

17 March 2022

Consumer Non-cyclical | Packaging

Scientex (SCI MK)

Buy (from Neutral)

Managing Near-Term Headwinds; U/G To BUY

Target Price (Return): MYR4.68 (+19%)
 Price (Market Cap): MYR3.93 (USD1,452m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.74m/0.66m

- **Upgrade to BUY from Neutral, with TP of MYR4.68 from MYR4.90, 19% upside and c.3% yield.** Despite the commendable topline growth, Scientex reported 2QFY22 (Jul) results that were below our and consensus expectations due to elevated costs of raw materials and freight which impacted earnings. In the midst of the tough operating landscape, its risk-reward profile has managed to turned favourable following a c.20% de-rating in recent weeks. The stock is now trading at -1SD from its mean.
- **Missed expectations.** Scientex reported 2QFY22 net profit of MYR93.7m (-9% QoQ, -17% YoY), bringing 1HFY22 core earnings to MYR196.6m (-4% YoY). This came below our and consensus estimates at 43% and 39%. EBIT margin narrowed to 13.2% in the quarter (16.5% in 2Q21) due to elevated costs of raw materials and freight, which were further impacted by the ongoing Russo-Ukrainian war.
- **Results review.** 2QFY22 revenue improved 2.6% QoQ to MYR952m (1HFY22 revenue +10% YoY) due to a firm demand for industrial and consumer packaging, with exports packaging revenue growing 17.5% YoY in 1HFY22 (locally: +7.2% YoY). Revenue from the property segment remained flat in 1HFY22 (+0.6% YoY) due to a postponement of the issuance of the certificate of completion and compliance (CCC) for certain property projects which delayed the progress billings for the period.
- **New stretch film plant coming online in the second half of this year.** Scientex's new robotics stretch film plant – the first of its kind in Asia – will commence operations in a few months (capex: MYR80m). The plant will initially be installed with two fully automated production lines which should improve the group's manufacturing efficiency, productivity, and add an industrial stretch film capacity of 1,500 tonnes/month.
- **Lower property launch target of MYR1.7bn.** Management targets to launch MYR1.7bn properties in FY22F, an amount that is lower compared to its previous target of MYR2.0bn (FY21: MYR1.5bn). This is due to timing differences from the aforementioned CCC issuance deferment, which delays property launches. Despite the setback, we still expect an improved performance from this segment. In 1HFY22, a total of MYR410m of properties were launched in Penang, Melaka, and Johor, with the group targeting 24 more launches in 2HFY22.
- **We adjust our FY22F-24F earnings by -10%, -8%, and -3%** to account for the high raw material prices that should remain elevated for the year, and the lower property launch target. We derive an SOP-based TP of MYR4.68 and incorporate a 2% ESG premium in our valuation based on our in-house methodology.

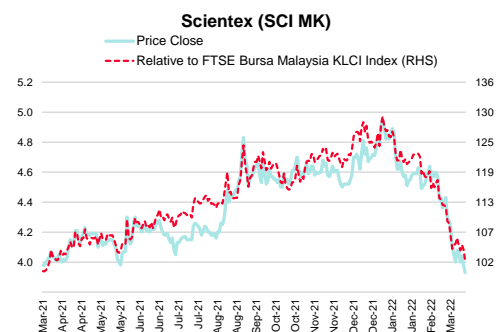
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.0)	(14.6)	(16.9)	(15.3)	(1.3)
Relative	(18.2)	(12.6)	(22.7)	(16.3)	2.0
52-wk Price low/high (MYR)	3.93 – 4.95				



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: GOOD

The group has developed an Environmental Policy in FY21 that establishes key objectives and commitments towards integrating the concept of environmental sustainability into its facilities. The key pillars of this Environmental Policy include energy and emissions, waste management, resource utilisation, and biodiversity.

S: EXCELLENT

Scientex complies to all applicable laws in relation to occupational health and safety (OHS). Adequate trainings are provided to its employees on safety and health practices. Scientex adopted a group-wide safety and health policy in FY21 that outlined its key areas of commitment to meet high standards of occupational safety and health.

G: GOOD

Scientex has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that independent directors do not comprise majority of the board and it has yet to achieve the target of having 30% of women on the board.

Forecasts and Valuation	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
Total turnover (MYRm)	3,519	3,656	4,026	4,456	4,980
Recurring net profit (MYRm)	393	452	424	535	642
Recurring net profit growth (%)	17.1	15.0	(6.2)	26.2	20.1
Recurring P/E (x)	15.52	13.49	14.39	11.40	9.49
P/B (x)	2.4	2.1	1.9	1.7	1.5
P/CF (x)	8.52	8.71	13.66	9.08	7.84
Dividend Yield (%)	1.7	2.1	2.5	3.1	3.3
EV/EBITDA (x)	10.32	10.04	10.45	9.12	7.65
Return on average equity (%)	16.3	16.7	14.0	16.0	17.2
Net debt to equity (%)	22.8	28.3	35.5	35.6	30.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
Malaysia	Recurring EPS	0.25	0.29	0.27	0.34	0.41
Consumer Non-cyclical	DPS	0.07	0.08	0.10	0.12	0.13
Scientex	BVPS	1.65	1.87	2.04	2.26	2.55
SCI MK	Return on average equity (%)	16.3	16.7	14.0	16.0	17.2
Buy						
	Valuation metrics	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
	Recurring P/E (x)	15.52	13.49	14.39	11.40	9.49
	P/B (x)	2.4	2.1	1.9	1.7	1.5
	FCF Yield (%)	9.5	9.4	4.0	7.7	9.5
	Dividend Yield (%)	1.7	2.1	2.5	3.1	3.3
	EV/EBITDA (x)	10.32	10.04	10.45	9.12	7.65
	EV/EBIT (x)	12.38	11.90	12.52	10.75	8.87
	Income statement (MYRm)	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
	Total turnover	3,519	3,656	4,026	4,456	4,980
	Gross profit	805	843	864	1,000	1,179
	EBITDA	663	705	709	829	985
	Depreciation and amortisation	(111)	(110)	(117)	(126)	(135)
	Operating profit	553	594	592	703	849
	Net interest	(16)	(11)	(17)	(22)	(30)
	Pre-tax profit	544	601	587	695	835
	Taxation	(126)	(116)	(141)	(132)	(159)
	Reported net profit	390	457	424	535	642
	Recurring net profit	393	452	424	535	642
	Cash flow (MYRm)	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
	Change in working capital	150	94	(122)	(26)	(49)
	Cash flow from operations	715	700	446	671	777
	Capex	(134)	(125)	(200)	(200)	(200)
	Cash flow from investing activities	(481)	(776)	(600)	(600)	(500)
	Dividends paid	(116)	(144)	(155)	(186)	(202)
	Cash flow from financing activities	(79)	(93)	(22)	(109)	(232)
	Cash at beginning of period	258	413	243	68	31
	Net change in cash	156	(170)	(176)	(37)	46
	Ending balance cash	413	243	68	31	76
	Balance sheet (MYRm)	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
	Total cash and equivalents	413	243	68	31	76
	Tangible fixed assets	2,320	2,688	3,171	3,645	4,009
	Total investments	71	99	111	126	141
	Total assets	4,600	5,100	5,494	6,042	6,603
	Short-term debt	684	819	869	919	919
	Total long-term debt	357	301	401	451	451
	Total liabilities	1,845	2,003	2,106	2,277	2,363
	Total equity	2,756	3,097	3,388	3,765	4,239
	Total liabilities & equity	4,600	5,100	5,494	6,042	6,603
	Key metrics	Jul-20	Jul-21	Jul-22F	Jul-23F	Jul-24F
	Revenue growth (%)	8.3	3.9	10.1	10.7	11.8
	Recurrent EPS growth (%)	17.1	15.0	(6.2)	26.2	20.1
	Gross margin (%)	22.9	23.1	21.5	22.4	23.7
	Operating EBITDA margin (%)	18.9	19.3	17.6	18.6	19.8
	Net profit margin (%)	11.1	12.5	10.5	12.0	12.9
	Dividend payout ratio (%)	26.4	28.3	36.6	34.8	31.4
	Capex/sales (%)	3.8	3.4	5.0	4.5	4.0
	Interest cover (x)	33.8	53.4	35.4	31.3	28.2

Source: Company data, RHB

Results At a Glance

Figure 1: Results review table

FYE Jul (MYRm)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)	Comments
Revenue	906.5	928.2	952.0	2.6	5.0	1,708.8	1,880.2	10.0	Strong demand from the packaging segment
Adjusted EBITDA	178.8	161.9	154.6	(4.5)	(13.6)	333.0	316.4	(5.0)	
<i>Adjusted EBITDA margin (%)</i>	19.7	17.4	16.2			19.5	16.8		
Depreciation	(29.7)	(28.7)	(28.7)	0.1	(3.3)	(57.1)	(57.3)	0.5	
Adjusted operating profit	149.2	133.2	125.9	(5.5)	(15.6)	275.9	259.1	(6.1)	Impacted by increased costs of raw materials and freight
<i>Operating margin (%)</i>	16.5	14.4	13.2			16.1	13.8		
El/Others	(0.0)	0.0	(0.0)	(200.0)	(80.6)	0.0	0.0	#DIV/0!	
Reported operating profit	149.2	133.2	125.9	(5.5)	(15.6)	275.9	259.1	(6.1)	
Interest Expense	(2.4)	(4.3)	(4.9)	13.1	105.8	(4.7)	(9.2)	98.0	
Share of Associates	2.7	1.5	3.1	101.5	13.5	6.3	4.6	(26.3)	
Reported PBT	149.5	130.4	124.1	(4.9)	(17.0)	277.6	254.5	(8.3)	
Tax	(28.4)	(22.2)	(25.1)	13.1	(11.6)	(56.6)	(47.3)	(16.3)	
<i>Effective tax rate (%)</i>	19.0	17.0	20.3			20.4	18.6		
Minority Interest	(8.9)	(5.3)	(5.2)	(1.5)	(41.2)	(16.3)	(10.6)	(35.0)	
Net Profit	112.2	102.9	93.7	(8.9)	(16.5)	204.7	196.6	(4.0)	
Core Profit	112.2	102.9	93.7	(8.9)	(16.5)	204.7	196.6	(4.0)	
<i>Core net margin (%)</i>	12.4	11.1	9.8			12.0	10.5		

Source: Company data, RHB

Figure 2: SOP valuation

Divisions	Method	Valuation (MYRm)	Implied FY22 P/E (x)
Manufacturing	16x P/E on FY23F earnings	3,349.8	16.0
Property	RNAV (Discount of 50%)	3,790.1	11.6
Proceeds from Warrant Conversion		444.1	
Total Intrinsic Value (MYRm)		7,584.1	
Fully diluted sharebase (m)		1,654.3	
Intrinsic value per share		4.58	
+ 2% ESG premium		0.09	
TP (MYR)		4.68	14.5

Source: RHB

Recommendation Chart

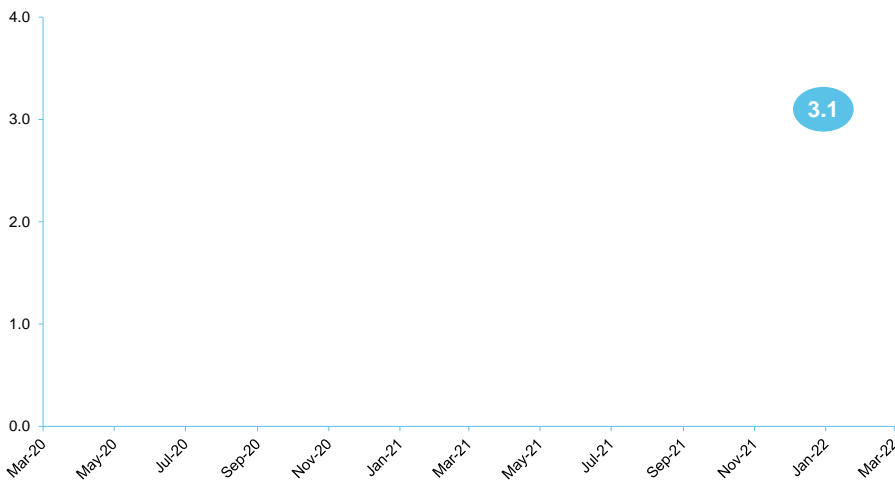


Date	Recommendation	Target Price	Price
2022-01-13	Neutral	4.9	4.9
2020-12-18	Neutral	11.5	4.1
2020-09-21	Neutral	10.3	3.3
2020-07-24	Neutral	9.8	3.1
2018-06-21	Neutral	7.4	2.3
2018-03-23	Neutral	8.7	2.7
2018-02-26	Neutral	9.1	2.8

Source: RHB, Bloomberg

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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