

COMPANY RESULTS

Scientex (SCI MK)

2QFY24: Precise Executions Sustaining Above-Pandemic Earnings Delivery

Scientex recorded its highest half-yearly earnings in 1HFY24, well above the pre-pandemic level. This mainly reflects margin expansion for its manufacturing segment on better cost efficiency and product mix, besides robust projects growth in the property segment. The group's unique dual-segment business model has been proven to be effective and continues to entrench substantial earnings growth amid global economy volatility. Maintain BUY with a higher target price of RM4.58.

2QFY24 RESULTS

| Year to 31 Jul (RMm) | 2QFY24 | qoq % chg | yoy % chg | 1HFY24 | yoy % chg |
|----------------------|--------|-------------|-------------|---------|-------------|
| Turnover | 1092.7 | (1.2) | 11.7 | 2,199.2 | 9.5 |
| Manufacturing | 635.8 | (2.2) | (2.9) | 1,286.2 | (6.2) |
| Property | 456.9 | 0.2 | 41.3 | 913.0 | 43.3 |
| EBIT | 191.3 | 1.5 | 29.7 | 379.7 | 30.6 |
| Manufacturing | 64.0 | 26.8 | 9.7 | 114.4 | (0.7) |
| Property | 127.3 | (7.7) | 42.8 | 265.3 | 51.1 |
| Finance costs | (5.0) | (28.2) | (49.1) | (11.9) | (33.2) |
| PBT | 188.7 | 2.1 | 33.4 | 373.4 | 34.2 |
| Core net profit | 133.0 | (2.0) | 31.9 | 268.7 | 26.6 |
| Margins (%) | | qoq ppt chg | yoy ppt chg | (%) | yoy ppt chg |
| EBIT | 17.5 | 0.5 | 2.4 | 17.3 | 2.8 |
| -Manufacturing | 10.1 | 2.3 | 1.2 | 8.9 | 0.5 |
| -Property | 27.9 | (2.4) | 0.3 | 29.1 | 1.5 |
| PBT | 17.3 | 0.6 | 2.8 | 17.0 | 3.1 |
| Core net profit | 12.2 | (0.1) | 1.9 | 12.2 | 1.7 |

Source: Scientex, UOB Kay Hian

RESULTS

- Within expectations.** Scientex's 2QFY24 core net profit came in at RM133m (-2% qoq, +31.9% yoy), excluding exceptional items such as forex losses and gains on disposals. 1HFY24 core net profit of RM268.7m (+26.6% yoy) was a record high half-yearly earnings for Scientex, accounting for about 49% of our and consensus estimates respectively.

KEY FINANCIALS

| Year to 31 Jul (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|-------|-------|-------|-------|-------|
| Net turnover | 3,985 | 4,077 | 4,363 | 4,592 | 4,957 |
| EBITDA | 675 | 713 | 849 | 909 | 973 |
| Operating profit | 561 | 590 | 707 | 757 | 812 |
| Net profit (rep./act.) | 410 | 438 | 545 | 583 | 627 |
| Net profit (adj.) | 410 | 438 | 545 | 583 | 627 |
| EPS (sen) | 26.4 | 28.3 | 35.1 | 37.6 | 40.4 |
| PE (x) | 14.4 | 13.5 | 10.9 | 10.1 | 9.4 |
| P/B (x) | 1.9 | 1.7 | 1.6 | 1.4 | 1.3 |
| EV/EBITDA (x) | 10.1 | 9.6 | 8.0 | 7.5 | 7.0 |
| Dividend yield (%) | 2.4 | 2.6 | 2.8 | 3.0 | 3.2 |
| Net margin (%) | 10.3 | 10.7 | 12.5 | 12.7 | 12.6 |
| Net debt/(cash) to equity (%) | 31.5 | 19.8 | 17.4 | 13.2 | 9.1 |
| Interest cover (x) | 33.0 | 21.3 | 61.3 | 64.4 | 74.1 |
| ROE (%) | 13.7 | 13.5 | 15.2 | 14.7 | 14.2 |
| Consensus net profit | - | - | 549 | 586 | 629 |
| UOBKH/Consensus (x) | - | - | 0.99 | 1.00 | 1.00 |

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | RM3.82 |
| Target Price | RM4.58 |
| Upside | +19.9% |
| (Previous TP) | RM4.36) |

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): | 1,551.3 |
| Market cap (RMm): | 5,925.8 |
| Market cap (US\$m): | 1,254.5 |
| 3-mth avg daily t'over (US\$m): | 0.4 |

Price Performance (%)

52-week high/low RM4.01/RM3.18

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|-------|------|------|-----|
| (1.5) | (1.0) | 1.1 | 12.4 | 0.3 |

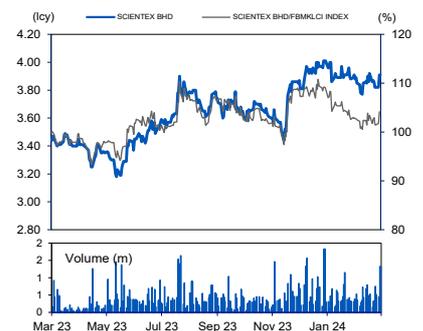
Major Shareholders

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

FY24 NAV/Share (RM) 2.43

FY24 Net Debt/Share (RM) 0.42

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Manufacturing: Margin expansion in consumer packaging business buffered revenue decline.** In 2QFY24, manufacturing revenue was relatively lower at RM636m (-2.9% yoy) due to softening export market demand from the consumer packaging segment. That said, overall utilisation rate has seen qoq improvement to 55-60% (1QFY24: 53%). Positively, EBIT also improved to RM64m (+9.7% yoy) on much higher margin (+1.2ppt yoy) which reflected better product mix, easing spot resin prices and management's cost rationalisation initiatives that boosted overall efficiency.

• **Property: Improving construction progress lifted earnings.** The property segment's revenue came in at RM456.9m (+0.2% qoq, +41.3% yoy) with higher EBIT of RM127.3m (+42.8% yoy, -7.7% qoq). The higher yoy revenue was mainly attributed to the improving sales and steady construction progress for its ongoing projects, besides overwhelming responses for its new launches. In 2QFY24, Scientex launched RM657m worth of new properties (2137 units) with unbilled sales standing at RM1.5b (1QFY24: RM1.6b). Management also alluded that demand for property launches is stable in 1HFY24 with take-up rate of about 60%.

STOCK IMPACT.

• **Volume growth to sustain in 2HFY24 amid better consumption recovery.** With global trade flow poised to recover fully from 2019-22's pandemic-induced disruptions, we expect Scientex to largely benefit from trade demand recovery, easing supply-chain pressure and 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 activities continue to ramp up.

• **Manufacturing segment to benefit from improving utilisation and trade demand in FY24.** With the successful recruitment of foreign workers alleviating Scientex's earlier worker shortage problem coupled with global demand recovery, we expect Scientex to further ramp up its FY22-23 average utilisation (based on increased capacity) of 50-55% to 60-65% in FY24. We deem 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 remains as a key growth driver for a flourishing FY24.** In 1HFY24, Scientex continues its landbank acquisition activities with the completion of 802 acres in Kulai, Johor and Jenjarom, Selangor. Including 1,960 acres of landbank acquisitions which are pending completion, Scientex's total landbank of about 9,216 acres provides potential gross development value of >RM37b (over 18x its FY23 property sales). While we have seen better launching of about RM2.1b in FY23 with impressive average take up rate of around 80%, we anticipate a brighter outlook from FY24 as the issue of material shortages, delays in obtaining regulatory approvals and worker shortages have been largely resolved.

EARNINGS REVISION/RISK

• None.

VALUATION/RECOMMENDATION

• **Maintain BUY with a higher target price of RM4.58**, implying 13x 2024F PE (10-year mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

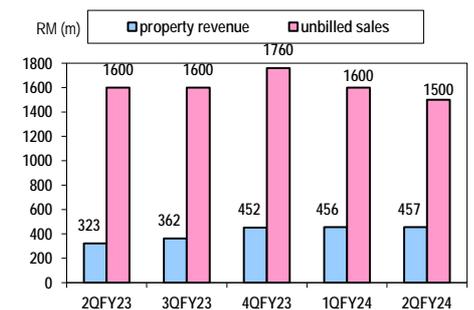
| |
|---|
| <p>• Environmental</p> <ul style="list-style-type: none"> - First plastic film manufacturer in Malaysia to receive the ISCC Plus Certification - 8.2% decrease in group-wide greenhouse gas emissions in FY21. |
| <p>• Social</p> <ul style="list-style-type: none"> - Spent RM5.3m in community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

KEY ASSUMPTIONS

| | FY24F | FY25F | FY26F |
|----------------------|--------|--------|--------|
| Manufacturing | 2862.9 | 2991.5 | 3257.4 |
| Property | 1500.0 | 1600.0 | 1700.0 |
| Total Revenue | 4362.9 | 4591.5 | 4957.4 |
| Manufacturing | 272.0 | 293.2 | 319.2 |
| Property | 435.0 | 464.0 | 493.0 |
| EBIT | 707.0 | 757.2 | 812.2 |

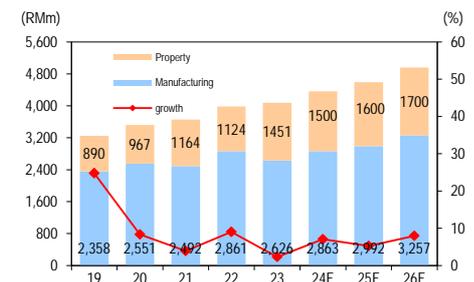
Source: Scientex, UOB Kay Hian

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



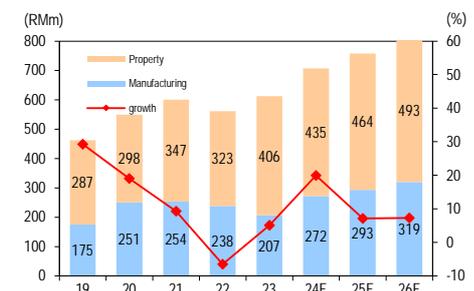
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Jul (Rm) | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|-------|-------|-------|-------|
| Net turnover | 4,077 | 4,363 | 4,592 | 4,957 |
| EBITDA | 713 | 849 | 909 | 973 |
| Deprec. & amort. | 124 | 142 | 151 | 160 |
| EBIT | 590 | 707 | 757 | 812 |
| Associate contributions | 13 | 13 | 13 | 13 |
| Net interest income/(expense) | (34) | (14) | (14) | (13) |
| Pre-tax profit | 569 | 706 | 756 | 812 |
| Tax | (120) | (141) | (151) | (162) |
| Minorities | (11) | (20) | (21) | (23) |
| Net profit | 438 | 545 | 583 | 627 |
| Net profit (adj.) | 438 | 545 | 583 | 627 |

CASH FLOW

| Year to 31 Jul (Rm) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|-------|-------|-------|-------|
| Operating | 806 | 707 | 782 | 818 |
| Pre-tax profit | 569 | 706 | 756 | 812 |
| Tax | (119) | (141) | (151) | (162) |
| Deprec. & amort. | 132 | 142 | 151 | 160 |
| Working capital changes | 199 | 0 | 26 | 9 |
| Other operating cashflows | 26 | 0 | 0 | 0 |
| Investing | (270) | (300) | (300) | (300) |
| Capex (growth) | (220) | (300) | (300) | (300) |
| Investments | (65) | 0 | 0 | 0 |
| Proceeds from sale of assets | 4 | 0 | 0 | 0 |
| Others | 11 | 0 | 0 | 0 |
| Financing | (561) | (363) | (375) | (388) |
| Dividend payments | (162) | (163) | (175) | (188) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | (106) | 0 | 0 | 0 |
| Loan repayment | (250) | (200) | (200) | (200) |
| Others/interest paid | (42) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (25) | 44 | 107 | 130 |
| Beginning cash & cash equivalent | 191 | 166 | 210 | 317 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 166 | 210 | 317 | 447 |

BALANCE SHEET

| Year to 31 Jul (Rm) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 1,558 | 2,224 | 2,372 | 2,512 |
| Other LT assets | 1,881 | 1,890 | 1,890 | 1,890 |
| Cash/ST investment | 166 | 210 | 317 | 447 |
| Other current assets | 1,900 | 1,180 | 1,118 | 1,095 |
| Total assets | 5,505 | 5,711 | 6,104 | 6,554 |
| ST debt | 767 | 565 | 566 | 567 |
| Other current liabilities | 914 | 693 | 656 | 641 |
| LT debt | 70 | 301 | 301 | 302 |
| Other LT liabilities | 148 | 145 | 145 | 146 |
| Shareholders' equity | 3,392 | 3,773 | 4,182 | 4,620 |
| Minority interest | 214 | 234 | 255 | 278 |
| Total liabilities & equity | 5,505 | 5,711 | 6,104 | 6,554 |

KEY METRICS

| Year to 31 Jul (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 17.5 | 19.5 | 19.8 | 19.6 |
| Pre-tax margin | 13.9 | 16.2 | 16.5 | 16.4 |
| Net margin | 10.7 | 12.5 | 12.7 | 12.6 |
| ROA | 8.0 | 9.7 | 9.9 | 9.9 |
| ROE | 13.5 | 15.2 | 14.7 | 14.2 |
| Growth | | | | |
| Turnover | 2.3 | 7.0 | 5.2 | 8.0 |
| EBITDA | 5.6 | 19.0 | 7.0 | 7.0 |
| Pre-tax profit | 3.7 | 24.1 | 7.1 | 7.4 |
| Net profit | 6.9 | 24.3 | 7.1 | 7.4 |
| Net profit (adj.) | 6.9 | 24.3 | 7.1 | 7.4 |
| EPS | 6.9 | 24.3 | 7.1 | 7.4 |
| Leverage | | | | |
| Debt to total capital | 18.8 | 17.8 | 16.3 | 15.1 |
| Debt to equity | 24.7 | 22.9 | 20.7 | 18.8 |
| Net debt/(cash) to equity | 19.8 | 17.4 | 13.2 | 9.1 |
| Interest cover (x) | 21.3 | 61.3 | 64.4 | 74.1 |

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