

COMPANY UPDATE

Scientex (SCI MK)

Cyclical Accumulation On Margins Recovery And Global Economic Reopening

With China's economy reopening after the last pillar of its zero-COVID policy was dismantled, we expect Scientex to benefit indirectly from the recovery of global trade flows. Meanwhile, easing input inflation with resin costs retracing >20% from 2022's peak will allow the group's manufacturing segment to deliver margins recovery in upcoming quarters. The group's property segment will also record resilient growth in 2023 with more project launches. Maintain BUY. Target price: RM4.01.

WHAT'S NEW

- **China's borders reopened on 8 Jan 23 after three years of isolation; Scientex poised to indirectly benefit.** After three years of its zero-COVID policy (which involved city-wide lockdowns to contain COVID-19), China is pledging to end quarantine requirements for inbound passengers from 8 Jan 23. To recap, China accounted for about 14% of Malaysia's total external trade and play a significant role in global trade. As such, we expect China's economic reopening to provide a positive boost to the global trade flows, which will indirectly benefit Scientex, who is one of the largest plastic packaging players within the region.
- **Healthy demand traction spurring Scientex's growth in FY23.** With Malaysia and the rest of the world shifting away from the pandemic-induced full-scale lockdowns towards full economic reopening, we think that Scientex will largely benefit from demand recovery, easing supply chain disruptions as well as improved capacity utilisation for its plastic manufacturing segment. Meanwhile, Scientex's property segment is also expected to deliver better progress billing and property launches as construction activities largely resumes. We are forecasting a 7.4% revenue growth for Scientex in FY23.
- **Discounted valuations for decent long-term prospects.** While Scientex's share price have retraced about 33% from 2022's peak, we think that current valuations of 10.4x FY23F PE (-1SD below 10-year mean) is attractive and possess about 20.8% upside based on our forecasted FY23 valuations. We also envision that managements' effective execution, proven by the group's stellar track record (five-year net profit CAGR of 14% in 2016-2021) 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)	2021	2022	2023F	2024F	2025F
Net turnover	3,656	3,985	4,281	4,636	4,962
EBITDA	600	675	784	870	930
Operating profit	490	561	647	723	774
Net profit (rep./act.)	346	410	493	553	593
Net profit (adj.)	346	410	493	553	593
EPS (sen)	22.4	26.4	31.8	35.7	38.2
PE (x)	14.9	12.6	10.4	9.3	8.7
P/B (x)	1.8	1.7	1.5	1.3	1.2
EV/EBITDA (x)	9.8	8.7	7.5	6.7	6.3
Dividend yield (%)	2.7	2.7	2.9	3.2	3.5
Net margin (%)	9.5	10.3	11.5	11.9	11.9
Net debt/(cash) to equity (%)	30.3	31.5	14.1	5.5	(2.4)
Interest cover (x)	53.8	33.0	47.3	61.7	65.9
ROE (%)	12.7	13.7	15.0	15.2	14.6
Consensus net profit	-	-	481	552	599
UOBKH/Consensus (x)	-	-	1.02	1.00	0.99

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.32
Target Price	RM4.01
Upside	+20.8%

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):	1,551.1
Market cap (RMm):	5,149.5
Market cap (US\$m):	1,190.2
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low RM4.67/RM3.13

1mth	3mth	6mth	1yr	YTD
1.8	0.3	4.1	(28.1)	3.1

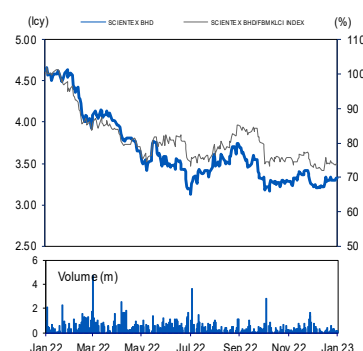
Major Shareholders

Scientex Holdings Sdn Bhd	21.0
Scientex Infinity Sdn Bhd	9.6

FY23 NAV/Share (RM) 2.23

FY23 Net Debt/Share (RM) 0.31

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Easing input inflation a key infection point for Scientex.** While resin prices eased 15-16% qoq in 1QFY23 and 22-23% from 2022's peak, we think the manufacturing segment's margins will recover from 2QFY23 onwards. This will also be complemented by the normalisation of logistic cost. As for the property segment, the increase in building material prices is expected to have peaked in 1H22 and the downward pressure on the segment's profitability margin is expected to taper off gradually. Based on the Department of Statistics Malaysia, average prices for the key building materials – steel bar and cement – declined 1.6% and 0.5% mom respectively in Oct 22, marking the fourth consecutive month of downtrend. To add on, Scientex has also been revising the selling prices of its property launches by 5-10% to buffer the rising raw material costs. As such, we believe this will provide relief and boost Scientex's property segment's EBIT margin in FY23.
- Manufacturing segment's volume to grow with better utilisation in FY23.** Despite recording a marginal sales volume contraction of 1.2% yoy in FY22 from 280,660 metric tonnes (MT) to 277,270 MT, Scientex's packaging segment delivered an impressive revenue growth of 14.8% yoy, lifted by higher average selling prices and robust demand. With the successful recruitment of foreign workers alleviating Scientex's earlier worker shortage problem, coupled with demand recovery following China's borders reopening, we expect Scientex to further ramp up its FY22 average utilisation of 60% to 65-75% in FY23. We believe that Scientex's plastic packaging segment has exhilarating growth potential, underpinned by: a) demand recovery following global economic reopening, and b) a gradual shift of production line to automation which potentially increases output by several folds.
- Property segment set for a prosperous year in FY23.** Recall that Scientex's property segment was aggravated by higher raw material costs, material shortages, and delays in obtaining regulatory approvals in FY22. These caused Scientex to complete fewer houses – 1,403 units compared with 3,766 units in FY21, posting lower sales and profits. Nevertheless, we anticipate that the property segment will deliver a better outlook for FY23 as the material shortages, delays in obtaining regulatory approvals and worker shortages have been largely resolved. While oversupply still persists in Malaysia's property scene, Scientex will continue to stand as an outlier to deliver resilient revenue growth in FY23, in line with the group's geographical expansion with more launches encompassing seven states across Malaysia.

EARNINGS REVISION/RISK

- None.

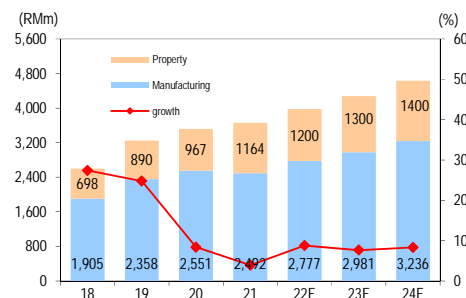
VALUATION/RECOMMENDATION

- Maintain **BUY** with a target price of **RM4.01**, which implies 12.4x FY23F PE (10-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

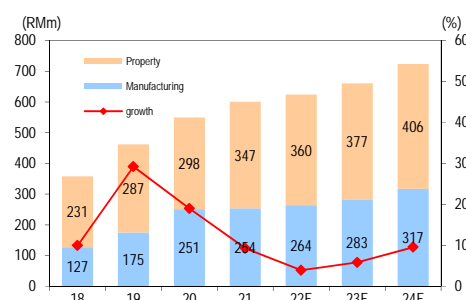
Environmental	
-	First plastic film manufacturer in Malaysia to receive the ISCC Plus Certification
-	8.2% decrease in group-wide greenhouse gas emissions in FY21.
Social	
-	Spent RM5.3m in community investment in response to COVID-19
-	Members of local communities comprise 78% of workforce
Governance	
-	Comprehended and applied Malaysian Code on Corporate Governance (MCCG)

SALES BY SEGMENT



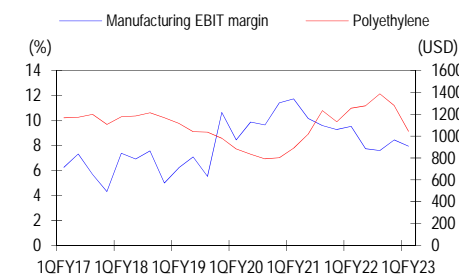
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



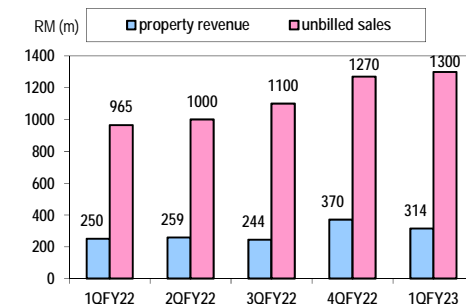
Source: Scientex, UOB Kay Hian

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)	2022	2023F	2024F	2025F
Net turnover	3,985	4,281	4,636	4,962
EBITDA	675	784	870	930
Deprec. & amort.	114	137	146	156
EBIT	561	647	723	774
Associate contributions	8	8	8	8
Net interest income/(expense)	(20)	(17)	(14)	(14)
Pre-tax profit	548	638	717	768
Tax	(116)	(128)	(143)	(154)
Minorities	(23)	(18)	(20)	(21)
Net profit	410	493	553	593
Net profit (adj.)	410	493	553	593

BALANCE SHEET

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,464	2,141	2,294	2,439
Other LT assets	2,119	2,131	2,131	2,131
Cash/ST investment	191	380	656	968
Other current assets	1,701	1,302	1,244	1,195
Total assets	5,475	5,341	5,713	6,121
ST debt	921	565	565	566
Other current liabilities	861	673	638	607
LT debt	250	301	301	301
Other LT liabilities	135	132	132	132
Shareholders' equity	3,110	3,454	3,842	4,258
Minority interest	198	216	236	258
Total liabilities & equity	5,475	5,341	5,713	6,121

CASH FLOW

Year to 31 Jul (RMm)	2022	2023F	2024F	2025F
Operating	738	636	742	790
Pre-tax profit	548	638	717	768
Tax	(116)	(128)	(143)	(154)
Deprec. & amort.	126	137	146	156
Working capital changes	176	(11)	23	20
Other operating cashflows	3	0	0	0
Investing	(668)	(300)	(300)	(300)
Capex (growth)	(721)	(300)	(300)	(300)
Investments	0	0	0	0
Proceeds from sale of assets	47	0	0	0
Others	7	0	0	0
Financing	(123)	(148)	(166)	(178)
Dividend payments	(153)	(148)	(166)	(178)
Issue of shares	0	0	0	0
Proceeds from borrowings	103	0	0	0
Loan repayment	(62)	0	0	0
Others/interest paid	(11)	0	0	0
Net cash inflow (outflow)	(52)	188	277	312
Beginning cash & cash equivalent	243	191	380	656
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	191	380	656	968

KEY METRICS

Year to 31 Jul (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.9	18.3	18.8	18.7
Pre-tax margin	13.8	14.9	15.5	15.5
Net margin	10.3	11.5	11.9	11.9
ROA	7.8	9.1	10.0	10.0
ROE	13.7	15.0	15.2	14.6
Growth				
Turnover	9.0	7.4	8.3	7.0
EBITDA	12.6	16.0	10.9	6.9
Pre-tax profit	11.9	16.4	12.3	7.1
Net profit	18.3	20.2	12.3	7.2
Net profit (adj.)	18.3	20.2	12.3	7.2
EPS	18.3	20.2	12.3	7.2
Leverage				
Debt to total capital	26.2	19.1	17.5	16.1
Debt to equity	37.7	25.1	22.5	20.4
Net debt/(cash) to equity	31.5	14.1	5.5	(2.4)
Interest cover (x)	33.0	47.3	61.7	65.9

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