

09 December 2022

Scientex

High Operating Cost Weighs

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SCIENTX's 1QFY23 results disappointed on higher operating cost in both plastic packaging and property development segments. We now expect a more subdued FY23 due to weaker demand for plastic packaging amidst a global slowdown and poor sentiment in the local property market. We cut our FY23-24F net profit by 13-4%, reduce TP by 10% to RM2.99 (from RM3.32) but maintain our MARKET PERFORM call.

Missed expectations. 1QFY23 core profit came in below expectations at only 20% and 22% of our full-year forecast and the full-year consensus estimates, respectively. The variation against our forecast came largely from higher operating cost that hurt margins.

YoY, 1QFY23 revenue grew by 11% thanks to: (i) a 6% top line growth at the plastic packaging segment, and (ii) a 26% jump in property turnover on economy reopening. However, 1QFY23 core profit only grew 5% mainly due to efficiency loss amidst labour shortage and higher operating cost.

Outlook. We expect softer growth for its plastic packaging segment, dragged down largely by industrial plastic packaging (vs. consumer plastic packaging) on a slowing global economy. Not helping either is the elevated operating cost. Similarly, we are cautious on its property development segment on poor sentiment on the back of rising interest rates.

Forecasts. We cut our FY23-24F net profit by 13-4% largely to reflect higher operating cost and weaker property sales.

We like SCIENTX for: (i) the expanding global market share of the local plastic packaging industry due to production curbs in other parts of the world, especially in Europe, due to high energy cost or energy supply constraints, (ii) its strong market position, being the largest flexible plastic packaging manufacturer in the region, and (iii) its earnings growth driven by expansion, i.e. a robotic stretch film plant in Shah Alam, Selangor and a blown film plant in Chemor, Perak. However, its near-term demand outlook is weakening on the back of a slowdown in the global economy.

We cut our TP by 10% to RM2.99 (from RM3.32), having: (i) rolled forward our valuation base year to FY24F (from FY23F); and (ii) reduced our PE multiple to 12x (from 14x).

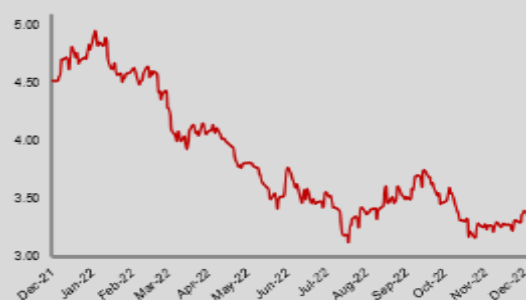
At 12x, we value the stock at a reduced premium of only 2x (from 4x) to the sector's average forward PER of 10x. While we believe SCIENTX deserves a premium to the sector given its size, the premium should be lower now given the cloudy outlook amidst a slowing global economy (see Page 2 for our SoP valuations). There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**.

Risks to our call include: (i) sustained higher resin cost, (ii) recovery in demand for packaging materials from the pandemic cut short by a global recession, and (iii) prolonged labour shortages.

MARKET PERFORM ↔

Price : **RM3.40**
Target Price : **RM2.99** ↓

Share Price Performance



KLCI 1,465.93
YTD KLCI chg -6.5%
YTD stock price chg -29.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	5,273.6
Shares Outstanding	1,551.1
52-week range (H)	5.00
52-week range (L)	3.02
3-mth avg daily vol:	411,431
Free Float	34%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn	21.0%
Scientex Infinity Sdn	10.0%
Scientex Leasing Sdn	9.1%

Summary Earnings Table

FYE Jul (RM m)	2022A	2023F	2024F
Turnover	3985.3	4098.7	4676.4
EBIT	561.0	656.6	749.2
PBT	548.3	633.2	734.5
PATAMI	409.9	475.2	551.3
Core PATAMI	413.3	475.2	551.3
Consensus (NP)		493.1	555.4
Earnings Revision		13%	4%
Core EPS (sen)	26.7	30.6	35.6
Core EPS growth (%)	-6.9	15.0	16.0
NDPS (sen)	9.0	9.2	10.7
BVPS (RM)	2.01	2.22	2.47
Core PER (x)	13.0	11.1	9.6
PBV (x)	1.7	1.5	1.4
Net Gearing (x)	0.3	0.4	0.3
Net Div. Yield (%)	2.6	2.7	3.1

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Segmental Breakdown

FYE July (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg
Turnover	1029.9	1111.3	-7%	928.2	11%
EBIT	143.4	178.7	-20%	133.2	8%
Interest income	1.4	1.1	23%	1.5	-12%
Finance costs	-8.0	-6.2	30%	-4.3	85%
PBT	136.7	173.6	-21%	130.4	5%
Taxation	-23.3	-42.7	-45%	-22.2	5%
Net Profit	113.4	130.9	-13%	108.2	5%
Minority interest	6.2	5.9	6%	5.3	17%
PATAMI	107.2	125.0	-14%	102.9	4%
Core PATAMI	108.5	120.6	-10%	103.7	5%

EBIT margin	13.9%	16.1%		14.4%
PBT margin	13.3%	15.6%		14.1%
Core PATAMI margin	10.5%	10.9%		11.2%
Effective tax rate	17.0%	24.6%		17.0%

Source: Company, Kenanga Research

Segmental Breakdown

FYE July (RM m)	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg
Turnover					
Manufacturing	716.0	740.8	-3%	678.1	6%
Property	313.9	370.5	-15%	250.1	26%
Group Turnover	1029.9	1111.3	-7%	928.2	11%

Segment Results

Manufacturing	56.9	62.6	-9%	64.7	-12%
Property	86.5	116.0	-25%	68.5	26%
Group EBIT	143.4	178.7	-20%	133.2	8%

EBIT Margin

Manufacturing	8.0%	8.5%		9.5%
Property	27.5%	31.3%		27.4%
Group EBIT Margin	13.9%	16.1%		14.4%

Source: Company, Kenanga Research

SoP Valuations

Segment	Fair Value (RM m)		Remarks
Property	1259	Discount: 10%	RNAV: RM1,399m
Manufacturing	3374	12x PER	Net Profit: RM281m
Sum-of-Parts (RM m)	4633		
No. of Shares (m)	1551.1		
Target Price (RM)	2.99		

Source: Company, Kenanga Research

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.				
Stocks Under Coverage																	
BOILERMECH HOLDINGS BHD	OP	0.780	0.830	6.41%	402.5	Y	03/2023	3.5	5.2	7.6%	45.9%	22.0	15.1	1.5	7.1%	1.8	2.3%
BP PLASTICS HOLDINGS BHD	OP	1.31	1.63	24.43%	368.7	Y	12/2022	11.3	13.6	-31.7%	21.1%	11.6	9.6	1.4	13.0%	6.0	4.6%
HIL INDUSTRIES BHD	OP	1.05	1.13	7.62%	348.5	Y	12/2022	8.8	11.8	-2.3%	34.6%	11.9	8.9	0.8	7.2%	2.0	1.9%
HPP HOLDINGS Bhd	OP	0.430	0.460	6.98%	167.0	Y	05/2023	3.5	4.2	63.1%	18.2%	12.2	10.3	1.3	11.2%	2.0	4.7%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.775	0.850	9.68%	416.5	Y	12/2022	6.7	8.5	-13.2%	26.9%	11.5	9.1	0.4	3.4%	6.5	8.4%
SCIENTEX BHD	MP	3.40	2.99	-12.06%	5,273.6	Y	07/2023	30.6	35.5	15.0%	16.0%	11.1	9.6	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.985	0.92	-6.60%	312.2	Y	12/2022	6.2	7.2	11.4%	16.4%	16.0	13.8	1.6	10.4%	5.5	5.6%
THONG GUAN INDUSTRIES BHD	OP	2.41	3.99	65.56%	940.5	Y	12/2022	28.6	36.4	16.5%	27.1%	8.4	6.6	1.1	13.6%	5.5	2.3%
Simple Average								12.4	15.3	8.3%	25.8%	13.1	10.4	1.2	10.2%		4.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Corporate Social Responsibility	★	★	★	★
	Management/Workforce Diversity	★	★	☆	
	Accessibility & Transparency	★	★	☆	
	Corruption-Free Pledge	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆
SPECIFIC	Migrant Worker Welfare	★	★	★	
	Waste Disposal/Pollution Control	★	★	★	
	Work Site Safety	★	★	★	
	Usage of Biodegradable Materials	★	★	★	★
	Supply Chain Auditing	★	★	★	
	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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