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Scientex STIK.KL SCI MK

Global Markets Research
25 September 2024

EQUITY: MATERIALS

In-line 4Q; expect Packaging to recover in FY25F

Quick Note

Rating Remains	Buy
Target price Remains	MYR 5.00
Closing price 24 September 2024	MYR 4.19

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In-line 4Q24 as strong Property segment offsets the weakness in Packaging

- Scientex reported higher 4Q core net profit of MYR139mn, up 9% q-q and 3% y-y on the back of a revenue of MYR1.17bn (+5% q-q and +9% y-y), bringing its full-year core net profit to MYR536mn (+16% y-y) on revenue of MYR4.48bn (+10% y-y). FY24 core PATAMI forms 101%/ 97% of our/ consensus FY24 estimates.
- The improved financial performance for FY24 was primarily driven by the robust demand in the property division, which recorded a 30% y-y increase in revenue to MYR1.9bn, supported by higher sales, strong take-up rates for its new property launches, and steady construction progress on ongoing projects across Peninsular Malaysia. The packaging division held steady, contributing to the overall positive results with stable revenue of MYR2.6bn (-1% y-y) despite facing a challenging global landscape. Within the Packaging business, the industrial packaging subsegment helped to offset the weaker demand in consumer packaging.
- 4Q24 revenue grew 9% y-y to MYR1.2bn, while core PATAMI expanded 3% y-y to MYR139mn. The growth was primarily contributed by the property division, where revenue rose 14% y-y to MYR517mn on the back of steady construction progress and robust demand for new launches in Bandar Jasin, Rawang, Kundang, Sungai Petani, Tasek Gelugor, and Pulai. The packaging division also contributed to the positive results, with revenue up 5% to MYR651mn in 4Q24, driven by the growth in the sales of industrial packaging products.
- Scientex recorded strong operating cash flow of MYR589mn in FY24 vs MYR805mn in FY23. During FY24, the company used MYR640mn cash for investment capex (MYR270mn in FY23). For FY25F, management has guided MYR1.3bn of investment capex, most of which would be for land acquisition for the property business.
- Net gearing improved to 0.18x from 0.20x in end-FY23. Management guided net gearing of less than 0.5x at end-FY25 despite a heavy investment capex plan of MYR1.3bn during the year.
- A final dividend of MYR0.06 was proposed, bringing the full-year dividend to MYR0.12 (vs. our full-year forecast of MYR0.10), yielding 2.86%.

Packaging to see a recovery into FY25F; reiterate Buy with TP of MYR5.0

We maintain our earnings estimates and Buy rating with a target price of MYR5.0. Our FY25F earnings estimate of MYR626mn implies a 17% y-y increase in core earnings. We value the company's packaging division on a DCF basis (unchanged WACC of 7.6%), and the property division at a 20% discount to its RNAV. The stock is currently trading at a FY25F (July year-end) P/E of 11.1x, in line with the historical average one-year forward P/E of 11.1x (*Fig. 2*).

Below are the salient key briefing takeaways:

- **Packaging utilisation rate:** Packaging utilisation was ~59% in FY24, similar to last year. However, there was higher capacity of ~4% y-y, implying ~4% higher volume y-y for the segment.
- **Impact of ringgit's appreciation:** Management stated that the Packaging business enjoys a natural hedge in terms of foreign currency exposure as both finished goods and the majority of raw material costs are in foreign currency.
- **Outlook on consumer packaging:** The overall market capacity for consumer

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packaging has increased over the past 2-3 years due to the strong demand in the previous cycle. However currently the demand is subdued and recovering slowly. Moreover, there is higher competition from China due to soft domestic demand. Scientex has done a lot of cost controls internally and not lost any major customer. The company is ready with increased capacity to benefit from increased demand in the future, as per management.

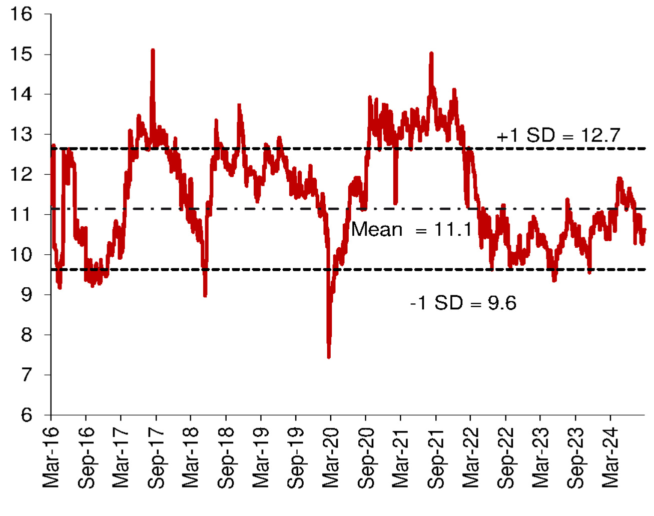
- **US packaging plant:** The Arizona plant recorded plant utilization of 40% in FY24 (~30% last year). According to management, the Arizona plant is now profitable compared to near-breakeven levels last year.
- **Property business guidance for FY25F:** Management is targeting new launches' Gross Development Value (GDV) in excess of MYR2bn in FY25F (MYR1.9bn in FY24). In terms of units, management expects launches in excess of 8,000 (6,336 units launched in FY24). Take-up of new launches was ~80% in FY24, similar to last year, as demand is consistent for the affordable housing in Malaysia, as per management.
- **Total GDV:** According to management, current land bank's potential GDV stands at MYR50bn (vs. MYR36.7bn back in end-FY23) across 35 developments spread across 10,277 acres. We see Scientex as a key beneficiary of the potential pick-up in property demand in Johor.

Fig. 1: SCI: 4Q24 results review

	4Q23	3Q24	4Q24	%chg y-y q-q	y-y	FY23	FY24	% chg y-y	FY24F	FY24 as % of FY24F	FY25F	% chg y-y
P&L statement												
Packaging	620	657	651	-1%	5%	2,626	2,594	-1%	2,617	99%	2,872	11%
Property	452	451	517	15%	14%	1,451	1,881	30%	1,738	108%	2,023	8%
Revenue	**1,072**	**1,108**	**1,168**	**5%**	**9%**	**4,077**	**4,476**	**10%**	**4,355**	**103%**	**4,895**	**9%**
Costs	(859)	(899)	(957)	6%	11%	(3,331)	(3,622)	9%	(3,519)	103%	(3,925)	8%
EBITDA	**213**	**209**	**212**	**1%**	**0%**	**746**	**854**	**14%**	**836**	**102%**	**970**	**14%**
Depreciation	(32)	(33)	(33)	1%	5%	(124)	(132)	7%	(132)	100%	(130)	-2%
EBIT	**181**	**176**	**179**	**2%**	**-1%**	**622**	**722**	**16%**	**705**	**102%**	**840**	**16%**
Finance income	1	1	2	62%	66%	5	5	9%	5	105%	6	24%
Finance costs	(8)	(5)	(6)	9%	-26%	(34)	(23)	-33%	(31)	72%	(38)	68%
Share of results of associates	4	4	5	32%	29%	13	15	18%	13	113%	14	-7%
PBT	**179**	**176**	**180**	**2%**	**1%**	**606**	**719**	**19%**	**692**	**104%**	**823**	**14%**
Tax	(37)	(41)	(34)	-17%	-9%	(120)	(160)	33%	(146)	110%	(173)	8%
MI	(7)	(7)	(7)	-1%	12%	(24)	(24)	1%	(16)	149%	(23)	-3%
Core PATAMI	**135**	**128**	**139**	**9%**	**3%**	**462**	**536**	**16%**	**530**	**101%**	**626**	**17%**
EI	(20)	2	(3)	-235%	-84%	(24)	9	nm	-	nm	-	nm
Reported PATAMI	115	130	136	4%	18%	438	545	24%	530	103%	626	15%
Margins (%)												
Core PATAMI	12.6%	11.6%	11.9%	0.4pp	-0.7pp	11.3%	12.0%	0.6pp	12.2%	-0.2pp	12.8%	0.8pp
EBIT	16.9%	15.9%	15.3%	-0.6pp	-1.6pp	15.3%	16.1%	0.9pp	16.2%	-0.1pp	17.2%	1pp
EBITDA	19.8%	18.8%	18.1%	-0.7pp	-1.7pp	18.3%	19.1%	0.8pp	19.2%	-0.1pp	19.8%	0.7pp
Effective tax rate	20.8%	23.1%	18.7%	-4.3pp	-2.1pp	19.8%	22.2%	2.4pp	21.1%	1.1pp	21.1%	-1.1pp
Reported Segment Operating Profit												
Packaging	24	58	45	-23%	86%	184	218	18%				
Property	125	121	132	9%	6%	406	519	28%				
Total	**149**	**180**	**177**	**-1%**	**19%**	**590**	**737**	**25%**				
Packaging margin	3.9%	8.9%	6.9%	-1.9pp	3pp	7.0%	8.4%	1.4pp				
Property margin	27.6%	26.9%	25.5%	-1.3pp	-2.1pp	28.0%	27.6%	-0.4pp				
Total	**13.9%**	**16.2%**	**15.2%**	**-1pp**	**1.3pp**	**14.5%**	**16.5%**	**2pp**				

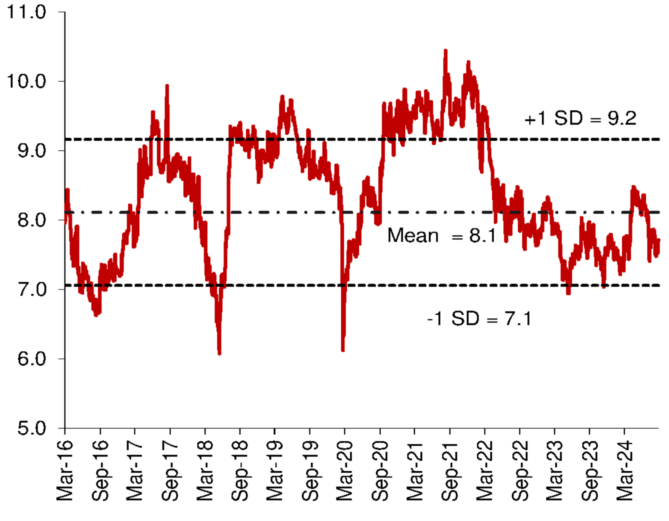
Source: Company data, Nomura estimates

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



Source: Bloomberg, Nomura research

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



Source: Bloomberg

Appendix A-1

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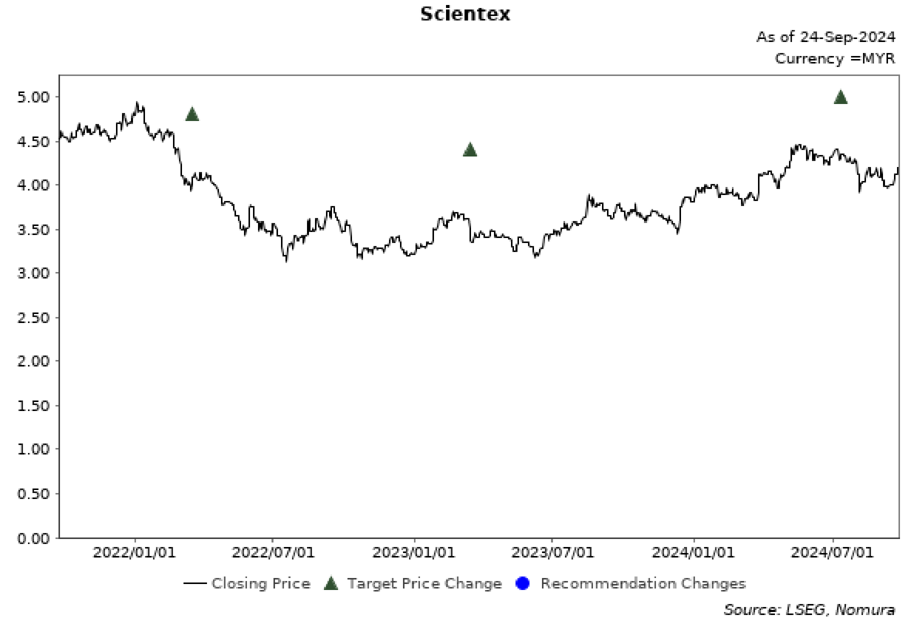
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Scientex	SCI MK	MYR 4.19	24-Sep-2024	Buy	N/A	

Scientex (SCI MK) **MYR 4.19 (24-Sep-2024)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Jul-24		5.00	4.36
16-Mar-23		4.40	3.37
17-Mar-22		4.80	4.00

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 7.6% WACC and incorporating a long term growth rate for Malaysia of 1.5%. We value the Property division at a 20% discount to RNAV. This derives a target price of MYR5.00. 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: 1) frail recovery in demand for packaging, 2) slow take up in property sales and 3) rising cost pressure.

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