

27 March 2024

Scientex

Packaging Business Turning the Corner

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SCIENTX's 1HFY24 results met expectations. Its 1HFY24 core net profit surged 28% YoY fuelled primarily by strong property profits. It guided for improved orders for its plastic packaging products and sustained sales of affordable homes. We maintain our forecasts but fine-tune down our TP by 2% to RM3.68 (from RM3.75). Reiterate MARKET PERFORM.

Its 1HFY24 core net profit of RM270.3m (after excluding RM9m gain on disposal of 40% equity interest in a JV) met expectations at 49% of both our full-year forecast and the full-year consensus estimate.

YoY, its 1HFY24 revenue grew 10% primarily driven by its property division (+43% YoY), which can be attributed to: (i) steady construction progress across existing projects, and (ii) robust demand for its new property launches in Sungai Dua (Penang), Sungai Petani (Kedah), Jasin (Melaka) and Pulai (Johor). In contrast, its packaging turnover fell 6% due to weak exports. Its 1HFY24 core net profit grew by a sharper 28% due to better cost control across both the plastic packaging and property segments.

QoQ, its 2QFY24 top line and bottom line remained largely stable, indicating resilience amidst headwinds in both the domestic and global economies. Its packaging profits surged 27% due to a better product mix, partially cushioning an 8% reduction in property profits, we believe, due to normal quarterly fluctuation on lumpy recognition of profits and costs.

The key takeaways from its results briefing are as follows:

1. The company has seen a gradual improvement in customer orders in recent months, mainly fuelled by industrial packaging which caters to the logistics and shipping sectors. It recorded a single-digit growth in its packaging sales volume in 2QFY24 with utilisation rate of between 55% and 60%, which should move above 60% over the immediate term.
2. It recently completed the installation of its second solar photovoltaic (PV) project at its Klang plant in 4QCY23. With this, the company has realised about 10% savings on its energy costs for both Chemor and Klang plants. It remains committed to investing in solar PV systems across its manufacturing plants in Malaysia to mitigate high energy costs and reduce its carbon footprint.
3. It garnered a remarkable take-up rate exceeding 90% for its maiden project launch in Ipoh (Perak) in Jan 2024. The development comprises 238 units of double-storey terrace houses, with a GDV amounting to RM62.9m. Additionally, the company anticipates another launch, the Scientex Ipoh, in CY24. Over the years, the company has consistently achieved a take-up rate of 80%-90% for most of its affordable housing projects launched within six months.

Outlook. We expect gradual improvement for its packaging segment on the recovery of manufacturing activities and global consumer spending. In addition, we believe SCIENTX is poised to capitalise on strong demand for affordable housing. The acquisitions of land in Muar (Johor) and Bestari Jaya (Selangor) are expected to be completed by 2HCY24 and 1HCY25 respectively, which will sustain its project pipeline.

MARKET PERFORM ↔

Price: RM3.91
Target Price: RM3.68 ↓

Share Price Performance



KLCI 1,538.42
YTD KLCI chg 5.8%
YTD stock price chg 2.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK EQUITY
Market Cap (RM m)	6,065.5
Shares Outstanding	1,551.3
52-week range (H)	4.05
52-week range (L)	3.16
3-mth avg. daily vol.	517,204
Free Float	34%
Beta	0.9

Major Shareholders

Scientex Holdings Sdn Bhd	21.0%
Scientex Infinity Sdn Bhd	10.6%
Scientex Leasing Sdn Bhd	9.1%

Summary Earnings Table

FYE Jul (RM m)	2023A	2024F	2025F
Turnover	4076.9	4724.2	4959.3
EBIT	589.6	755.9	793.5
PBT	568.7	726.0	751.3
PATAMI	438.1	547.7	566.8
Core PATAMI	414.7	547.7	566.8
Consensus (NP)	-	549.0	585.6
Earnings Revision	-	-	-
Core EPS (sen)	26.7	35.3	36.5
Core EPS Growth (%)	4.9	32.1	3.5
NDPS (sen)	10.0	10.6	11.0
BVPS (RM)	2.2	2.4	2.7
Core PER (x)	14.6	11.1	10.7
PBV (x)	1.8	1.6	1.5
Net Gearing (x)	0.2	0.2	0.1
Net Div. Yield (%)	2.6	2.7	2.8



27 March 2024

Forecasts. Maintained.

Valuations. We fine-tune down our TP by 2% to RM3.68 (from RM3.75) as we recalibrate our property valuation based on the latest outstanding GDV guidance. Additionally, we roll forward our valuation base year to FY25F (from FY24F). Our revised TP values its packaging business at an unchanged 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 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: (i) its competitiveness in the global plastic packaging industry given its size and low-cost structure (especially, as compared to its overseas rivals), and (ii) its strong foothold in the affordable housing segment in Johor. However, we believe its current valuations have fully reflected its fundamentals. Reiterate **MARKET PERFORM**.

Risks to our call include: (i) a sudden spike in resin prices, (ii) weak consumer demand for packaging materials due to prolonged global economic downturn, and (iii) high inflation, elevated mortgage rates and a weak job market, hurting demand for its properties.

Financial Highlights

FYE July (RM m)	2Q24	1Q24	QoQ Chg	2Q23	YoY Chg	1H24	1H23	YoY Chg
Turnover	1092.7	1106.5	-1%	978.4	12%	2199.2	2008.3	10%
EBIT	191.3	188.5	2%	147.5	30%	379.7	290.8	31%
Interest income	2.3	3.2	-28%	3.8	-38%	5.5	5.1	8%
Finance costs	-5.0	-6.9	-28%	-9.8	-49%	-11.9	-17.8	-33%
PBT	188.7	184.7	2%	141.5	33%	373.4	278.2	34%
Taxation	-43.0	-42.3	2%	-29.1	48%	-85.3	-52.4	63%
Minority interest	-4.7	-4.6	1%	-6.0	-23%	-9.3	-12.3	-24%
Net profit	141.0	137.8	2%	106.3	33%	278.9	213.5	31%
Core net profit	132.9	137.4	-3%	100.6	32%	270.3	212.0	28%
EBIT margin	17.5%	17.0%		15.1%		17.3%	14.5%	
PBT margin	17.3%	16.7%		14.5%		17.0%	13.9%	
Core net profit margin	12.2%	12.4%		10.3%		12.3%	10.6%	
Effective tax rate	22.8%	22.9%		20.6%		22.8%	18.9%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE July (RM m)	2Q24	1Q24	QoQ Chg	2Q23	YoY Chg	1H24	1H23	YoY Chg
Turnover								
Packaging	635.8	650.4	-2%	655.1	-3%	1286.2	1371.1	-6%
Property	456.9	456.1	0%	323.3	41%	913.0	637.2	43%
Group Turnover	1092.7	1106.5	-1%	978.4	12%	2199.2	2008.3	10%
Segment Results								
Packaging	64.0	50.4	27%	58.3	10%	114.4	115.2	-1%
Property	127.3	138.0	-8%	89.1	43%	265.3	175.6	51%
Group EBIT	191.3	188.5	2%	147.5	30%	379.7	290.8	31%
EBIT Margin								
Packaging	10.1%	7.8%		8.9%		8.9%	8.4%	
Property	27.9%	30.3%		27.6%		29.1%	27.6%	
Group EBIT Margin	17.5%	17.0%		15.1%		17.3%	14.5%	

Source: Company, Kenanga Research

27 March 2024

SCIENTX's Sum-of-Parts Valuation		
Segment	Valuation (RM m)	Valuation Basis
Packaging	2,245	12x FY25 PER
Property	3,465	50% discount to RNAV (see the following table)
Total	5,710	
Paid-up Capital (m shares)	1,551	
SoP per share / TP (RM)	3.68	

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	166
Scientex Seremban	810	129
Taman Muzaffar Heights	721	142
Scientex Durian Tunggal	356	70
Scientex Jasin	4,658	744
Taman Scientex Pasir Gudang	97	19
Taman Scientex Kulai	282	56
Taman Mutiara Mas	1,166	186
Taman Scientex Senai	1,984	317
Taman Pulai Mutiara	2,600	415
Scientex Kota Tinggi	167	33
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
	25,148	4,176
Unbilled Sales (as of Jan-24)	1,500	338
Property Shareholders Fund		2,416
Total RNAV (RM m)		6,931
Discount to RNAV (%)		50%
Discounted RNAV		3,465

Source: Kenanga Research, Company

27 March 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	1.01	1.50	48.5%	972.1	Y	05/2024	9.4	11.2	35.7%	21.3%	10.7	9.0	1.6	16.6%	1.0	1.0%
BM GREENTECH BHD	UP	0.935	0.810	-13.4%	482.5	Y	03/2024	5.2	5.1	91.5%	-2.8%	17.9	18.4	1.8	10.4%	1.8	1.9%
BP PLASTICS HOLDINGS BHD	OP	1.28	1.42	10.9%	360.3	Y	12/2024	14.2	16.4	19.7%	15.5%	9.0	7.8	1.3	14.6%	6.5	5.1%
HPP HOLDINGS BHD	OP	0.325	0.640	96.9%	126.2	Y	05/2024	2.7	4.9	14.0%	81.1%	11.9	6.6	1.0	8.4%	1.5	4.6%
KUMPULAN PERANGSANG SELANGOR	UP	0.775	0.450	-41.9%	416.5	Y	12/2024	4.0	4.7	422.0%	18.7%	19.5	16.4	0.4	2.0%	2.0	2.6%
SCIENTEX BHD	MP	3.91	3.68	-5.9%	6,065.5	Y	07/2024	35.3	36.5	32.1%	3.5%	11.1	10.7	1.5	14.5%	11.0	2.8%
SLP RESOURCES BHD	OP	0.950	1.06	11.6%	301.1	Y	12/2024	5.2	6.3	50.5%	21.3%	18.4	15.1	1.6	8.6%	6.0	6.3%
TECHBOND GROUP BHD	OP	0.405	0.450	11.1%	216.8	Y	06/2024	3.8	4.1	112.8%	9.5%	10.7	9.8	1.2	11.5%	1.5	3.7%
THONG GUAN INDUSTRIES BHD	OP	1.88	2.86	52.1%	750.9	Y	12/2024	25.8	30.0	22.2%	16.6%	7.3	6.3	0.7	10.3%	5.5	2.9%
Sector Aggregate					9,691.9					51.9%	9.1%	11.0	10.1	1.3	11.4%		3.4%

Source: Kenanga Research

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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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