24 June 2024

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Neutral (Maintained)

In Line In 3QFY24, Expect a Pick-Up Ahead

Target Price (Return):	MYR4.35 (+1%)
Price (Market Cap):	MYR4.29 (USD1,412m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (MYR/USD)	3.67m/0.78m

- **Maintain NEUTRAL, new MYR4.35 TP from MYR3.85, 1% upside with 3% FY24F (Jul) yield.** Scientex's 3QFY24 results are broadly in line with expectations. Its double-digit YoY earnings growth was driven by a robust property segment, while its packaging arm has started to show signs of recovery. We think the stock is fairly valued – it is trading at 11.5x P/E, in line with its historical mean.
- **Results review.** 3QFY24 core profit rose 17% YoY (-2.9% QoQ) to MYR128.3m, bringing 9MFY24 core earnings to MYR398.6m (+23% YoY). This is broadly in line with expectations, at 69% and 72% of our and Street full-year estimates, as we expect it to chalk seasonally stronger numbers in 4QFY24. It declared a DPS of 6 sen for the quarter (3QFY23: 5 sen) which translates to a 9MFY24 core payout ratio of 17%.
- **Packaging wing showed signs of recovery.** 3QFY24 packaging revenue grew by 3% YoY, due to both the industrial and consumer packaging products segments, mainly from the export market. Operating profit improved by a broader 31% YoY, bringing 9MFY24 operating profit growth to 8% YoY. We believe this was mainly due to a more favourable product mix during the period, on top of better cost control. As a result, its packaging margin improved to 8.9% in 9MFY24 (9MFY23: 8.0%).
- **Robust demand in the property segment.** 3QFY24 revenue increased 25% YoY (-1% QoQ) amid steady billing progress and the completion of existing development projects. As a result, Scientex managed to launch MYR970m worth of properties in 9MFY24. Although this makes up only 49% of its FY23 property launches (which was valued at MYR2bn), the group is optimistic that the number will grow on the back of a pipeline of upcoming launches in both the central and southern regions of West Malaysia. Demand for affordable homes remains healthy – as reflected in the 75% take-up rate for its new launches in 9MFY24.
- **Outlook.** We anticipate a better YoY performance in the coming months, on the back of returning demand for consumer packaging as customers continue to replenish their inventory. On the property business, we are optimistic that Scientex is on track to achieve its property launch target of MYR2bn for FY24. As such, we continue to expect the property segment to be the main earnings contributor in the coming quarters.
- **We maintain our earnings forecasts** as the group's results are in line but lower our RNAV discount to 35% (from 45%), given the greater interest in the property sphere currently. Scientex's market valuation remains fair – the counter is trading at its historical P/E mean.
- **Key downside risks** include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices. The converse represents the upside risks.

Forecasts and Valuation	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total turnover (MYRm)	3,985	4,077	4,569	4,711	4,916
Recurring net profit (MYRm)	402	462	578	595	619
Recurring net profit growth (%)	(13.0)	14.9	25.1	2.9	4.2
Recurring P/E (x)	16.55	14.40	11.52	11.19	10.74
P/B (x)	2.1	2.0	1.8	1.6	1.5
P/CF (x)	9.01	8.26	10.49	8.87	8.65
Dividend Yield (%)	2.1	2.3	3.0	3.5	4.2
EV/EBITDA (x)	11.57	10.06	8.28	7.90	7.14
Return on average equity (%)	13.7	13.5	16.1	15.1	14.4
Net debt to equity (%)	29.6	18.6	16.8	13.4	3.0

Source: Company data, RHB

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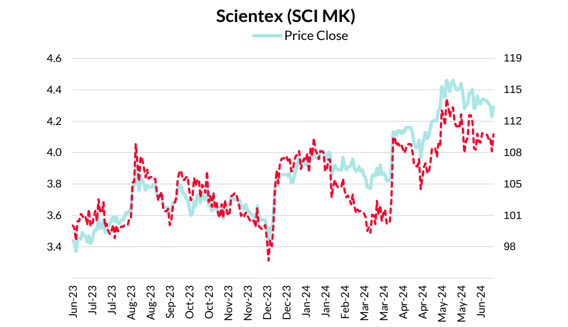
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.6	(2.5)	12.3	11.1	26.2
Relative	3.3	(0.5)	9.1	1.8	12.1
52-wk Price low/high (MYR)					3.37 –4.46



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: GOOD
Scientex has not established its greenhouse gas (GHG) emission target yet, but has consistently decreased GHG emissions since 2020 – its GHG emissions intensity fell by 19% from FY20 to FY23. Scientex has also developed various packaging solutions that are 100% recyclable, and plans to continue its efforts in providing sustainable packaging solutions.

S: GOOD
Scientex complies to all applicable laws related to occupational health and safety. Adequate training is provided to employees on safety and health practices. The group also implemented a policy in FY23 that outlines its key areas of commitment to meet high standards of occupational safety and health.

G: GOOD
Independent directors make up more than 50% of the Board. Scientex only has one female director, which is less than 30% of the total number of directors. Remuneration of its directors is disclosed on a named basis. Scientex only conducts briefings for analysts on a half-yearly basis.

Financial Exhibits

Asia
Malaysia
Consumer Non-cyclical
Scientex
SCI MK
Neutral

Valuation basis

SOP

Key drivers

i. Ongoing production capacity expansion of its plastics segment;
ii. Venture into new film products that may bring exciting market opportunities locally;
iii. Ongoing property launches.

Key risks

Key upside risks include unfavourable changes in demand for flexible packaging products and affordable homes, and sharp increases in raw material prices.

The converse of these represent the downside risks.

Company Profile

Scientex is a leading manufacturer of flexible plastic packaging, and has a presence across the packaging value chain from stretch, base, and printed films to bags and multi-layered flexible plastic packaging solutions used in industrial and consumer packaging. The group also develops affordable homes in Malaysia.

Financial summary (MYR)	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Recurring EPS	0.26	0.30	0.37	0.38	0.40
DPS	0.09	0.10	0.13	0.15	0.18
BVPS	2.01	2.19	2.43	2.66	2.88
Return on average equity (%)	13.7	13.5	16.1	15.1	14.4

Valuation metrics	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Recurring P/E (x)	16.55	14.40	11.52	11.19	10.74
P/B (x)	2.1	2.0	1.8	1.6	1.5
FCF Yield (%)	8.3	10.3	7.3	9.0	11.6
Dividend Yield (%)	2.1	2.3	3.0	3.5	4.2
EV/EBITDA (x)	11.57	10.06	8.28	7.90	7.14
EV/EBIT (x)	13.97	12.10	9.39	9.03	8.16

Income statement (MYRm)	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total turnover	3,985	4,077	4,569	4,711	4,916
Gross profit	845	890	1,087	1,112	1,099
EBITDA	668	737	898	933	973
Depreciation and amortisation	(114)	(124)	(106)	(116)	(121)
Operating profit	553	613	792	817	851
Net interest	(20)	(34)	(34)	(37)	(39)
Pre-tax profit	548	569	771	793	826
Taxation	(116)	(120)	(163)	(167)	(174)
Reported net profit	410	438	578	595	619
Recurring net profit	402	462	578	595	619

Cash flow (MYRm)	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Change in working capital	176	199	(101)	(16)	(29)
Cash flow from operations	738	806	634	750	769
Capex	(185)	(123)	(150)	(150)	0
Cash flow from investing activities	(668)	(270)	(400)	(400)	0
Dividends paid	(153)	(162)	(202)	(233)	(279)
Cash flow from financing activities	(123)	(561)	(186)	(180)	(318)
Cash at beginning of period	243	191	166	215	385
Net change in cash	(52)	(25)	48	170	451
Ending balance cash	191	166	215	385	836

Balance sheet (MYRm)	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Total cash and equivalents	191	166	215	385	836
Tangible fixed assets	3,119	2,983	3,277	3,561	3,440
Total investments	103	118	131	145	159
Total assets	5,475	5,505	6,034	6,547	6,962
Short-term debt	921	767	867	967	967
Total long-term debt	250	70	20	10	10
Total liabilities	2,167	1,899	2,021	2,140	2,183
Total equity	3,308	3,606	4,013	4,406	4,779
Total liabilities & equity	5,475	5,505	6,034	6,547	6,962

Key metrics	Jul-22	Jul-23	Jul-24F	Jul-25F	Jul-26F
Revenue growth (%)	9.0	2.3	12.1	3.1	4.3
Recurrent EPS growth (%)	(13.0)	14.9	25.1	2.9	4.2
Gross margin (%)	21.2	21.8	23.8	23.6	22.4
Operating EBITDA margin (%)	16.8	18.1	19.7	19.8	19.8
Net profit margin (%)	10.3	10.7	12.6	12.6	12.6
Dividend payout ratio (%)	34.1	35.4	34.9	39.1	45.1
Capex/sales (%)	4.6	3.0	3.3	3.2	0.0
Interest cover (x)	27.1	18.3	23.0	21.9	21.8

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Jul (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Revenue	997.1	1,092.7	1,108.0	1.4	11.1	3,005.4	3,307.3	10.0	Due to higher revenue from the property segment.
Adjusted EBITDA	**180.7**	**215.3**	**210.2**	**(2.4)**	**16.3**	**532.8**	**647.5**	**21.5**	
Adjusted EBITDA margin (%)	*18.1*	*19.7*	*19.0*			17.7	*19.6*		
Depreciation	(30.9)	(32.9)	(32.8)	(0.2)	6.1	(92.3)	(98.9)	7.1	
Adjusted operating profit	**149.8**	**182.4**	**177.4**	**(2.7)**	**18.4**	**440.5**	**548.6**	**24.5**	Higher contribution from the property (+38% YoY) and packaging (+8% YoY) segments.
Operating margin (%)	*15.0*	*16.7*	*16.0*			14.7	*16.6*		
EI/others	0.0	8.9	2.2	n.m.	n.m.	0.2	10.7	n.m.	
Reported operating profit	**149.8**	**191.3**	**179.6**	**(6.1)**	**19.9**	**440.7**	**559.3**	**26.9**	
Interest expense	(8.2)	(5.0)	(5.1)	3.0	(37.6)	(26.0)	(17.0)	(34.6)	
Share of associates	3.4	2.3	4.1	74.0	21.0	8.5	9.6	13.4	
Reported PBT	**145.0**	**188.7**	**178.5**	**(5.4)**	**23.2**	**423.1**	**551.9**	**30.4**	
Tax	(30.1)	(43.0)	(40.6)	(5.5)	35.0	(82.5)	(125.9)	52.6	
Effective tax rate (%)	*20.8*	*22.8*	*22.8*			19.5	*22.8*		
Minority interest	(5.1)	(4.7)	(7.4)	58.7	45.7	(17.3)	(16.6)	(3.9)	
Net profit	**109.8**	**141.0**	**130.5**	**(7.5)**	**18.9**	**323.2**	**409.4**	**26.6**	Largely in line with our and consensus expectations, at 69-72% of full-year projections.
Core profit	**109.7**	**132.1**	**128.3**	**(2.9)**	**16.9**	**323.1**	**398.6**	**23.4**	
Core net margin (%)	*11.0*	*12.1*	*11.6*			10.8	*12.1*		

Source: Company data, RHB

Figure 2: Segmental results review

FYE Jul (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue								
Packaging	635.4	635.8	656.9	3.3	3.4	2,006.5	1,943.1	-3.2
Property development	361.7	456.9	451.1	-1.3	24.7	998.9	1,364.1	36.6
Total	**997.1**	**1,092.7**	**1,108.0**	**1.4**	**11.1**	**3,005.4**	**3,307.3**	**10.0**
Reported operating profit								
Packaging	44.5	64.0	58.4	-8.7	31.3	159.7	172.8	8.2
Property development	105.4	127.3	121.2	-4.8	15.0	281.0	386.5	37.6
Total	**149.8**	**191.3**	**179.6**	**-6.1**	**19.9**	**440.7**	**559.3**	**26.9**
Operating margin (%)								
Packaging	7.0	10.1	8.9			8.0	8.9	
Property development	29.1	27.9	26.9			28.1	28.3	
Total	**15.0**	**17.5**	**16.2**			**14.7**	**16.9**	

Source: Company data, RHB

Figure 3: SOP valuation

Divisions	Method	Valuation (MYRm)
Manufacturing	12x P/E on FY24F earnings	1,617.4
Property	RNAV (discount of 35%)	5,162.3
		0.0
	Total intrinsic value (MYRm)	6,779.7
	Fully diluted share base (m)	1,551.0
	Intrinsic value per share	**4.37**
	+ 0% ESG premium	0.00
	TP (MYR)	**4.37**

Source: RHB

Figure 4: Key assumptions for FY24-26

	FY24F	FY25F	FY26F
Packaging			
Operating margin	8.8%	10.4%	11.1%
Volume growth	1.0%	5.9%	6.6%
Utilisation rates	61%	63%	66%
Property			
Operating margin	29.0%	29.0%	29.0%

Source: RHB

Emissions And ESG

Trend analysis

In FY23, Scope 1 emissions increased to 6,300 tonnes of CO2e (FY22: 6,100 tonnes of CO2e) while Scope 2 emissions decreased to 134,200 tonnes of CO2e (FY22: 150,200 tonnes of CO2e).

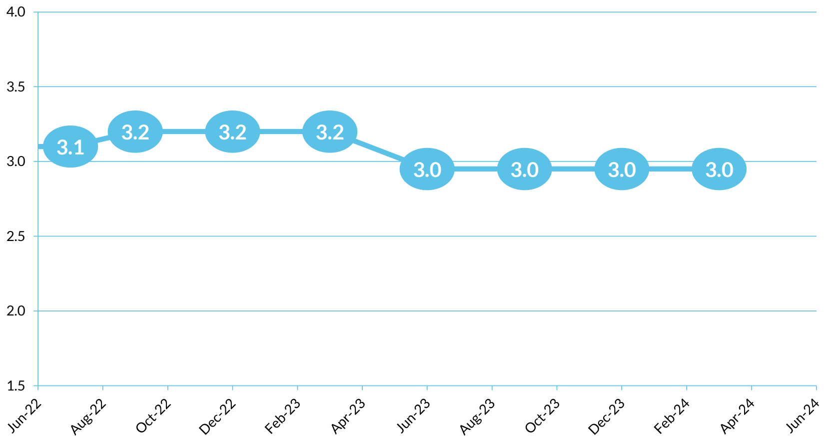
Emissions (tCO2e)	Jul-21	Jul-22	Jul-23
Scope 1	6,000	6,100	6,300
Scope 2	152,800	150,200	134,200
Scope 3	na	na	na
Total emissions	158,800	156,300	140,500

Source: Company data, RHB

Latest ESG-Related Developments

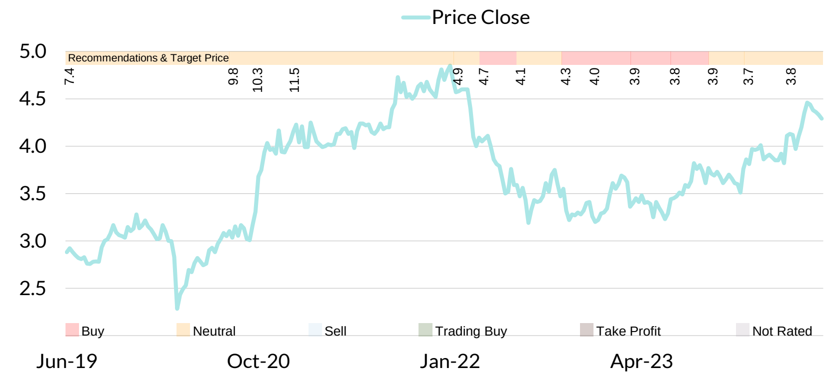
- While Scientex does not have an emissions reduction target, it is now adopting RE solutions by installing solar panels at its operation sites to reduce GHG emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-27	Neutral	3.8	4.1
2023-12-15	Neutral	3.7	3.8
2023-09-20	Neutral	3.9	3.7
2023-06-21	Buy	3.8	3.4
2023-03-16	Buy	3.9	3.4
2022-12-09	Buy	4.0	3.4
2022-09-30	Buy	4.3	3.5
2022-06-14	Neutral	4.1	3.6
2022-03-17	Buy	4.7	4.0
2022-01-13	Neutral	4.9	4.9
2020-12-18	Neutral	11.5	4.1
2020-09-21	Neutral	10.3	3.3
2020-07-24	Neutral	9.8	3.1
2018-09-21	Neutral	7.4	2.9
2018-06-21	Neutral	7.4	2.3

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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