

24 June 2024

Scientex

Property Upstages Packaging

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SCIENTX's 9MFY24 results met expectations. Its 9MFY24 core net profit rose 23% YoY driven largely by strong property profits, partially offset by weak packaging exports. We see a similar earnings trend going forward. We maintain our forecasts, fine-tune up our TP by 1% to RM4.00 (from RM3.95) and reiterate our UNDERPERFORM call.

Its 9MFY24 core net profit of RM398.6m met expectations at 73% of both our full-year forecast and the full-year consensus estimate. However, SCIENTX declared a DPS of 6 sen in 3QFY24 (vs. 5 sen in 3QFY23) that exceeded our expectation.

YoY, its 9MFY24 revenue grew 10% fueled primarily by its property division (+37% YoY) on strong progress billings and new sales, including those from new launches in Sungai Dua (Penang), Jenjarom (Selangor), and Jasin (Melaka), partially offset by softer packaging turnover (-3% YoY) on weak exports. Its core net profit rose by a sharper 23%, thanks to an improved packaging product mix and operational efficiency.

QoQ, its 3QFY24 top line was flattish while bottom line softened by 3% due to lower margins at both packaging and property units.

Outlook. We expect soft earnings outlook for its packaging segment due to a weak export market and high energy cost, partially cushioned by savings from a 21-MWp solar photovoltaic (PV) system which should be operational from Jan 2025. On a brighter note, the sales of its affordable properties will continue to be robust. Meanwhile, its acquisition of land in Muar (Johor) is expected to be completed by 2HCY24, while those in Bestari Jaya (Selangor), Seberang Perai Selatan (Penang), and Pulai (Johor) in 1HCY25.

Forecasts. Maintained. However, we raise our FY24-25F annual dividend forecasts to 12.0 sen and 12.5 sen, respectively (from 10.6 sen and 11.0 sen).

Valuations. We fine-tune up our TP by 1% to RM4.00 (from RM3.95) after we recalibrate our valuations for its property business (see Page 3). Our revised TP values its packaging business at an unchanged 12x FY25F PER, at a premium to sector's average forward PER of 10x to reflect its size, being one of the largest players in the region. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

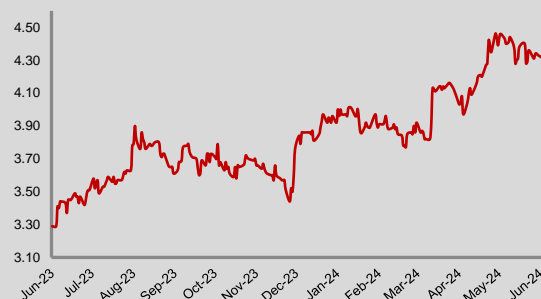
Investment case. We like SCIENTX for its competitiveness in the global plastic packaging industry given its size and low-cost structure (especially, as compared to its overseas rivals), and strong foothold in the affordable housing segment in Johor. However, we believe valuations have become rich after the recent run-up in its share price. Reiterate **UNDERPERFORM**.

Risks to our call include: (i) a stronger and sooner recovery in the global economy, (ii) easing of input costs, and (iii) lower mortgage rates improving affordability for its properties.

UNDERPERFORM ↔

Price: RM4.29
Target Price: RM4.00 ↑

Share Price Performance



KLCI	1,590.37
YTD KLCI chg	9.3%
YTD stock price chg	12.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	6,654.9
Shares Outstanding	1,551.3
52-week range (H)	4.50
52-week range (L)	3.35
3-mth avg. daily vol.	949,022
Free Float	33%
Beta	0.9

Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	10.8%
Scientex Leasing Sdn Bhd	9.1%

Summary Earnings Table

FYE Jul (RM m)	2023A	2024F	2025F
Turnover	4076.9	4517.2	4755.2
EBIT	589.6	758.9	791.7
PBT	568.7	730.1	758.7
Net Profit (NP)	438.1	548.1	568.1
Core NP	414.7	548.1	568.1
Consensus (NP)	-	550.5	592.1
Earnings Revision	-	-	-
Core EPS (sen)	26.7	35.3	36.6
Core EPS Growth (%)	4.9	32.2	3.7
NDPS (sen)	10.0	12.0	12.5
BVPS (RM)	2.2	2.4	2.7
Core PER (x)	16.0	12.1	11.7
PBV (x)	2.0	1.8	1.6
Net Gearing (x)	0.2	0.2	0.2
Net Div. Yield (%)	2.3	2.8	2.9

24 June 2024

Financial Highlights

FYE July (RM m)	3QFY24	2QFY24	QoQ Chg	3QFY23	YoY Chg	9MFY24	9MFY23	YoY Chg
Revenue	1108.0	1092.7	1%	997.1	11%	3307.3	3005.4	10%
EBIT	177.4	183.2	-3%	153.4	16%	548.6	442.7	24%
Interest Income	4.1	2.3	74%	3.4	21%	9.6	8.5	13%
Finance Costs	-5.1	-5.0	3%	-8.2	-38%	-17.0	-26.0	-35%
Exceptional Items	2.2	*8.1	-73%	-3.6	-162%	10.7	-2.1	-619%
PBT	178.5	188.7	-5%	145.0	23%	551.9	423.1	30%
Taxation	-40.6	-43.0	-5%	-30.1	35%	-125.9	-82.5	53%
Minority Interest	-7.4	-4.7	59%	-5.1	46%	-16.6	-17.3	-4%
Net Profit	130.5	141.0	-7%	109.8	19%	409.4	323.2	27%
Core Net Profit	128.3	132.9	-3%	113.3	13%	398.6	325.3	23%
Effective Tax Rate (%)	22.8	22.8		20.8		22.8	19.5	
EBIT Margin (%)	16.0	16.8		15.4		16.6	14.7	
PBT Margin (%)	16.1	17.3		14.5		16.7	14.1	
CNP Margin (%)	11.6	12.2		11.4		12.1	10.8	

*include RM9m gain on disposal of investment in JV

Source: Company, Kenanga Research

Segmental Breakdown

FYE July (RM m)	3QFY24	2QFY24	QoQ Chg	3QFY23	YoY Chg	9MFY24	9MFY23	YoY Chg
Turnover								
Packaging	656.9	635.8	3%	635.4	3%	1943.1	2006.5	-3%
Property	451.1	456.9	-1%	361.7	25%	1364.1	998.9	37%
Group Turnover	1108.0	1092.7	1%	997.1	11%	3307.3	3005.4	10%
EBIT								
Packaging	58.4	64.0	-9%	44.5	31%	172.8	159.7	8%
Property	121.2	127.3	-5%	105.4	15%	386.5	281.0	38%
Group EBIT	179.6	191.3	-6%	149.8	20%	559.3	440.7	27%
EBIT Margin								
Packaging	8.9%	10.1%		7.0%		8.9%	8.0%	
Property	26.9%	27.9%		29.1%		28.3%	28.1%	
Group EBIT Margin	16.2%	17.5%		15.0%		16.9%	14.7%	

Source: Company, Kenanga Research

24 June 2024

SCIENTX's Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Valuation Basis
Packaging	2,250	12x FY25 PER
Property	3,964	50% discount to RNAV (see the following table)
Total	6,214	
Paid-up Capital (m shares)	1,551	
SoP per share / TP (RM)	4.00	

Source: Kenanga Research

RNAV of SCIENTX's Property Development Projects		
Project	Outstanding GDV (RM m)	NPV of profit (RM m)
Scientex Tasek Gelugor	418	82
Scientex Ipoh	984	194
Scientex Rawang	711	140
Scientex Kundang Jaya	1,040	205
Scientex Seremban	810	160
Taman Muzaffar Heights	721	142
Scientex Durian Tunggal	356	77
Scientex Jasin	4,658	744
Taman Scientex Pasir Gudang	97	21
Taman Scientex Kulai	282	61
Taman Mutiara Mas	1,166	186
Taman Scientex Senai	1,984	317
Taman Pulai Mutiara	2,600	415
Scientex Kota Tinggi	167	36
Scientex Sg Petani	500	99
Scientex Sungai Dua	1,700	272
Scientex Jenjarom	1,384	221
Scientex Kulai	1,999	319
*Scientex Muar	1,333	213
*Scientex Bestari Jaya	2,238	358
*Scientex Seberang Perai Selatan	3,083	493
*Scientex Pulai 4	2,543	406
	30,774	5,160
Unbilled Sales (as of Apr-24)	1,560	352
Property Shareholders Fund		2,416
Total RNAV (RM m)		7,929
Discount to RNAV (%)		50%
Discounted RNAV		3,964

Source: Kenanga Research, Company

24 June 2024

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.10	1.50	36.4%	1,049.5	Y	05/2024	8.5	11.2	20.5%	36.7%	12.9	9.8	1.8	14.9%	1.0	0.9%
BM GREENTECH BHD	UP	1.67	1.30	-22.2%	861.7	Y	03/2025	8.6	9.0	32.1%	4.7%	19.4	18.5	3.2	17.1%	1.8	1.1%
BP PLASTICS HOLDINGS BHD	MP	1.38	1.42	2.9%	388.4	Y	12/2024	12.1	14.1	1.5%	16.8%	11.4	9.8	1.4	12.5%	6.5	4.7%
HPP HOLDINGS BHD	MP	0.370	0.320	-13.5%	143.7	Y	05/2024	0.7	2.2	-69.9%	203.6%	51.3	16.9	1.2	2.3%	0.5	1.4%
KUMPULAN PERANGSANG SELANGOR	UP	0.795	0.450	-43.4%	427.2	Y	12/2024	2.0	4.4	158.5%	125.5%	40.3	17.9	0.4	1.0%	2.0	2.5%
SCIENTEX BHD	UP	4.29	4.00	-6.8%	6,654.9	Y	07/2024	35.3	36.6	32.2%	3.6%	12.1	11.7	1.7	14.5%	12.0	2.8%
SLP RESOURCES BHD	OP	0.985	1.16	17.8%	312.2	Y	12/2024	5.8	7.0	68.8%	20.7%	17.0	14.1	1.6	9.6%	6.0	6.1%
TECHBOND GROUP BHD	OP	0.485	0.500	3.1%	266.7	Y	06/2024	3.7	4.3	112.8%	14.0%	12.9	11.3	1.3	10.9%	1.3	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.00	2.86	43.0%	802.3	Y	12/2024	25.5	29.8	22.1%	16.6%	7.8	6.7	0.8	10.3%	5.5	2.8%
SECTOR AGGREGATE					10,906.7					44.4%	11.7%	12.6	11.3	1.4	11.2%		2.8%

Source: Kenanga Research

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24 June 2024

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★	☆	
SPECIFIC	Product Quality & Safety	★	★	★		
	Digitalisation & Innovation	★	★	★	★	
	Effluent & Waste Management	★	★	★		
	Resource Management	★	★	★	★	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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