

3Q soft q-q, but on track with our full-year estimates

Quick Note

3Q24 down q-q on slightly lower margins

Scientex reported 3Q24 core PATAMI of MYR128mn (-3% q-q, +12% y-y), bringing 9M24 earnings to MYR397mn (+21% y-y). The improvement in 9M24 profit was due to increased contribution across the packaging and property development businesses. The property segment was the key growth driver, contributing MYR1.4bn to revenue (up 37% y-y), due to higher sales, steady construction progress, and strong take-up for new launches. The packaging segment maintained its stable performance, with revenue of MYR1.9bn (-3% y-y).

The 9M24 profit formed 76% of our and 72% of Bloomberg consensus earnings estimates for FY24, vs 71% in the corresponding period last year. We deem this slightly ahead of our estimates, as 4Q24F earnings may be robust due to continued strong property demand, as per management. Our FY24F core PATAMI estimate of MYR521mn implies a 13% improvement from last year, mainly driven by the performance of the company's property segment.

An interim dividend of 6sen was proposed vs 5sen last year. We forecast 10sen of dividend for full-year FY24F.

Robust property demand; operational efficiency helps packaging

Packaging revenue in 3Q was MYR656.9mn, up 3% y-y. The increase in revenue resulted from the contribution of both its industrial and consumer packaging products, which were driven mainly by the export markets. Segment operating profit for 3Q24 grew 31% y-y to MYR58.4mn, mainly due to favorable product mix and improvement in operational efficiency. Scientex launched properties worth MYR970mn in 9M24 (MYR657mn in 1H24) in terms of total gross development value (GDV), while the take-up rate for financial year launches as at Apr-24 was ~75% (~60% in Jan-24), according to management. Scientex also acquired two land parcels in 3Q24 (totaling 1,059 acres) for MYR844mn.

On the other hand, revenue for the property segment increased 25% y-y on steady construction progress for all ongoing developments and completion of existing development projects. In addition, the resilient take-up rate of its new launches in Sungai Dua (Penang), Jenjarom (Selangor), and Jasin (Melaka) also contributed to the increase in revenue. As such, operating profit from the segment also increased 15% y-y to MYR121.2mn.

Management outlook

Management expects high energy costs and inflationary pressure to continue, exerting pressure on the packaging division's margins. The packaging division will focus on innovation and customized value-added solutions to meet the demand for sustainable and recyclable packaging solutions. The group has commenced the deployment of a 21MWp rooftop solar system in May-24, which is to be completed by Jan-25. This may help to partly set-off the higher energy costs, and embed sustainability in its operations, according to management.

For the property division, management expects robust demand to continue in the affordable segment, premised on the strong take-up rate for its new launches in Selangor, Penang, Kedah, Perak, Melaka, as well as Johor. Scientex has also been actively building its landbank via acquisitions (four in 2024), which management expects to contribute positively in terms of growth in the medium term.

Maintain Buy rating and target price of MYR4.40

Rating Remains	Buy
Target price Remains	MYR 4.40
Closing price 21 June 2024	MYR 4.29

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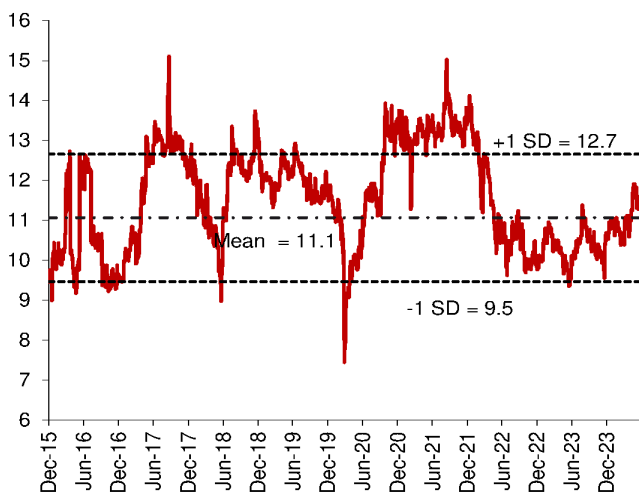
We maintain our earnings estimates and Buy rating with a target price of MYR4.40. Our FY24F earnings estimate of MYR521mn implies a 13% y-y increase from FY23 core earnings. We value the company's packaging division on a DCF basis (unchanged WACC of 7.3%), and the property division at a 25% discount to its RNAV. The stock is currently trading at a FY25F (July year-end) P/E of 9.2x compared with the historical average one-year forward P/E of 11.1x.

Fig. 1: SCI: 3Q24 results (MYR mn)

	3Q23	2Q24	3Q24	%chg y-y		9M23	9M24	% chg	FY23	FY24F	% chg	As a %
				q-q	y-y			y-y			y-y	FY24F
P&L statement												
Packaging	635	636	657	3%	3%	2,006	1,943	-3%	2,626	3,378	29%	
Property	362	457	451	-1%	25%	999	1,364	37%	1,451	1,361	-6%	
Revenue	997	1,093	1,108	1%	11%	3,005	3,307	10%	4,077	4,740	16%	70%
Costs	(815)	(879)	(899)	2%	10%	(2,472)	(2,665)	8%	(3,331)	(3,892)	17%	68%
EBITDA	183	214	209	-2%	14%	533	642	20%	746	848	14%	76%
Depreciation	(31)	(33)	(33)	0%	6%	(92)	(99)	7%	(124)	(126)	2%	78%
EBIT	152	181	176	-3%	16%	441	543	23%	622	721	16%	75%
Finance income	2	1	1	10%	-50%	4	3	-10%	5	1	-85%	455%
Finance costs	(8)	(5)	(5)	3%	-38%	(26)	(17)	-35%	(34)	(41)	23%	41%
Share of results of associates	3	2	4	74%	21%	8	10	13%	13	9	-33%	113%
PBT	149	180	176	-2%	18%	427	539	26%	606	689	14%	78%
Tax	(30)	(43)	(41)	-5%	35%	(83)	(126)	53%	(120)	(132)	10%	95%
MI	(5)	(5)	(7)	59%	46%	(17)	(17)	-4%	(24)	(36)	53%	46%
Core PATAMI	114	132	128	-3%	12%	327	397	21%	462	521	13%	76%
EI	(4)	9	2	-73%	-157%	(4)	13	nm	(24)	-	nm	nm
Reported PATAMI	110	141	130	-7%	19%	323	409	27%	438	521	19%	79%
Margins (%)												
Core PATAMI	11.4%	12.1%	11.6%	-0.5pp	0.1pp	10.9%	12.0%	1.1pp	11.3%	11.0%	-0.4pp	109%
EBIT	15.2%	16.6%	15.9%	-0.7pp	0.7pp	14.7%	16.4%	1.8pp	15.3%	15.2%	0pp	108%
EBITDA	18.3%	19.6%	18.8%	-0.8pp	0.5pp	17.7%	19.4%	1.7pp	18.3%	17.9%	-0.4pp	109%
Effective tax rate	20.2%	23.9%	23.1%	-0.8pp	2.9pp	19.3%	23.4%	4pp	19.8%	19.2%	-0.6pp	122%
Reported Segment Operating Profit												
Packaging	44	64	58	-9%	31%	160	173	8%				
Property	105	127	121	-5%	15%	281	387	38%				
Total	150	191	180	-6%	20%	441	559	27%				
Packaging margin	7.0%	10.1%	8.9%	-1.2pp	1.9pp	8.0%	8.9%	0.9pp				
Property margin	29.1%	27.9%	26.9%	-1pp	-2.3pp	28.1%	28.3%	0.2pp				
Total	15.0%	17.5%	16.2%	-1.3pp	1.2pp	14.7%	16.9%	2.2pp				

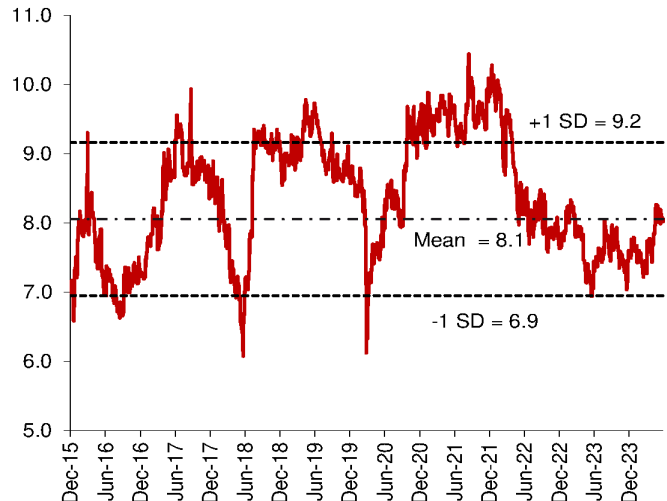
Source: Company data, Nomura estimates

Fig. 2: SCI: 12-month forward P/E



Source: Bloomberg Finance L.P., Nomura research

Fig. 3: SCI: 12-month forward EV/EBITDA



Source: Bloomberg Finance L.P., Nomura research

Appendix A-1

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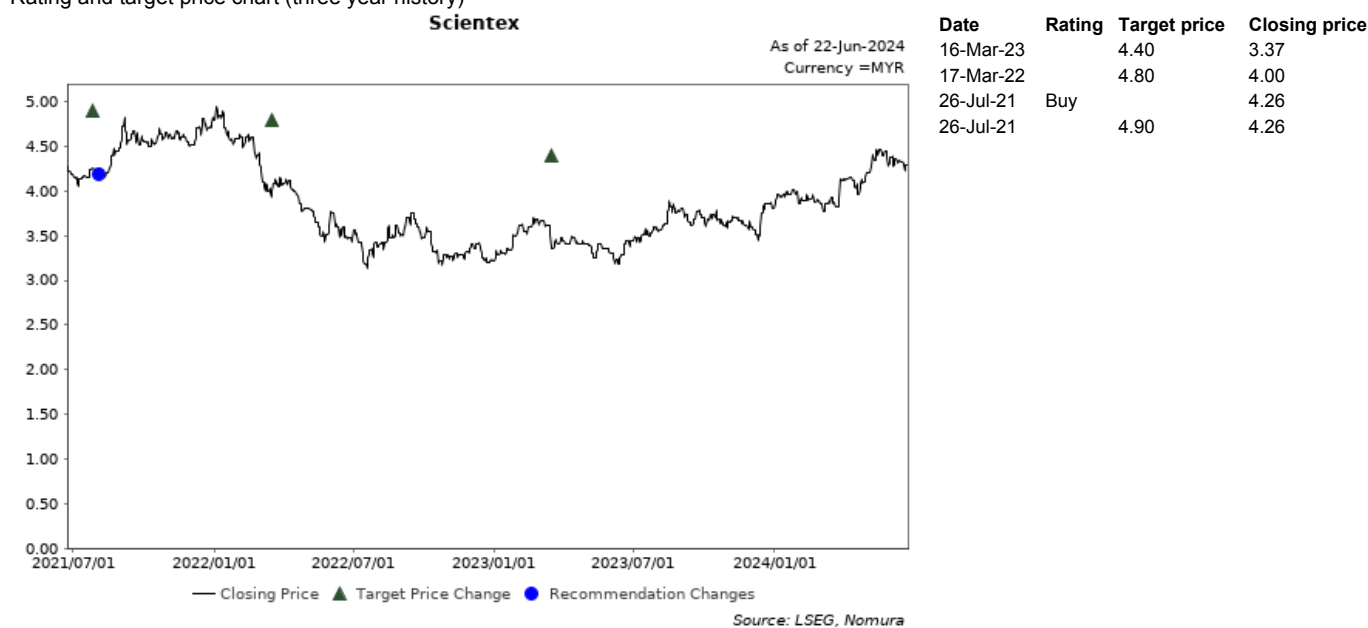
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Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Scientex	SCI MK	MYR 4.29	21-Jun-2024	Buy	N/A	

Scientex (SCI MK)

MYR 4.29 (21-Jun-2024) Buy (Sector rating: N/A)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Scientex on an SOTP basis. The Packaging division is valued on a DCF basis, discounting free cash flows to the firm by a 7.3% WACC and incorporating a long term growth rate for Malaysia of 1.5%. We value the Property division at a 25% discount to RNAV. This derives a target price of MYR4.40. The benchmark index for this stock is the FBMKLCI index.

Risks that may impede the achievement of the target price Downside risks to our target price include 1) Prolonged pandemic-linked loss of consumer confidence and spending, reducing the demand for packaging products and property, 2) Environmental regulations prohibiting use of certain packaging materials manufactured by the company, 3) Elevated container freight rates and global supply chain issues impacting imports of raw materials and export demand and 4) Extended MCOs in Malaysia impacting manufacturing processes and property construction and sales schedules .

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As at 31 March 2024.

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