

Scientex Berhad

TP: RM3.77 (+10.6%)
Property Division Driving Earnings Growth
Last Traded: RM3.41
Buy (ESG: ★★★)

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Review

- Scientex Berhad (SCIENTX) registered a core net profit of RM327.2mn (+13.5% YoY) for 9MFY23. The results came in below ours but within consensus' full-year forecasts. The earnings miss was mainly due to lower-than-expected sales for the Manufacturing segment.
- An interim dividend of 5sen/share was announced for 3QFY23 (3QFY22: 4sen/share).
- YoY:** 3QFY23 revenue increased marginally by 0.3% YoY to RM997.1mn driven by higher progress billing in the Property segment (+48.1% YoY), which more than offset the plunge in Manufacturing segment's sales (-15.2% YoY) due to softening global demand. Operating profit surged 21.5% YoY to RM149.8mn in 3QFY23 on the back of Property segment's revenue growth.
- QoQ:** Revenue grew 1.9% QoQ in 3QFY23 underpinned by higher contribution from the Property division (+11.9% QoQ) despite lower sales from the Manufacturing division (-3.0% QoQ). Consequently, operating profit advanced 1.6% QoQ. 3QFY23 Operating margin for Manufacturing down 1.9%-pts QoQ due to higher operating costs (electricity tariff hike and amendments in Employment Act). Meanwhile, the operating margin for Property improved 1.6%-pts QoQ, which we attribute to increased operational efficiency.
- 9MFY23:** Cumulatively, revenue increased 4.6% YoY to RM3.01bn, mainly supported by 32.6% growth in Property division from higher progress billing and easing of labour shortage, which more than offset the 5.4% drop in Manufacturing segment's sales. Consequently, operating profit jumped 15.2% YoY to RM440.7mn.

Impact

- After factoring in lower sales for Manufacturing, we trim our FY23/24/25 earnings forecasts by 5.0%/10.2%/7.4% respectively.

Outlook

- Manufacturing.** We expect the demand for packaging to remain weak in the near term due to soft global demand amidst synchronised rate hikes by central banks. Margins continue to be under pressure as the gradual decline in raw material prices have been neutralised by the higher operating costs (electricity and labour costs).
- Property.** Despite the rise in OPR and inflationary pressure, SCIENTX's affordable homes continue to see favourable demand. The take up rates for launches in CY23 was 80% as of May 2023. The group launched new affordable homes with GDV of estimated RM235mn in 3QFY23, bringing the YTD launches to RM1.7bn (FY23 target: RM2.0bn). We expect the demand for the group's properties to remain robust in coming quarters.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.1
Market Cap (RMmn)	5,289.1
52-wk Hi/Lo (RM)	3.75/3.02
12-mth Avg Daily Vol ('000 shrs)	471.9
Estimated Free Float (%)	33.6
Beta	0.6
Major Shareholders (%)	
Scientex Holdings & Related	55.7

Forecast Revision

	FY23	FY24
Forecast Revision (%)	(5.0)	(10.2)
Net profit (RMm)	450.9	523.9
Consensus	462.8	543.1
TA's / Consensus (%)	97.4	96.5
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	3.92	

Financial Indicators

	FY23	FY24
Net debt/ equity (%)	17.6	14.7
ROE (%)	13.8	14.6
ROA (%)	8.3	9.4
NTA/Share (RM)	2.0	2.2
Price/ NTA (x)	1.7	1.5

Scorecard

	% of FY23	
vs TA	69	Below
vs Consensus	71	Within

Share Performance (%)

Price Change	SCIENTX	FBM KLCI
1 mth	-	(2.8)
3 mth	1.2	(1.0)
6 mth	5.9	(5.4)
12 mth	(1.7)	(3.7)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- Following the cut in earnings forecasts, we lower our TP to **RM3.77/share** (previously RM4.04/share) based on sum-of-parts valuation. Maintain **Buy**.

Table 1: Earnings Summary

FYE July (RM mn)	FY21	FY22	FY23E	FY24F	FY25F
Revenue	3,656.0	3,985.3	4,010.0	4,209.1	4,504.5
EBITDA	710.6	675.5	732.0	815.1	875.7
EBIT	600.3	561.0	612.0	693.2	751.5
Reported PBT	601.0	548.3	597.8	684.9	746.0
Adj. PBT	597.2	555.7	597.8	684.9	746.0
Reported Net Profit	457.2	409.9	450.9	523.9	570.2
Adj. Net profit	453.5	417.2	450.9	523.9	570.2
Basic/Diluted EPS (sen)	29.5	26.4	29.1	33.8	36.8
Adj. EPS (sen)	29.2	26.9	29.1	33.8	36.8
PER (x)	11.6	12.9	11.7	10.1	9.3
Net Dividend (sen)	9.0	9.0	10.0	11.0	13.0
Dividend Yield (%)	2.6	2.6	2.9	3.2	3.8

Table 2: 3QFY23 Results Analysis

FYE July (RM mn)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	993.8	978.4	997.1	1.9	0.3	2,874.0	3,005.4	4.6
~ Manufacturing	749.7	655.1	635.4	(3.0)	(15.2)	2,120.5	2,006.5	(5.4)
~ Property	244.2	323.3	361.7	11.9	48.1	753.5	998.9	32.6
Interest Expense	(5.0)	(9.8)	(8.2)	(15.9)	63.8	(14.3)	(26.0)	82.5
Investing Results	2.0	3.8	3.4	(10.9)	69.9	6.6	8.5	28.1
Depreciation	(28.9)	(30.9)	(30.9)	0.0	7.3	(86.2)	(92.3)	7.1
EBITDA	152.2	178.4	180.8	1.3	18.8	468.6	533.0	13.7
Operating Profit	123.3	147.5	149.8	1.6	21.5	382.4	440.7	15.2
~ Manufacturing	57.0	58.3	44.5	(23.8)	(22.0)	175.4	159.7	(9.0)
~ Property	66.3	89.1	105.4	18.2	58.9	207.0	281.0	35.7
EI	(9.8)	5.9	(4.3)	(>100)	(55.9)	(3.4)	(4.0)	17.2
Reported PBT	120.3	141.5	145.0	2.5	20.5	374.7	423.1	12.9
Taxation	(25.7)	(29.1)	(30.1)	3.3	17.4	(73.1)	(82.5)	12.9
Minority Interest	(6.3)	(6.0)	(5.1)	(15.8)	(19.3)	(16.9)	(17.3)	2.8
Reported Profit	88.3	106.3	109.8	3.3	24.3	284.8	323.2	13.5
Adj. Net Profit	98.1	100.4	114.1	13.6	16.3	288.2	327.2	13.5
EPS (sen)	5.7	6.9	7.1	3.3	24.3	18.4	20.8	13.5
Adj EPS (sen)	6.3	6.5	7.4	13.6	16.3	18.6	21.1	13.5
DPS (sen)	4.0	0.0	5.0	nm	25.0	4.0	5.0	25.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	12.4	15.1	15.0	(0.0)	2.6	13.3	14.7	1.4
~ Manufacturing	7.6	8.9	7.0	(1.9)	(0.6)	8.3	8.0	(0.3)
~ Property	27.2	27.6	29.1	1.6	2.0	27.5	28.1	0.7
PBT Margin (%)	12.1	14.5	14.5	0.1	2.4	13.0	14.1	1.0
Core Net Margin (%)	9.9	10.3	11.4	1.2	1.6	10.0	10.9	0.9
Tax rate (%)	21.3	20.6	20.8	0.2	(0.6)	19.5	19.5	0.0

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RM mn)
Manufacturing	CY24 EPS PER 15x	3,180.1
Property	CY24 EPS PER 10x	3,311.9
Equity value (RM mn)		6,492.0
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		6,936.1
Conglomerate Discount		10%
Total SOP		6,242.47
Share cap (mn)		1,551.1
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.3
Target Price (RM)		3.77

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★★	★★★	★★★★
Remark	Visible efforts in tracking and managing alongside promoting recycling awareness. However, score is muted due to often association of plastic packaging towards environmental pollution.	Notable initiatives to spearhead innovation over sustainable packaging materials and developing affordable housing. Besides, community enrichments programmes and employees' trainings are performed regularly.	The board is represented by 50% independent directors yet only has 1 female director. Scientex has targeted dividend payout of 30%.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Wednesday, June 21, 2023, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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