

COMPANY UPDATE

Scientex (SCI MK)

Repackaging Future Prospects

While the economic reopening is poised to lift Scientex's top-line growth, FY22-23 will be incredibly choppy for the group as inflationary pressures, particularly from material costs, will likely result in meaningful margin compression. Nevertheless, we remain confident that management's convincing execution track record will allow the group to steer through these temporary headwinds, re-affirming the group's resilient mid/long-term outlook. Maintain HOLD with a lower target price of RM4.39.

WHAT'S NEW

- **Volume growth remains intact for Scientex in FY22-23 amid progressive economic reopening.** With Malaysia and countries globally shifting away from the pandemic-induced full-scale lockdowns towards full economic reopening, we believe that Scientex will largely benefit from demand recovery, easing of 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 activities largely resume. We are forecasting a 7.6-8.8% revenue growth for Scientex in FY22-23.
- **Input inflation likely to compress earnings spread and margins for both manufacturing and property segments.** For the manufacturing segment, we expect resin prices (which have surged 8-26% ytd) to remain high throughout FY22-23 and negatively affect the segment's margin as the group usually has a time lag to pass through the cost. For the property segment, a steep increase in prices of building materials such as cement and steel is also expected to exert downward pressure on the segment's profitability margin. Based on a survey by the Real Estate and Housing Developers Association (REHDA), construction costs are expected to increase by 19% in 2022. As such, we are forecasting the group's FY22-23 net margin to ease by 1.9% and 0.9% yoy respectively.
- **Valuations remain reasonable for solid long-term prospects and management's strong execution track record.** While Scientex's share price has retraced by about 20% from the recent peak, we deem its current valuations to be fair, with about 10% upside based on our forecasted FY23 valuations. We also believe that management's effective execution capability, as proven by the group's stellar track record (5-year net profit CAGR of 14% in 2016-2021), will boost investors' confidence in the group's robust long-term outlook and allow them to look beyond the temporary cost headwinds that 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	745	847
Operating profit	549	490	574	632	723
Net profit (rep./act.)	390	346	423	486	556
Net profit (adj.)	390	346	423	486	556
EPS (sen)	25.2	22.4	27.3	31.4	35.9
PE (x)	15.9	17.9	14.7	12.8	11.1
P/B (x)	2.4	2.1	1.9	1.8	1.6
EV/EBITDA (x)	10.5	11.5	10.2	9.3	8.2
Dividend yield (%)	1.9	2.3	2.0	2.4	2.7
Net margin (%)	11.1	9.5	10.6	11.4	12.0
Net debt/(cash) to equity (%)	24.5	30.3	15.4	8.0	0.6
Interest cover (x)	40.4	53.8	41.8	52.9	60.1
ROE (%)	16.3	12.7	13.9	14.5	14.9
Consensus net profit	-	-	443	541	596
UOBKH/Consensus (x)	-	-	0.96	0.90	0.93

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM4.00
Target Price	RM4.39
Upside	+9.8%
(Previous TP)	RM4.58)

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):	6,204.0
Market cap (US\$m):	1,464.8
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

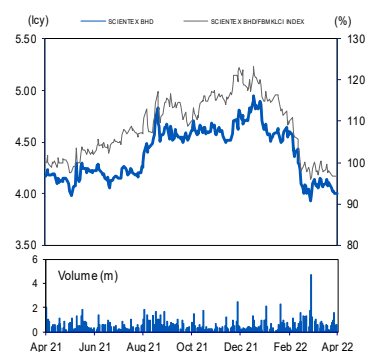
52-week high/low	RM4.95/RM3.93			
1mth	3mth	6mth	1yr	YTD
0.5	(14.9)	(11.9)	(3.6)	(16.5)

Major Shareholders

Scientex Holdings Sdn Bhd	20.99
Scientex Infinity Sdn Bhd	9.56
Scientex Leasing Sdn Bhd	9.12

FY22 NAV/Share (RM)	2.06
FY22 Net Debt/Share (RM)	0.32

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Looking beyond temporary headwinds towards steady mid/long-term prospects.** While both of Scientex's manufacturing and property segments are facing temporary headwinds, we believe that the group still has a resilient mid/long-term outlook. This is anchored on: a) the manufacturing segment's capacity expansion (the robotic stretch film plant commencing operation in 2HFY22 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 the maiden launches of landed properties in Negeri Sembilan and Kedah, as well as the group's first high rise in Klang Valley in 2HFY22.
- Manufacturing segment will continue to fuel 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) a gradual shift of its production lines to automation, which could 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.
- High resin costs to continue, but impacts partially buffered by efficient cost management.** Resin prices have been surging in 2QFY22 (up 8-26% yoy) due to a high oil price environment amid the Russia-Ukraine war. Note that Scientex was affected by higher resin prices (60-70% of total cost), particularly for custom films which have a longer lead time of about three months vs stretch film's 4-6 weeks as the group has a time lag in passing through the cost to customers. Nevertheless, we understand that the group usually holds about one month inventory of raw materials, which will partially mitigate the impacts. Based on our back-of-the-envelope calculations, a 1% rise in resin cost will translate into additional raw material costs of 0.4%.
- Property division 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, backed by: a) its ability to keep prices low with >60% of its affordable housing units priced below RM200,000, b) aggressive landbank acquisition with lower-than-market 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.

EARNINGS REVISION/RISK

- We reduce our FY22-23 net profits by 9% and 5% respectively,** as we trim the earning margins of both manufacturing and property segments to reflect higher input costs.

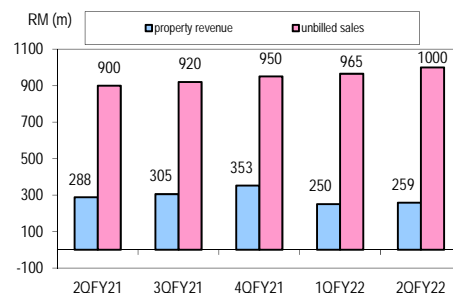
VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of RM4.39.** Our target price implies 14x FY23F PE (+1SD above mean), which we deem is justifiable given Scientex's excellent growth track record (5-year net earnings CAGR of 11%). Current risk-to-reward ratio is also fairly balanced with the stock trading at close to mean FY23 PE valuations, which prompts us to maintain our HOLD recommendation.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

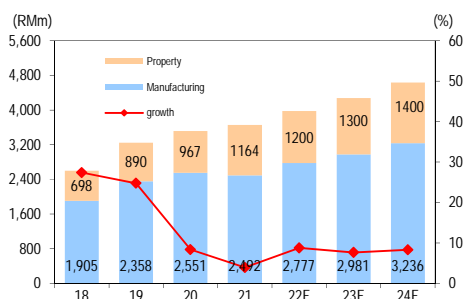
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - 1st plastic film manufacturer in Malaysia to receive the ISCC Plus Certification for post-consumer resin traceability - 8.2% decrease in group-wide Greenhouse Gas emissions in FY21.
<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Governance <ul style="list-style-type: none"> - Comprehended and applied Malaysian Code on Corporate Governance (MCCG).

PROPERTY SEGMENT'S REVENUE AND UNBILLED SALES



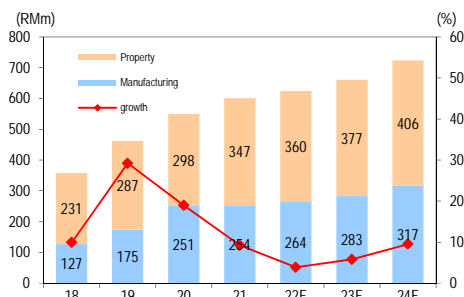
Source: Scientex, UOB Kay Hian

SALES BY SEGMENT



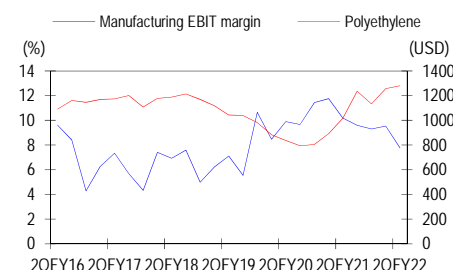
Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

MANUFACTURING EBIT MARGIN VS PE PRICE



Source: Scientex, Bloomberg, 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	745	847
Deprec. & amort.	110	101	113	124
EBIT	490	574	632	723
Associate contributions	12	12	12	12
Net interest income/(expense)	(11)	(16)	(14)	(14)
Pre-tax profit	490	570	630	721
Tax	(115)	(131)	(126)	(144)
Minorities	(29)	(15)	(18)	(20)
Net profit	346	423	486	556
Net profit (adj.)	346	423	486	556

CASH FLOW

Year to 31 Jul (RMm)	2021	2022F	2023F	2024F
Operating	700	558	656	723
Pre-tax profit	601	570	630	721
Tax	(124)	(131)	(126)	(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)	(146)	(167)
Dividend payments	(144)	(127)	(146)	(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	211	257
Beginning cash & cash equivalent	413	243	374	585
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	243	374	585	841

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	585	841
Other current assets	1,697	1,397	1,302	1,244
Total assets	5,100	5,133	5,435	5,809
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	3,532	3,922
Minority interest	202	217	235	255
Total liabilities & equity	5,100	5,133	5,435	5,809

KEY METRICS

Year to 31 Jul (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	16.4	17.0	17.4	18.3
Pre-tax margin	13.4	14.3	14.7	15.5
Net margin	9.5	10.6	11.4	12.0
ROA	7.1	8.3	9.2	9.9
ROE	12.7	13.9	14.5	14.9
Growth				
Turnover	3.9	8.8	7.6	8.3
EBITDA	(9.1)	12.5	10.4	13.7
Pre-tax profit	(9.9)	16.2	10.6	14.4
Net profit	(11.2)	22.1	14.9	14.4
Net profit (adj.)	(11.2)	22.1	14.9	14.4
EPS	(11.2)	22.1	14.9	14.4
Leverage				
Debt to total capital	26.6	20.3	18.7	17.2
Debt to equity	38.7	27.1	24.5	22.1
Net debt/(cash) to equity	30.3	15.4	8.0	0.6
Interest cover (x)	53.8	41.8	52.9	60.1

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