

COMPANY UPDATE

Scientex (SCI MK)

Appealing Mid- To Long-term Prospects

With resin costs retracing >20% from the ytd peak, Scientex's manufacturing segment is poised to deliver better margins in coming quarters, with resilient export sales amid the global economic reopening. Meanwhile, the property segment is set to record robust growth with more project launches despite higher material costs compressing bottom line margins. Scientex offers decent mid- to long-term prospects alongside palatable valuations. Maintain HOLD. Target price: RM4.01.

WHAT'S NEW

- **Healthy demand traction spurring Scientex's growth in FY22-23.** With Malaysia and many other countries shifting away from full-scale lockdowns towards full economic reopening, we deem that Scientex will largely benefit from demand recovery, easing supply chain disruptions as well as capacity expansion for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activity largely resumes. We are forecasting a 7.6-8.8% revenue growth for Scientex in FY22-23.
- **Easing inputs inflation for manufacturing segment but margins compression for property segment unlikely to abate soon.** While resin price eased 8-9% qoq in 4QFY22 and >20% from ytd peak, we deem that the manufacturing segment's margin will recover in 4QFY22 onwards. As for the property segment, a steep increase in building material prices such as cements and steels are expected to continue putting downward pressure on the segment's profitability margin. Based on the Department of Statistics Malaysia, the unit price index of building materials increased 5-13.3% yoy for Aug 22, which we think will continue pressuring Scientex's property segment's EBIT margin.
- **Palatable valuations for resilient long-term prospects.** Following Scientex's share price retracement of about 25% ytd, we deem that the current valuations are fair and have about 7% upside based on our forecasted FY23 valuations. We also envision that the management's effective execution, as proven by the group's stellar track record (five-year net profit CAGR of 14% in 2016-21) will provide confidence for investors' perceptions regarding the group's robust long-term outlook, looking beyond the temporary cost headwinds which will gradually moderate.

KEY FINANCIALS

| Year to 31 Jul (RMm) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover | 3,519 | 3,656 | 3,977 | 4,281 | 4,636 |
| EBITDA | 660 | 600 | 675 | 760 | 847 |
| Operating profit | 549 | 490 | 574 | 647 | 723 |
| Net profit (rep./act.) | 390 | 346 | 423 | 498 | 556 |
| Net profit (adj.) | 390 | 346 | 423 | 498 | 556 |
| EPS (sen) | 25.2 | 22.4 | 27.3 | 32.1 | 35.9 |
| PE (x) | 14.9 | 16.8 | 13.7 | 11.7 | 10.4 |
| P/B (x) | 2.3 | 2.0 | 1.8 | 1.6 | 1.5 |
| EV/EBITDA (x) | 9.9 | 10.9 | 9.7 | 8.6 | 7.7 |
| Dividend yield (%) | 2.0 | 2.4 | 2.2 | 2.6 | 2.9 |
| Net margin (%) | 11.1 | 9.5 | 10.6 | 11.6 | 12.0 |
| Net debt/(cash) to equity (%) | 24.5 | 30.3 | 15.4 | 7.7 | 0.4 |
| Interest cover (x) | 40.4 | 53.8 | 41.8 | 53.9 | 60.1 |
| ROE (%) | 16.3 | 12.7 | 13.9 | 14.8 | 14.9 |
| Consensus net profit | - | - | 410 | 507 | 578 |
| UOBKH/Consensus (x) | - | - | 1.03 | 0.98 | 0.96 |

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|---------|
| Share Price | RM3.75 |
| Target Price | RM4.01 |
| Upside | +6.9% |
| (Previous TP) | RM3.92) |

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

| | |
|---------------------------------|-----------|
| GICS sector | Materials |
| Bloomberg ticker: | SCI MK |
| Shares issued (m): | 1,551.0 |
| Market cap (RMm): | 5,816.2 |
| Market cap (US\$m): | 1,282.5 |
| 3-mth avg daily t'over (US\$m): | 0.5 |

Price Performance (%)

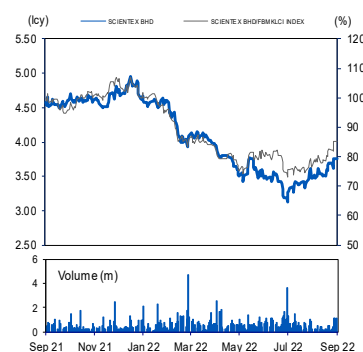
| | | | | |
|------------------|------|-------|---------------|--------|
| 52-week high/low | | | RM4.95/RM3.13 | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 4.7 | 7.1 | (4.6) | (19.2) | (21.7) |

Major Shareholders

| | % |
|---------------------------|-------|
| Scientex Holdings Sdn Bhd | 20.99 |
| Scientex Infinity Sdn Bhd | 9.95 |
| Scientex Leasing Sdn Bhd | 9.12 |

| | |
|--------------------------|------|
| FY23 NAV/Share (RM) | 2.28 |
| FY23 Net Debt/Share (RM) | 0.18 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- 3QFY22 margins weighed by higher costs.** Scientex's 3QFY22 core net profit was lower at RM99.1m (-12.3% yoy). For the manufacturing segment, the group's packaging business continues to face challenges from rising raw material costs and surging freight rate due to global shortages of shipping containers. Despite a record-high revenue, we understand that the precipitous surge of raw material prices (particularly resin) and elevating freight cost have dealt unforeseen earnings disruptions, causing the manufacturing segment's EBIT margin to largely decrease (-2.0% yoy). For the property segment, earnings also took a toll with EBIT margin declining 0.7% yoy due to material shortages and changes in certain regulatory application processes for Scientex's projects in the Southern region.
- Decent mid- to long-term prospects continue to offer appealing growth visibility in coming quarters.** Scientex continues to chart stellar top-line numbers and delivered record high revenue in 2QFY22 (+2% yoy). We think the group is well-positioned for a resilient mid-long term outlook. This is premised on: a) the manufacturing segment's capacity expansion (robotic stretch film plant commencing operation in 2HFY22 which will lift domestic stretch film capacity by >10%), b) the manufacturing segment's better sales mix of value-added products which will sustain profit margins at 8-10% from the previous 6-8%, and c) the property segment's robust contributions from maiden launches of landed properties in Negeri Sembilan and Kedah, as well as the group's first high-rise project in Klang Valley in 2HFY22.
- Manufacturing segment will grow steadily to accelerate mid- to long-term growth.** We deem that Scientex's plastic packaging segment has exhilarating growth potential, underpinned by: a) demand recovery following global economic reopening, and b) gradual shift of production line to automation which could potentially increase output by several folds. With its dominant position in the plastic packaging industry and strong balance sheet, we also do not rule out the possibility of Scientex acquiring more downstream manufacturers, given that the past few acquisitions have been synergistic and allows it to access new product segments and clientele.
- Property segment still poised for robust growth in FY22.** While oversupply persists in Malaysia's property scene, Scientex will stand as an outlier and deliver resilient revenue growth in FY22-23, backed by: a) its ability to keep prices low with above 60% of its affordable housing units priced at below RM200,000, b) aggressive landbank acquisition with lower-than-marker costs, and c) standardisation of designs which enables it to launch projects within one year from signing of the land sales and purchase agreement, and completion of projects within 18 months. To note, the group also intends to launch a total of 6,000 property units across 24 launches worth about RM1.7b within FY22. The property launches in 9MFY22 is also stable with take-up rate of about 75%, while unbilled sales standing at RM1.1b.

EARNINGS REVISION/RISK

- We revised our FY22-23 net profit forecasts by 2% and 3% respectively as we slightly adjusted our manufacturing segment's EBIT margin upwards to reflect easing raw material costs.

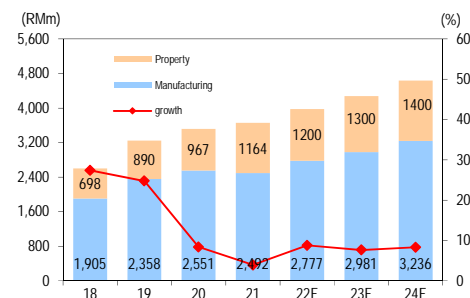
VALUATION/RECOMMENDATION

- Maintain HOLD with a higher target price of RM4.01**, which implies 12.4x 2023F PE (10-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

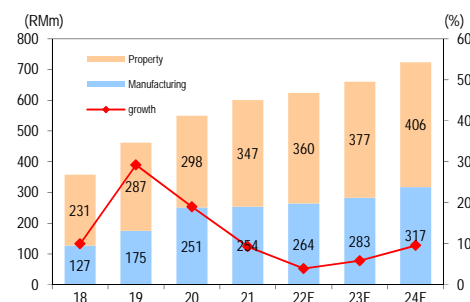
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| Environmental <ul style="list-style-type: none"> First plastic film manufacturer in Malaysia to receive the ISCC Plus Certification 8.2% decrease in group-wide greenhouse gas emissions in FY21. |
| Social <ul style="list-style-type: none"> Spent RM5.3m in community investment in response to COVID-19 Members of local communities comprise 78% of workforce |
| Governance <ul style="list-style-type: none"> Comprehended and applied Malaysian Code on Corporate Governance (MCCG) |

SALES BY SEGMENT



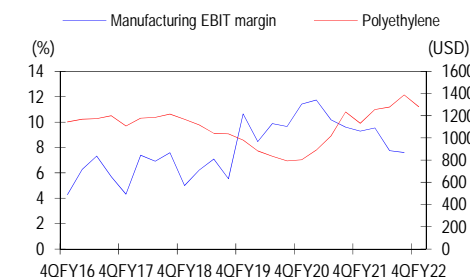
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



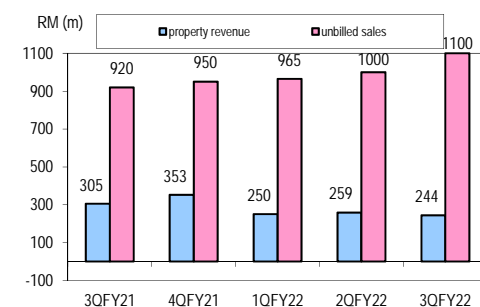
Source: Scientex, UOB Kay Hian

MANUFACTURING EBIT MARGIN VS PE PRICE



Source: Scientex, Bloomberg, UOB Kay Hian

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Jul (RMm) | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|-------|-------|-------|-------|
| Net turnover | 3,656 | 3,977 | 4,281 | 4,636 |
| EBITDA | 600 | 675 | 760 | 847 |
| Deprec. & amort. | 110 | 101 | 113 | 124 |
| EBIT | 490 | 574 | 647 | 723 |
| Associate contributions | 12 | 12 | 12 | 12 |
| Net interest income/(expense) | (11) | (16) | (14) | (14) |
| Pre-tax profit | 490 | 570 | 645 | 721 |
| Tax | (115) | (131) | (129) | (144) |
| Minorities | (29) | (15) | (18) | (20) |
| Net profit | 346 | 423 | 498 | 556 |
| Net profit (adj.) | 346 | 423 | 498 | 556 |

BALANCE SHEET

| Year to 31 Jul (RMm) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 1,383 | 1,582 | 1,769 | 1,945 |
| Other LT assets | 1,777 | 1,780 | 1,780 | 1,780 |
| Cash/ST investment | 243 | 374 | 593 | 850 |
| Other current assets | 1,697 | 1,397 | 1,302 | 1,244 |
| Total assets | 5,100 | 5,133 | 5,443 | 5,818 |
| ST debt | 819 | 565 | 565 | 565 |
| Other current liabilities | 752 | 731 | 675 | 640 |
| LT debt | 301 | 301 | 301 | 301 |
| Other LT liabilities | 130 | 127 | 127 | 127 |
| Shareholders' equity | 2,896 | 3,192 | 3,540 | 3,930 |
| Minority interest | 202 | 217 | 235 | 256 |
| Total liabilities & equity | 5,100 | 5,133 | 5,443 | 5,818 |

CASH FLOW

| Year to 31 Jul (RMm) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|-------|-------|-------|-------|
| Operating | 700 | 558 | 668 | 723 |
| Pre-tax profit | 601 | 570 | 645 | 721 |
| Tax | (124) | (131) | (129) | (144) |
| Deprec. & amort. | 126 | 101 | 113 | 124 |
| Working capital changes | 94 | 18 | 40 | 23 |
| Other operating cashflows | 3 | 0 | 0 | 0 |
| Investing | (776) | (300) | (300) | (300) |
| Capex (growth) | (776) | (300) | (300) | (300) |
| Investments | (20) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 20 | 0 | 0 | 0 |
| Financing | (93) | (127) | (149) | (167) |
| Dividend payments | (144) | (127) | (149) | (167) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 86 | 0 | 0 | 0 |
| Loan repayment | (16) | 0 | 0 | 0 |
| Others/interest paid | (20) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (170) | 131 | 219 | 257 |
| Beginning cash & cash equivalent | 413 | 243 | 374 | 593 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 243 | 374 | 593 | 850 |

KEY METRICS

| Year to 31 Jul (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|--------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 16.4 | 17.0 | 17.8 | 18.3 |
| Pre-tax margin | 13.4 | 14.3 | 15.1 | 15.5 |
| Net margin | 9.5 | 10.6 | 11.6 | 12.0 |
| ROA | 7.1 | 8.3 | 9.4 | 9.9 |
| ROE | 12.7 | 13.9 | 14.8 | 14.9 |
| Growth | | | | |
| Turnover | 3.9 | 8.8 | 7.6 | 8.3 |
| EBITDA | (9.1) | 12.5 | 12.6 | 11.5 |
| Pre-tax profit | (9.9) | 16.2 | 13.2 | 11.8 |
| Net profit | (11.2) | 22.1 | 17.6 | 11.8 |
| Net profit (adj.) | (11.2) | 22.1 | 17.6 | 11.8 |
| EPS | (11.2) | 22.1 | 17.6 | 11.8 |
| Leverage | | | | |
| Debt to total capital | 26.6 | 20.3 | 18.7 | 17.1 |
| Debt to equity | 38.7 | 27.1 | 24.5 | 22.0 |
| Net debt/(cash) to equity | 30.3 | 15.4 | 7.7 | 0.4 |
| Interest cover (x) | 53.8 | 41.8 | 53.9 | 60.1 |

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