

16 March 2023

Scientex

Saved by Strong Property Profits

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SCIENTX's 1HFY23 results met expectations. Looking ahead, it is cautious on its plastic packaging segment due to softer exports amid the global economic slowdown. Also, rising mortgage rates and construction cost could dampen demand for properties including SCIENTX's. We maintain our forecasts and TP of RM2.99 but downgrade our call to UNDERPERFORM from MARKET PERFORM as its valuations have become rich after the recent run-up in its share price.

Within expectations. 1HFY23 core profit met expectations at 45% of both our full-year forecast and the full-year consensus estimate.

Results' highlight. 1HFY23 revenue grew 7% driven by a 25% jump in property turnover on accelerating progress billings as the economy reopened, and strong take-up for its new launches. The plastic packaging segment reported a flat turnover as we believe reduced demand for industrial packaging amid a global economic slowdown was cushioned by increased sales of consumer packaging.

Core profit grew 5% driven by a 25% increase in property profits, partially offset by a 3% decline in plastic packaging profits due to cost pressures, particularly, from labour cost.

Key takeaways from its briefing:

1. SCIENTX guided for cautious outlook for its plastic packaging segment in 2HFY23 due to softer exports on the back of the global economic slowdown. The saving grace is that margins could sustain, thanks to a better product mix with more high-margin consumer packaging vs. thin-margin industrial packaging.
2. Its new robotic stretch film plant commenced operations in March 2023 with two cast-stretch film lines at a total capacity of 18k MT per year. The fully automated and integrated plant helps to improve productivity and reduce dependency on manual labour.
3. Its unbilled property sales stand at RM1.6b vs. RM1.3b three months ago. It is optimistic of improved sales underpinned by: (i) sustained demand for new launches with seamless construction progress, and (ii) new launches in Sungai Petani, Kedah.
4. SCIENTX has entered into a joint venture with Altitude (a developer in Thailand) and Creed Group (Japanese real estate investment group) for a stake of 24.5% in an affordable housing development project in Bangkok. The project is expected to start construction end of 2023 with a development size of c.10 acres. The rationale is to expand its affordable housing brand into new markets in Southeast Asia region.

Outlook. The prospects for its plastic packaging segment will continue to be weighed down by slowing demand for industrial plastic packaging on the back of the global economic slowdown though the consumer plastic packaging should stay resilient. Not helping either is the elevated operating cost on higher energy and labour costs. On the other hand, while its property division that focuses on the affordable residential segment seems to hold up relatively well, we are mindful of rising mortgage rates and construction cost that could push its products beyond the reach of some potential buyers.

UNDERPERFORM ↓

Price : RM3.51
Target Price : RM2.99 ↔

Share Price Performance



KLCI	1,403.93
YTD KLCI chg	-6.1%
YTD stock price chg	9.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	5,444.2
Shares Outstanding	1,551.1
52-week range (H)	4.18
52-week range (L)	3.02
3-mth avg daily vol:	420,240
Free Float	34%
Beta	0.7

Major Shareholders

Scientex Holdings Sdn	21.0%
Scientex Infinity Sdn	10.1%
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)		482.7	552.1
Earnings Revision		-	-
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)	2.00	2.22	2.47
Core PER (x)	13.2	11.5	9.9
PBV (x)	1.8	1.6	1.4
Net Gearing (x)	0.3	0.4	0.3
Net Div. Yield (%)	2.6	2.6	3.0

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Forecasts. Maintained.

We also maintain our TP of RM2.99 based on SoP valuation (see Page 3), valuing its plastic packaging business at 12x 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 change to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We are cautious on SCIENTX due to: (i) the weak outlook for its plastic packaging business on the back of the global economic slowdown, (ii) its commoditised plastic packaging products that are more vulnerable to price competition especially in a soft market, and (iii) rising interest rates and construction cost that may dampen demand for its new property launches. Furthermore, its valuations have become rich following the recent run-up in its share price. Downgraded to **UNDERPERFORM** from **MARKET PERFORM**.

Risks to our call include: (i) a stronger and sooner recovery in the global economy, (ii) easing of input costs, and (iii) easing of interest rates and inflation, resulting in strong demand for its properties.

Financial Performance								
FYE July (RM m)	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	1H23	1H22	YoY Chg
Turnover	978.4	1029.9	-5%	952.0	3%	2008.3	1880.2	7%
EBIT	147.5	143.4	3%	125.9	17%	290.8	259.1	12%
Interest income	3.8	1.4	177%	3.1	21%	5.1	4.6	10%
Finance costs	-9.8	-8.0	22%	-4.9	99%	-17.8	-9.2	93%
PBT	141.5	136.7	3%	124.1	14%	278.2	254.5	9%
Taxation	-29.1	-23.3	25%	-25.1	16%	-52.4	-47.3	11%
Net Profit	112.3	113.4	-1%	98.9	14%	225.7	207.1	9%
Minority interest	6.0	6.2	-4%	5.2	15%	12.3	10.6	16%
PATAMI	106.3	107.2	-1%	93.7	13%	213.5	196.6	9%
Core PATAMI	106.3	108.5	-2%	100.1	6%	214.8	203.7	5%
EBIT margin	15.1%	13.9%		13.2%		14.5%	13.8%	
PBT margin	14.5%	13.3%		13.0%		13.9%	13.5%	
Core PATAMI margin	10.9%	10.5%		10.5%		10.7%	10.8%	
Effective tax rate	20.6%	17.0%		20.3%		18.9%	18.6%	

Source: Company, Kenanga Research

Segmental Performance								
FYE July (RM m)	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	1H23	1H22	YoY Chg
Turnover								
Manufacturing	655.1	716.0	-9%	692.8	-5%	1,371.1	1,370.9	0%
Property	323.3	313.9	3%	259.2	25%	637.2	509.3	25%
Group Turnover	978.4	1029.9	-5%	952.0	3%	2,008.3	1,880.2	7%
Segment Results								
Manufacturing	58.3	56.9	2%	53.7	9%	115.2	118.4	-3%
Property	89.1	86.5	3%	72.2	23%	175.6	140.7	25%
Group EBIT	147.5	143.4	3%	125.9	17%	469.5	259.1	81%
EBIT Margin								
Manufacturing	8.9%	8.0%		7.7%		8.4%	8.6%	
Property	27.6%	27.5%		27.9%		27.6%	27.6%	
Group EBIT Margin	15.1%	13.9%		13.2%		23.4%	13.8%	

Source: Company, Kenanga Research

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SCIENTX's Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Basis
Property Development	1,259	10% discount to RNAV
Plastic Packaging	3,374	12x PER
Total	4,633	
No. of shares	1,551.1	
SOP/share (TP)	2.99	

Source: 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANCOM NYLEX BHD	OP	1.14	1.80	57.89%	1,062.0	Y	05/2023	8.0	11.8	38.5%	47.8%	14.3	9.7	2.1	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	UP	0.740	0.700	-5.41%	381.8	Y	03/2023	2.3	4.3	-31.2%	89.7%	32.6	17.2	1.5	4.6%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.20	1.63	35.83%	337.8	Y	12/2023	13.6	15.1	23.9%	10.7%	8.8	7.9	1.3	15.8%	5.5	4.6%
HIL INDUSTRIES BHD	UP	0.980	0.810	-17.35%	329.0	Y	12/2023	10.2	11.5	46.1%	12.7%	9.6	8.5	0.7	7.8%	2.0	2.0%
HPP HOLDINGS Bhd	OP	0.390	0.530	35.90%	149.6	Y	05/2023	3.2	4.1	48.8%	28.0%	12.1	9.5	1.2	10.2%	2.0	5.1%
KUMPULAN PERANGSANG SELANGOR BHD	MP	0.680	0.700	2.94%	365.4	Y	12/2023	6.2	7.0	19.1%	13.0%	11.0	9.8	0.3	3.1%	2.5	3.7%
SCIENTEX BHD	MP	3.51	2.99	-14.81%	5,444.2	Y	07/2023	30.6	35.5	15.0%	16.0%	11.5	9.9	1.7	15.5%	7.4	2.1%
SLP RESOURCES BHD	MP	0.920	1.09	18.48%	293.2	Y	12/2023	6.8	7.4	33.3%	8.8%	13.5	12.4	1.5	11.5%	5.5	6.0%
THONG GUAN INDUSTRIES BHD	OP	2.22	3.28	47.75%	873.6	Y	12/2023	30.3	35.3	4.7%	16.4%	7.3	6.3	1.0	14.4%	5.5	2.5%
Sector Aggregate					9,236.7					26.0%	19.5%	11.3	9.5	1.3	11.7%		3.2%

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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