

21 September 2023

Consumer Non-cyclical | Packaging

## Scientex (SCI MK)

## Neutral (from Buy)

### Stronger Earnings Priced In; D/G To NEUTRAL

Target Price (Return): MYR3.85 (+5%)  
 Price (Market Cap): MYR3.68 (USD1,218m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.45m/0.31m

- **Downgrade to NEUTRAL from Buy, with new MYR3.85 TP from MYR3.80, 5% upside.** Scientex reported FY23 (Jul) results that were broadly in line with expectations. It posted double-digit YoY earnings growth driven by robust demand for its affordable housing offerings, offset by the decline in packaging sales. As its share price has rallied by 15% in the past three months, we think the stock is now fairly valued, trading at 10.6x, in line with its historical mean.

- **Results review.** 4QFY23 net profit rose 17% YoY (+27% QoQ) to MYR138.9m, bringing FY23 core earnings to MYR462.0m (+14.9% YoY). This is broadly in line with expectations at 102% and 100% of our and Street full-year estimates. Contribution from the packaging segment continued to slide sequentially amidst softer global demand and higher energy costs, but this was offset by the improving property segment. Consequently, FY23 EBIT margin improved to 14.5% (FY22: 14.1%). Scientex also declared a DPS of 5 sen (4QFY22: 5 sen).

- **Packaging segment continued to slip.** 4QFY23 packaging revenue declined 3% QoQ (-16.3% YoY) while operating profit fell 45.4% QoQ (-61% YoY) due to the higher electricity tariff on top of the impairment loss of its Myanmar operations of MYR22.7m – this led to a lower EBIT margin of just 3.9% (3QFY23: 7.0%, 4QFY22: 8.5%). Stripping off the impairment loss, however, would result in a higher EBIT margin of 7.6%. While we think global demand for packaging products is set to remain soft in the near term, we are optimistic that Scientex would record stronger FY24F numbers for the packaging segment. Furthermore, the company continues to innovate with new sustainably produced products which we think will likely drive future topline growth.

- **Solid demand in the property segment.** 4QFY23 revenue increased 24.9% QoQ (+21.9% YoY) amid higher progress billings from ongoing 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. As a result, Scientex managed to launch MYR2.1bn worth of properties in FY23, above its MYR2bn target. Demand for affordable homes remain healthy – as reflected in the 80% take-up rate for its new launches during the year. Hence, we continue to expect the property segment to be the main earnings driver in FY24F.

- **D/G to NEUTRAL with new MYR3.85 TP.** We fine tune our RNAV valuation to incorporate the company's latest property-related figures and we make minimal adjustments to our earnings forecast as results were in line. Scientex's valuation is now fair, with the stock trading at its historical P/E mean. We also incorporate a 0% ESG premium/discount to our TP given its ESG score of 3.0. Key risks to our call include operating costs fluctuations, as well as changes in demand of packaging products and property sales.

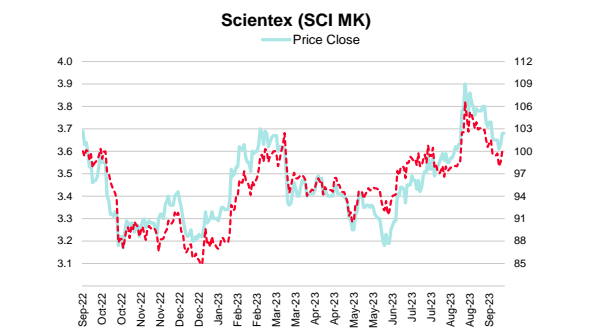
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	(3.7)	7.9	9.2	(0.3)
Relative	17.2	(4.1)	3.3	5.7	0.4
52-wk Price low/high (MYR)	3.17 – 3.90				



Source: Bloomberg

#### Overall ESG Score: 3.0 (out of 4)

##### E: GOOD

Scientex does not establish its greenhouse gas (GHG) emission target currently but it has consistently reduced its GHG emission since 2020. Scientex has reduced its GHG emission intensity by 21% from FY2020 to FY2022. In FY22, Scientex has also developed various packaging solutions that are 100% recyclable and plans to continue its efforts in providing sustainable packaging solutions.

##### S: GOOD

Scientex complies to 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 that outlines its key areas of commitment to meet 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 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-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total turnover (MYRm)	3,985	4,077	4,323	4,551	4,876
Recurring net profit (MYRm)	402	462	537	560	587
Recurring net profit growth (%)	(13.0)	14.9	16.2	4.3	4.8
Recurring P/E (x)	14.19	12.35	10.63	10.19	9.73
P/B (x)	1.8	1.7	1.5	1.4	1.3
P/CF (x)	7.73	7.08	9.31	8.09	7.88
Dividend Yield (%)	2.4	2.7	3.5	4.1	4.9
EV/EBITDA (x)	10.16	8.78	7.72	7.32	6.57
Return on average equity (%)	13.7	13.5	15.1	14.4	13.9
Net debt to equity (%)	29.6	18.6	17.5	15.2	5.4

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-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Malaysia	Recurring EPS	0.26	0.30	0.35	0.36	0.38
Consumer Non-cyclical	DPS	0.09	0.10	0.13	0.15	0.18
<b>Scientex</b>	BVPS	2.01	2.19	2.40	2.61	2.81
SCI MK	Return on average equity (%)	13.7	13.5	15.1	14.4	13.9
Neutral						
	<b>Valuation metrics</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	14.19	12.35	10.63	10.19	9.73
We use SOP valuation to derive our TP	P/B (x)	1.8	1.7	1.5	1.4	1.3
	FCF Yield (%)	9.7	12.0	8.1	9.7	12.7
	Dividend Yield (%)	2.4	2.7	3.5	4.1	4.9
<b>Key drivers</b>	EV/EBITDA (x)	10.16	8.78	7.72	7.32	6.57
i. Ongoing capacity expansion of its plastic segment;	EV/EBIT (x)	12.26	10.55	8.83	8.43	7.55
ii. Venture into new film products that bear exciting market opportunities locally;						
iii. Ongoing property launches.						
	<b>Income statement (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
<b>Key risks</b>	Total turnover	3,985	4,077	4,323	4,551	4,876
i. Changes in demand for flexible packaging products and affordable homes	Gross profit	845	906	1,003	1,055	1,085
ii. Sharp change in raw material prices	EBITDA	668	737	844	887	929
	Depreciation and amortisation	(114)	(124)	(106)	(116)	(121)
	Operating profit	553	613	737	771	808
	Net interest	(20)	(34)	(34)	(37)	(39)
	Pre-tax profit	548	569	716	747	783
	Taxation	(116)	(120)	(151)	(158)	(165)
	Reported net profit	410	438	537	560	587
	Recurring net profit	402	462	537	560	587
<b>Company Profile</b>						
Scientex is a leading manufacturer of flexible plastic packaging and has presence across the packaging value chain, from stretch films, base films, and printed films to bags and multi-layered flexible plastic packaging solutions used in industrial and consumer packaging. The group is also developer of affordable homes in Malaysia.						
	<b>Cash flow (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Change in working capital	176	199	(79)	(24)	(40)
	Cash flow from operations	738	806	613	705	724
	Capex	(185)	(123)	(150)	(150)	0
	Cash flow from investing activities	(668)	(270)	(400)	(400)	0
	Dividends paid	(153)	(162)	(202)	(233)	(279)
	Cash flow from financing activities	(123)	(561)	(186)	(180)	(318)
	Cash at beginning of period	243	191	166	194	319
	Net change in cash	(52)	(25)	27	125	406
	Ending balance cash	191	166	194	319	725
	<b>Balance sheet (MYRm)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Total cash and equivalents	191	166	194	319	725
	Tangible fixed assets	3,119	2,983	3,277	3,561	3,440
	Total investments	103	118	131	145	159
	Total assets	5,475	5,505	5,939	6,434	6,840
	Short-term debt	921	767	867	967	967
	Total long-term debt	250	70	20	10	10
	Total liabilities	2,167	1,899	1,970	2,107	2,175
	Total equity	3,308	3,606	3,970	4,327	4,665
	Total liabilities & equity	5,475	5,505	5,939	6,434	6,840
	<b>Key metrics</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
	Revenue growth (%)	9.0	2.3	6.0	5.3	7.1
	Recurrent EPS growth (%)	(13.0)	14.9	16.2	4.3	4.8
	Gross margin (%)	21.2	22.2	23.2	23.2	22.3
	Operating EBITDA margin (%)	16.8	18.1	19.5	19.5	19.1
	Net profit margin (%)	10.3	10.7	12.4	12.3	12.0
	Dividend payout ratio (%)	34.1	35.4	37.6	41.6	47.6
	Capex/sales (%)	4.6	3.0	3.5	3.3	0.0
	Interest cover (x)	27.1	18.3	21.4	20.7	20.7

Source: Company data, RHB

## Results At a Glance

Figure 1: FY23 results review

FYE Jul (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
<b>Revenue</b>	1,111.3	997.1	1,071.5	7.5	(3.6)	3,985.3	4,076.9	2.3	Strong demand for the property segment, mitigated by lower packaging revenue
<b>Adjusted EBITDA</b>	200.7	180.7	204.5	13.2	1.9	667.6	737.3	10.4	
<i>Adjusted EBITDA margin (%)</i>	18.1	18.1	19.1			16.8	18.1		
Depreciation	(28.3)	(30.9)	(31.5)	1.9	11.6	(114.5)	(123.9)	8.2	The packaging segment was impacted by lower demand and higher energy costs. The property segment benefitted from improving labour shortages and higher progress billings
<b>Adjusted operating profit</b>	172.4	149.8	173.0	15.5	0.3	553.1	613.5	10.9	
<i>Operating margin (%)</i>	15.5	15.0	16.1			13.9	15.0		
El/others	6.2	0.0	(24.0)	n.m.	n.m.	7.9	(23.9)	(401.8)	
<b>Reported operating profit</b>	178.7	149.8	148.9	(0.6)	(16.6)	561.0	589.6	5.1	
Interest expense	(6.2)	(8.2)	(7.5)	(8.3)	21.6	(20.4)	(33.5)	64.1	
Share of associates	1.1	3.4	4.1	23.7	276.1	7.7	12.6	63.6	
<b>Reported PBT</b>	173.6	145.0	145.6	0.4	(16.1)	548.3	568.7	3.7	
Tax	(42.7)	(30.1)	(37.2)	23.5	(12.9)	(115.7)	(119.7)	3.5	
<i>Effective tax rate (%)</i>	24.6	20.8	25.5			21.1	21.1		
Minority interest	(5.9)	(5.1)	6.5	>100	>100	(22.7)	(10.8)	>100	
<b>Net profit</b>	125.0	109.8	114.9	4.7	(8.1)	409.9	438.1	6.9	In line with expectations
<b>Core profit</b>	118.8	109.7	138.9	26.6	17.0	402.0	462.0	14.9	

Source: Company data, RHB

Figure 2: Segmental results review

FYE Jul (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
<b>Revenue</b>								
Packaging	740.8	635.4	619.7	-2.5	-16.3	2,861.4	2,626.2	-8.2
Property development	370.5	361.7	451.8	24.9	21.9	1,123.9	1,450.7	29.1
<b>Total</b>	1,111.3	997.1	1,071.5	7.5	-3.6	3,985.3	4,076.9	2.3
<b>Reported operating profit</b>								
Packaging	62.6	44.5	24.3	-45.4	-61.3	238.0	184.0	-22.7
Property development	116.0	105.4	124.7	18.3	7.5	323.0	405.6	25.6
<b>Total</b>	178.7	149.8	148.9	-0.6	-16.6	561.0	589.6	5.1
<b>Operating margin (%)</b>								
Packaging	8.5	7.0	3.9			8.3	7.0	
Property development	31.3	29.1	27.6			28.7	28.0	
<b>Total</b>	16.1	15.0	13.9			14.1	14.5	

Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	2,400.6
Property	RNAV (discount of 50%)	3,576.0
		0.0
	<b>Total intrinsic value (MYRm)</b>	5,976.6
	Fully diluted share base (m)	1,551.0
	<b>Intrinsic value per share</b>	3.85
	+ 0% ESG premium/(discount)	0.00
	<b>TP (MYR)</b>	3.85

Source: RHB

## Recommendation Chart

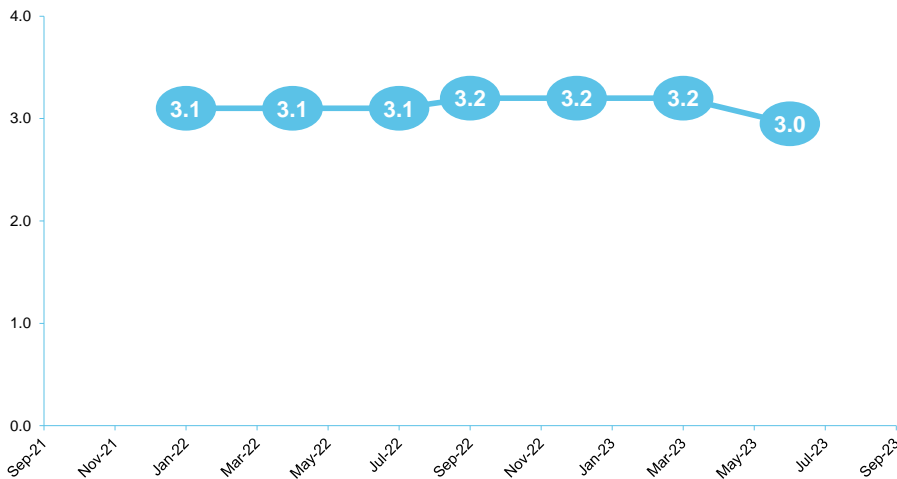


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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