

27 March 2024

Consumer Non-cyclical | Packaging

## Scientex (SCI MK)

## Neutral (Maintained)

### Solid Earnings Already In The Price

- **Keep NEUTRAL, with a new TP of MYR3.85 from MYR3.75, 2% downside.** Scientex reported 2QFY24 (Jul) results, which met our and consensus expectations. Regardless, we believe that this stock remains fairly valued, as it is trading at 10.5x, in line with its historical mean of 11x.
- **In line results.** 2QFY23 net profit rose 24% YoY to MYR132.1m, bringing 1HFY24 core earnings to MYR270.3m (+27% YoY). This is in line with our and consensus estimates, at 49%.
- **Packaging segment's operating profit rose 10% YoY in 2QFY24** despite a 3% YoY decline in revenue. This was mainly due to a better product mix during the period as well as improved cost control. Excluding the JV disposal gain, the packaging segment's operating margin improved to 8.6% in 2QFY24 from 7.8% in 1QFY24 but lower than 8.9% in 2QFY23. This brought its 1HFY24 operating profit to MYR114m (-1% YoY), due to a weaker performance in 1QFY24.
- **Solid performance by the property segment.** 2QFY24 revenue increased 41% YoY amid steady progress billings from ongoing projects and robust demand from new launches. As a result, Scientex managed to launch MYR657m worth of properties in 1HFY24. Although this makes up only 33% of FY23 property launch of MYR2bn, the group is optimistic that it would be able to achieve higher property launch YoY on the back of upcoming launches in both the central and southern regions. Demand for affordable homes remain healthy – as reflected in the 60% take-up rate for its new launches in 1H24. As such, we continue to expect the property segment to be the main earnings driver in FY24F.
- **Outlook.** 2HFY24F performance is expected to be better in anticipation of returning demand for consumer packaging as customers will stock up on their inventory. On the property side, we are optimistic that Scientex is on track to achieve its property launch of MYR2bn for FY24. As such, we continue to expect the property segment to be the main earnings contributor in the coming quarters.
- **Maintain NEUTRAL with new MYR3.85 TP** after revising FY24F-26F earnings by 4-6% following our adjustment of the property segment's revenue to reflect the robust performance. The group's valuation remains fair, with the stock trading at its historical P/E mean. Our TP incorporates a 0% ESG premium, based on our in-house methodology.
- **Key downside risks** include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices. The converse represents the upside risks.

Target Price (Return):	MYR3.85 (-2%)
Price (Market Cap):	MYR3.91 (USD1,271m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	1.95m/0.42m

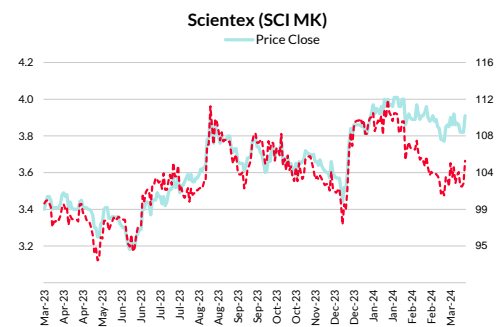
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.6	0.5	1.3	3.2	15.0
Relative	(3.2)	1.1	(4.7)	(3.2)	5.1
52-wk Price low/high (MYR)	3.18 – 4.01				



Source: Bloomberg

Forecasts and Valuation	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total turnover (MYRm)	3,985	4,077	4,569	4,711	4,916
Recurring net profit (MYRm)	402	462	578	595	619
Recurring net profit growth (%)	(13.0)	14.9	25.1	2.9	4.2
Recurring P/E (x)	15.08	13.13	10.50	10.20	9.79
P/B (x)	2.0	1.8	1.6	1.5	1.4
P/CF (x)	8.21	7.52	9.56	8.09	7.89
Dividend Yield (%)	2.3	2.6	3.3	3.8	4.6
EV/EBITDA (x)	10.69	9.26	7.62	7.27	6.54
Return on average equity (%)	13.7	13.5	16.1	15.1	14.4
Net debt to equity (%)	29.6	18.6	16.8	13.4	3.0

Source: Company data, RHB

#### 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 19% from FY20 to FY23. 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 training is provided to its employees on safety and health practices. The group also adopted a group-wide Safety & Health Policy in FY23 that outlines its key areas of commitment to meet high standards of occupational safety and health.

##### G: GOOD

Independent directors make up more than 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.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jul-22</b>	<b>Jul-23</b>	<b>Jul-24F</b>	<b>Jul-25F</b>	<b>Jul-26F</b>
Malaysia	Recurring EPS	0.26	0.30	0.37	0.38	0.40
Consumer Non-cyclical	DPS	0.09	0.10	0.13	0.15	0.18
<b>Scientex</b>	BVPS	2.01	2.19	2.43	2.66	2.88
SCI MK	Return on average equity (%)	13.7	13.5	16.1	15.1	14.4
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)	15.08	13.13	10.50	10.20	9.79
We use SOP valuation to derive our TP	P/B (x)	2.0	1.8	1.6	1.5	1.4
	FCF Yield (%)	9.1	11.3	8.0	9.9	12.7
<b>Key drivers</b>	Dividend Yield (%)	2.3	2.6	3.3	3.8	4.6
i. Ongoing capacity expansion of its plastic segment;	EV/EBITDA (x)	10.69	9.26	7.62	7.27	6.54
ii. Venture into new film products that bear exciting market opportunities locally;	EV/EBIT (x)	12.90	11.14	8.65	8.31	7.46
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	4,569	4,711	4,916
Key upside risks include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices.	Gross profit	845	890	1,087	1,112	1,099
The converse represents the downside risks.	EBITDA	668	737	898	933	973
	Depreciation and amortisation	(114)	(124)	(106)	(116)	(121)
	Operating profit	553	613	792	817	851
	Net interest	(20)	(34)	(34)	(37)	(39)
	Pre-tax profit	548	569	771	793	826
	Taxation	(116)	(120)	(163)	(167)	(174)
	Reported net profit	410	438	578	595	619
	Recurring net profit	402	462	578	595	619
	<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	(101)	(16)	(29)
	Cash flow from operations	738	806	634	750	769
	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	215	385
	Net change in cash	(52)	(25)	48	170	451
	Ending balance cash	191	166	215	385	836
	<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	215	385	836
	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	6,034	6,547	6,962
	Short-term debt	921	767	867	967	967
	Total long-term debt	250	70	20	10	10
	Total liabilities	2,167	1,899	2,021	2,140	2,183
	Total equity	3,308	3,606	4,013	4,406	4,779
	Total liabilities & equity	5,475	5,505	6,034	6,547	6,962
	<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	12.1	3.1	4.3
	Recurrent EPS growth (%)	(13.0)	14.9	25.1	2.9	4.2
	Gross margin (%)	21.2	21.8	23.8	23.6	22.4
	Operating EBITDA margin (%)	16.8	18.1	19.7	19.8	19.8
	Net profit margin (%)	10.3	10.7	12.6	12.6	12.6
	Dividend payout ratio (%)	34.1	35.4	34.9	39.1	45.1
	Capex/sales (%)	4.6	3.0	3.3	3.2	0.0
	Interest cover (x)	27.1	18.3	23.0	21.9	21.8

Source: Company data, RHB

## Results At a Glance

Figure 1: 1HFY24 results review

FYE Jul (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	Comments
<b>Revenue</b>	<b>978.4</b>	<b>1,106.5</b>	<b>1,092.7</b>	<b>(1.2)</b>	<b>11.7</b>	<b>2,008.3</b>	<b>2,199.2</b>	<b>9.5</b>	Due to higher revenue from the property segment
<b>Adjusted EBITDA</b>	<b>178.3</b>	<b>222.0</b>	<b>215.3</b>	<b>(3.0)</b>	<b>20.7</b>	<b>352.1</b>	<b>437.3</b>	<b>24.2</b>	
Adjusted EBITDA margin (%)	18.2	20.1	19.7			17.5	19.9		
Depreciation	(30.9)	(33.1)	(32.9)	(0.6)	6.4	(61.4)	(66.0)	7.6	
<b>Adjusted operating profit</b>	<b>147.3</b>	<b>188.9</b>	<b>182.4</b>	<b>(3.4)</b>	<b>23.8</b>	<b>290.7</b>	<b>371.2</b>	<b>27.7</b>	Higher contribution from the property segment (+51% YoY) offset by lower contribution from the packaging segment (-1% YoY)
Operating margin (%)	15.1	17.1	16.7			14.5	16.9		
El/others	0.1	(0.4)	8.9	n.m.	n.m.	0.1	8.5	n.m.	
<b>Reported operating profit</b>	<b>147.5</b>	<b>188.5</b>	<b>191.3</b>	<b>1.5</b>	<b>29.7</b>	<b>290.8</b>	<b>379.7</b>	<b>30.6</b>	
Interest expense	(9.8)	(6.9)	(5.0)	(28.2)	(49.1)	(17.8)	(11.9)	(33.2)	
Share of associates	3.8	3.2	2.3	(27.5)	(38.0)	5.1	5.5	8.4	
<b>Reported PBT</b>	<b>141.5</b>	<b>184.7</b>	<b>188.7</b>	<b>2.1</b>	<b>33.4</b>	<b>278.2</b>	<b>373.4</b>	<b>34.2</b>	
Tax	(29.1)	(42.3)	(43.0)	1.7	47.5	(52.4)	(85.3)	62.6	
Effective tax rate (%)	20.6	22.9	22.8			18.9	22.8		
Minority interest	(6.0)	(4.6)	(4.7)	0.8	(22.7)	(12.3)	(9.3)	(24.4)	
<b>Net profit</b>	<b>106.3</b>	<b>137.8</b>	<b>141.0</b>	<b>2.3</b>	<b>32.7</b>	<b>213.5</b>	<b>278.9</b>	<b>30.6</b>	In line with our and consensus expectations, at 49%
<b>Core profit</b>	<b>106.2</b>	<b>138.3</b>	<b>132.1</b>	<b>(4.5)</b>	<b>24.4</b>	<b>213.3</b>	<b>270.3</b>	<b>26.7</b>	
Core net margin (%)	10.9	12.5	12.1			10.6	12.3		

Source: Company data, RHB

Figure 2: Segmental results review

FYE Jul (MYRm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)
<b>Revenue</b>								
Packaging	655.1	650.4	635.8	-2.2	-2.9	1,371.1	1,286.2	-6.2
Property development	323.3	456.1	456.9	0.2	41.3	637.2	913.0	43.3
<b>Total</b>	<b>978.4</b>	<b>1,106.5</b>	<b>1,092.7</b>	<b>-1.2</b>	<b>11.7</b>	<b>2,008.3</b>	<b>2,199.2</b>	<b>9.5</b>
<b>Reported operating profit</b>								
Packaging	58.3	50.4	64.0	26.8	9.7	115.2	114.4	-0.7
Property development	89.1	138.0	127.3	-7.7	42.8	175.6	265.3	51.1
<b>Total</b>	<b>147.5</b>	<b>188.5</b>	<b>191.3</b>	<b>1.5</b>	<b>29.7</b>	<b>290.8</b>	<b>379.7</b>	<b>30.6</b>
<b>Operating margin (%)</b>								
Packaging	8.9	7.8	10.1			8.4	8.9	
Property development	27.6	30.3	27.9			27.6	29.1	
<b>Total</b>	<b>15.1</b>	<b>17.0</b>	<b>17.5</b>			<b>14.5</b>	<b>17.3</b>	

Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	1,617.4
Property	RNAV (discount of 45%)	4,368.1
		0.0
	<b>Total intrinsic value (MYRm)</b>	<b>5,985.5</b>
	Fully diluted share base (m)	1,551.0
	<b>Intrinsic value per share</b>	<b>3.86</b>
	+ 0% ESG premium	0.00
	<b>TP (MYR)</b>	<b>3.86</b>

Source: RHB

**Figure 4: Key assumptions**

	<b>FY24F</b>	<b>FY25F</b>	<b>FY26F</b>
<b><u>Packaging</u></b>			
Operating margin	8.8%	10.4%	11.1%
Volume growth	1.0%	5.9%	6.6%
Utilisation rates	61%	63%	66%
<b><u>Property</u></b>			
Operating margin	29.0%	29.0%	29.0%

Source: RHB

## Emissions And ESG

### Trend analysis

In FY23, Scope 1 emissions increased to 6,300 tonnes of CO<sub>2</sub> equivalents (FY22: 6,100 tonnes of CO<sub>2</sub> equivalents) while Scope 2 decreased to 134,200 tonnes of CO<sub>2</sub> equivalents (FY22: 150,200 tonnes of CO<sub>2</sub> equivalents)

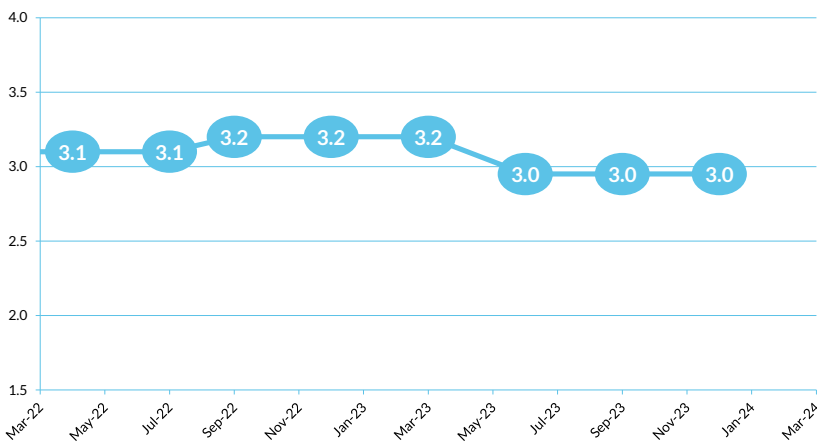
Emissions (tCO <sub>2</sub> e)	Jul-21	Jul-22	Jul-23
Scope 1	6,000	6,100	6,300
Scope 2	152,800	150,200	134,200
Scope 3	na	na	na
Total emissions	158,800	156,300	140,500

Source: Company data, RHB

## Latest ESG-Related Developments

- While Scientex does not have an emission reduction target, it is now adopting renewable energy solutions by installing solar panels at its operation sites to reduce GHG emissions.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-12-15	Neutral	3.7	3.8
2023-09-20	Neutral	3.9	3.7
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

Source: RHB, Bloomberg

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