
SCI MK	Return on average equity (%)	16.8	13.7	13.8	15.0	15.2
Buy						
	Valuation metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Recurring P/E (x)	11.44	12.96	11.73	9.87	8.81
	P/B (x)	1.8	1.7	1.6	1.4	1.3
	FCF Yield (%)	10.9	10.5	5.9	9.6	11.0
	Dividend Yield (%)	2.4	2.6	2.9	3.5	3.8
	EV/EBITDA (x)	8.74	9.45	8.92	7.69	6.90
	EV/EBIT (x)	10.33	11.39	10.75	9.12	8.11
	Income statement (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Total turnover	3,656	3,985	4,023	4,356	4,561
	Gross profit	843	845	877	1,011	1,111
	EBITDA	717	673	734	856	952
	Depreciation and amortisation	(110)	(114)	(125)	(134)	(143)
	Operating profit	606	559	609	722	809
	Net interest	(11)	(20)	(35)	(39)	(43)
	Pre-tax profit	601	548	586	696	780
	Taxation	(115)	(116)	(111)	(132)	(148)
	Reported net profit	457	410	451	536	600
	Recurring net profit	462	408	451	536	600
	Cash flow (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Change in working capital	94	176	(109)	(17)	(22)
	Cash flow from operations	700	738	514	707	782
	Capex	(125)	(185)	(200)	(200)	(200)
	Cash flow from investing activities	(776)	(668)	(500)	(500)	(500)
	Dividends paid	(144)	(153)	(155)	(186)	(202)
	Cash flow from financing activities	(93)	(123)	(38)	(75)	(95)
	Cash at beginning of period	413	243	191	167	298
	Net change in cash	(170)	(52)	(24)	132	187
	Ending balance cash	243	191	167	298	486
	Balance sheet (MYRm)	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Total cash and equivalents	243	191	167	298	486
	Tangible fixed assets	2,688	3,119	3,494	3,860	4,217
	Total investments	99	103	115	127	142
	Total assets	5,100	5,475	5,842	6,429	7,045
	Short-term debt	819	921	1,021	1,121	1,221
	Total long-term debt	301	250	300	350	400
	Total liabilities	2,003	2,167	2,213	2,422	2,609
	Total equity	3,097	3,308	3,629	4,006	4,437
	Total liabilities & equity	5,100	5,475	5,842	6,429	7,045
	Key metrics	Jul-21	Jul-22	Jul-23F	Jul-24F	Jul-25F
	Revenue growth (%)	3.9	9.0	0.9	8.3	4.7
	Recurrent EPS growth (%)	17.7	(11.7)	10.5	18.8	12.0
	Gross margin (%)	23.1	21.2	21.8	23.2	24.4
	Operating EBITDA margin (%)	19.6	16.9	18.2	19.7	20.9
	Net profit margin (%)	12.5	10.3	11.2	12.3	13.2
	Dividend payout ratio (%)	28.3	34.1	34.4	34.7	33.6
	Capex/sales (%)	3.4	4.6	5.0	4.6	4.4
	Interest cover (x)	54.4	27.3	17.5	18.5	18.7

Source: Company data, RHB

Results At a Glance

Figure 1: 9MFY23 results review

FYE Jul (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)	Comments
Revenue	993.8	978.4	997.1	1.9	0.3	2,874.0	3,005.4	4.6	Strong demand for the property segment, mitigated by lower packaging revenue.
Adjusted EBITDA	150.5	178.3	180.7	1.4	20.1	466.9	532.8	14.1	
<i>Adjusted EBITDA margin (%)</i>	<i>15.1</i>	<i>18.2</i>	<i>18.1</i>			<i>16.2</i>	<i>17.7</i>		
Depreciation	(28.9)	(30.9)	(30.9)	0.0	7.3	(86.2)	(92.3)	7.1	The packaging segment was impacted by lower demand and higher energy costs. The property wing benefitted from improving labour shortages and higher progress billings.
Adjusted operating profit	121.7	147.3	149.8	1.6	23.1	380.7	440.5	15.7	
<i>Operating margin (%)</i>	<i>12.2</i>	<i>15.1</i>	<i>15.0</i>			<i>13.2</i>	<i>14.7</i>		
El/other	1.6	0.1	0.0	(62.6)	(97.4)	1.7	0.2	(90.1)	
Reported operating profit	123.3	147.5	149.8	1.6	21.5	382.4	440.7	15.2	
Interest expense	(5.0)	(9.8)	(8.2)	(15.9)	63.8	(14.3)	(26.0)	82.5	In line with expectations.
Share of associates	2.0	3.8	3.4	(10.9)	69.9	6.6	8.5	28.1	
Reported PBT	120.3	141.5	145.0	2.5	20.5	374.7	423.1	12.9	
Tax	(25.7)	(29.1)	(30.1)	3.3	17.4	(73.0)	(82.5)	13.1	
<i>Effective tax rate (%)</i>	<i>21.3</i>	<i>20.6</i>	<i>20.8</i>			<i>19.5</i>	<i>19.5</i>		
Minority interest	(6.3)	(6.0)	(5.1)	(15.8)	(19.3)	(16.9)	(17.3)	2.8	
Net profit	88.3	106.3	109.8	3.3	24.3	284.9	323.2	13.5	
Core profit	86.7	106.2	109.7	3.4	26.6	283.2	323.1	14.1	

Source: Company data, RHB

Figure 2: Segmental results review

FYE Jul (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue								
Packaging	749.7	655.1	635.4	-3.0	-15.2	2,120.5	2,006.5	-5.4
Property development	244.2	323.3	361.7	11.9	48.1	753.5	998.9	32.6
Total	993.8	978.4	997.1	1.9	0.3	2,874.0	3,005.4	4.6
Reported operating profit								
Packaging	57.0	58.3	44.5	-23.8	-22.0	175.4	159.7	-9.0
Property development	66.3	89.1	105.4	18.2	58.9	207.0	281.0	35.7
Total	123.3	147.5	149.8	1.6	21.5	382.4	440.7	15.2
Operating margin (%)								
Packaging	7.6	8.9	7.0			8.3	8.0	
Property development	27.2	27.6	29.1			27.5	28.1	
Total	12.4	15.1	15.0			13.3	14.7	

Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	2,545.0
Property	RNAV (discount of 50%)	3,311.9
Total intrinsic value (MYRm)		5,856.9
Fully diluted share base (m)		1,550.9
Intrinsic value per share		3.78
+ 0% ESG premium		0.00
TP (MYR)		3.78

Source: RHB

Recommendation Chart

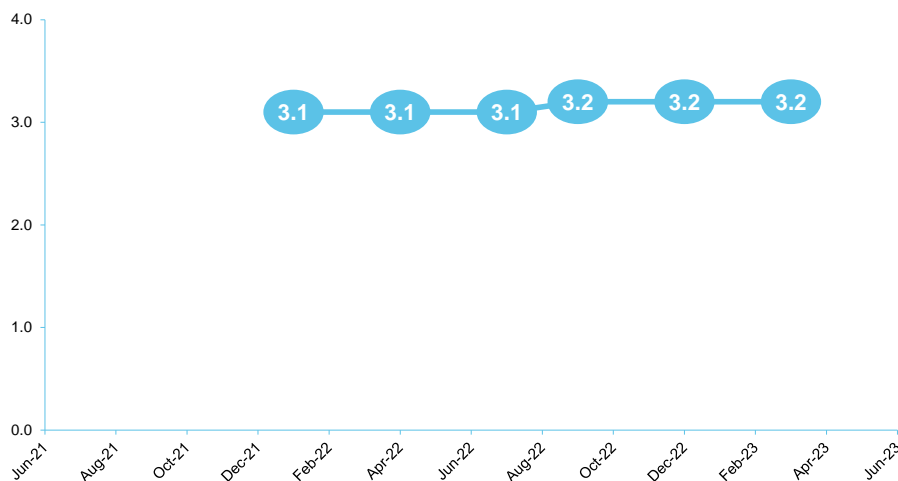


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-07-24	Neutral	9.8	3.1
2018-09-21	Neutral	7.4	2.9
2018-06-21	Neutral	7.4	2.3
2018-06-21	Neutral	7.4	2.3
2018-03-23	Neutral	8.7	2.7
2018-02-26	Neutral	9.1	2.8

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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