

Scientex Berhad

TP: RM5.41 (+29.0%)
Property Segment Remains Resilient in 2HFY24
Last Traded: RM4.29
Buy (ESG: ★★★)

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Review

- Scientex Berhad (SCIENTX)'s 3QFY24 results came in within our expectation but below consensus' full year estimates.
- In 3QFY24, core earnings increased by 12.2% YoY to RM128.0mn, mirroring a revenue growth of 11.1% YoY to RM1.1bn.
- The property segment saw a 24.7% YoY increase in sales attributed to steady construction progress across ongoing projects and strong take-up rate for new launches in Sungai Dua (Penang), Jenjarom (Selangor), and Jasin (Melaka). Additionally, EBIT grew by 15.0% YoY to RM121.2mn.
- Cumulatively, core net profit for 9MFY24 increased by 21.2% to RM396.6mn, supported by a 10.0% rise in revenue. The stronger performance was mainly driven by the commendable results from the property segment, which offset the slight decline in manufacturing top-line performance.
- A single tier interim dividend of 6.0sen/share was declared for 3QFY24 (3QFY23: 5.0sen/share).

Impact

- No change to our earnings estimates.

Outlook

- Manufacturing.** The outlook for the packaging sector remains challenging due to rising energy costs and inflationary pressures, which continue to exert upward pressure on our operational costs. To remain competitive in the market, the group will work on enhancing operational efficiency while also emphasizing cost, quality, and customer delivery.
- Property.** On the other hand, the outlook for the property segment remains promising. YTD, Scientex has proposed new land acquisitions totaling 2,578.4 acres (+618.4 acres in 2QFY24). We believe that the group will continue to further expand its land bank in 2HFY24, targeting a net gearing ratio of no more than 0.5x (as of 3QFY24, net gearing stood at 0.2x). Moving forward, we anticipate the EBIT margin to sustain at 28% backed by the resilient take-up rate and consistent billing progress.

Valuation

- We upgraded SCIENTX from Sell to **Buy** with a revised TP of **RM5.41/share** based on Sum-of-Parts (SOP) valuation. We have applied a new PE ratio of 14x for the property segment to align with our small-cap sector target PE. We like the stock due to its diversified business model, which offers multiple growth catalysts that ensure earnings visibility across different economic cycles.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	1,551.3
Market Cap (RMmn)	6,655.1
52-wk Hi/Lo (RM)	4.5/3.35
12-mth Avg Daily Vol ('000 shrs)	556.4
Estimated Free Float (%)	33.4
Beta	0.8
Major Shareholders (%)	
Scientex Holdings & Related	40.9

Forecast Revision

	FY24	FY25
Forecast Revision (%)	-	-
Net profit (RMm)	534.7	589.9
Consensus	548.3	592.9
TA's / Consensus (%)	97.5	99.5
Previous Rating		Sell (Upgraded)
Consensus Target Price (RM)		4.29

Financial Indicators

	FY24	FY25
Net debt/ equity (%)	17.6	14.3
ROE (%)	14.9	14.8
ROA (%)	9.4	9.5
NTA/Share (RM)	2.2	2.5
Price/ NTA (x)	1.9	1.7

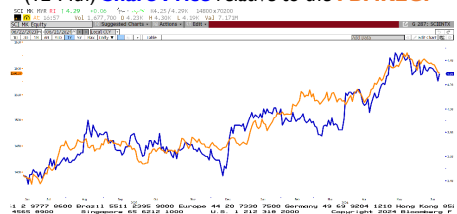
Scorecard

	% of FY	
vs TA	74	Within
vs Consensus	72	Within

Share Performance (%)

Price Change	SCIENTX	FBM KLCI
1 mth	(2.5)	(2.0)
3 mth	12.3	3.2
6 mth	11.1	9.3
12 mth	26.2	14.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Table 1: 9MFY24 Results Analysis

FYE July (RM'mn)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	997.1	1,092.7	1,108.0	1.4	11.1	3,005.4	3,307.3	10.0
~ Manufacturing	635.4	635.8	656.9	3.3	3.4	2,006.5	1,943.1	(3.2)
~ Property	361.7	456.9	451.1	(1.3)	24.7	998.9	1,364.1	36.6
Interest Expense	(8.2)	(5.0)	(5.1)	(3.0)	37.6	(26.0)	(17.0)	34.6
Investing Results	3.4	2.3	4.1	74.0	21.0	8.5	9.6	13.4
Depreciation	(30.9)	(32.9)	(32.8)	0.2	(6.1)	(92.3)	(98.9)	(7.1)
EBITDA	180.8	224.2	212.4	(5.3)	17.5	533.0	658.2	23.5
Operating Profit (EBIT)	149.8	191.3	179.6	(6.1)	19.9	440.7	559.3	26.9
~ Manufacturing	44.5	64.0	58.4	(8.7)	31.3	159.7	172.8	8.2
~ Property	105.4	127.3	121.2	(4.8)	15.0	281.0	386.5	37.6
EI	(4.3)	9.0	2.5	(72.7)	>100	(4.0)	12.8	>100
Reported PBT	145.0	188.7	178.5	(5.4)	23.2	423.1	551.9	30.4
Taxation	(30.1)	(43.0)	(40.6)	5.5	(35.0)	(82.5)	(125.9)	(52.6)
Minority Interest	(5.1)	(4.7)	(7.4)	(58.7)	(45.7)	(17.3)	(16.6)	3.9
Reported Profit	109.8	141.0	130.5	(7.5)	18.9	323.2	409.4	26.6
Adj. Net Profit	114.1	132.0	128.0	(3.0)	12.2	327.2	396.6	21.2
EPS (sen)	7.1	9.1	8.4	(7.5)	18.9	20.8	26.4	26.6
Adj EPS (sen)	7.4	8.5	8.3	(3.0)	12.2	21.1	25.6	21.2
DPS (sen)	5.0	0.0	6.0	nm	20.0	5.0	6.0	20.0
				%-pts	%-pts			%-pts
EBIT Margin (%)	15.0	17.5	16.2	(1.3)	1.2	14.7	16.9	2.2
~ Manufacturing	7.0	10.1	8.9	(1.2)	1.9	8.0	8.9	0.9
~ Property	29.1	27.9	26.9	(1.0)	(2.3)	28.1	28.3	0.2
PBT Margin (%)	14.5	17.3	16.1	(1.2)	1.6	14.1	16.7	2.6
Core Net Margin (%)	11.4	12.1	11.6	(0.5)	0.1	10.9	12.0	1.1
Tax rate (%)	20.8	22.8	22.8	(0.0)	2.0	19.5	22.8	3.3

Table 2: Earnings Summary

FYE July (RM'mn)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	3,985.3	4,076.9	4,283.7	4,642.4	4,834.9
Gross Profit	845.2	889.5	1,018.9	1,104.3	1,120.1
EBITDA	675.5	621.1	834.0	909.1	916.5
EBIT	561.0	589.6	704.7	773.1	774.3
Reported PBT	548.3	568.7	697.5	768.7	771.3
Adj. PBT	555.7	594.1	697.5	768.7	771.3
Reported Net Profit	409.9	438.1	534.7	589.9	591.7
Adj. Net profit	417.2	463.6	534.7	589.9	591.7
Basic/Diluted EPS (sen)	26.4	26.4	34.5	38.0	38.1
Adj. EPS (sen)	26.9	25.6	34.5	38.0	38.1
PER (x)	16.2	16.8	12.4	11.3	11.2
Net Dividend (sen)	9.0	10.0	12.0	13.0	13.0
Dividend Yield (%)	2.1	2.3	2.8	3.0	3.0

Table 3: Sum-of-Parts Valuation

Segment	Valuation Method	Equity Value (RM mn)
Manufacturing	CY25 EPS PER 15x	3,586.1
Property	CY25 EPS PER 14x	4,922.4
Equity value (RM mn)		8,508.5
+ Proceed from Warrant Conversion (RM mn)		444.1
Total Equity Value (RM mn)		8,952.6
Share cap (mn)		1,551.3
+ Warrant Conversion (mn)		103.3
Enlarged Share Cap (mn)		1,654.6
Target Price (RM)		5.41

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 Monday, June 24, 2024, the analyst, Liew Yi Jiet, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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