



Scientex Berhad

TP: RM16.93 (+28.7%)

Ex Price: RM8.47

Last Traded: RM13.16

BUY

New CPP Plant in Melaka

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TA Research Coverage

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Subsequent to our recent visit to Scientex Berhad's new CPP plant in Melaka, we came away with an upbeat feeling on the group's earnings prospects. We believe Scientex is in a sweet spot and the share price is poised for a continuous re-rating, driven by multi-year earnings expansion ahead. Fundamentals are solid underpinned by, 1) strategic capacity expansion, particularly in the more lucrative consumer packaging segment, 2) falling feedstock cost in line with the structurally driven correction in the crude oil price and, 3) large land banking activity that will propel property earnings going forward. We refine our earnings forecasts, primarily to take into account the most recent guidance on the planned capacity expansion (the acquisition of Mondi Ipoh S/B and new addition to PE film) and revisions in the margin assumptions for the consumer packaging segment. All in, we upgraded FY17 and FY18 earnings forecasts by 4% and 19.2%, respectively. We now project core earnings to grow by 20.4% in FY17 and 21.2% in FY18. We estimate earnings could grow at a CAGR of 33% between FY15/18.

New CPP Plant to introduce new product innovation

The new Cast PolyPropylene (CPP) plant, which is situated in Melaka, is operating with 2 production lines with a maximum capacity of 12k MT/ year. The size of the plant is approximately 6k sq. ft. equipped with the latest German technology machineries to enhance the production efficiency. The plant is also certified under HACCP (Hazard Analysis & Critical Control Point), which is the global standard in Food Safety & Hygiene Management System. At hand are 2 types of CPP films that will be produced in this facility, i.e. 1) CPP base film, and 2) Metallised CPP film.

These new products will facilitate the group to further diversify its packaging product ranges and customers base. These include consumer products for fast moving consumer goods, F&B sector products as well as healthcare and hygiene sector. Some of the products that are currently manufactured in the plant are bakery bags, hygiene products packaging, and form-fill-seal (FFS) bags. The production of CPP film will help boost consumer packaging segment revenue by approximately 9%/6%/7% in FY16/FY17/FY18. Overall, we expect the consumer packaging segment's revenue to expand by 86.6% and 16.8% to RM1.5bn and RM1.7bn in FY17 and FY18, respectively. Furthermore, CPP film is said to complement Polyethylene (PE) and Biaxially Oriented Polypropylene (BOPP) business, which the group could sell to its existing clientele in Malaysia and South East Asia.

Other Expansion Plan for FY16

In addition, management expects the new BOPP plant in Pulau Indah to commence operation by November 2016, increasing the capacity by 10-fold (current production of BOPP film is approximately 6k MT/year). With that, management expects the consumer packaging segment to exceed the industrial packaging segment in terms of revenue contribution in FY17 after the completion of expansion plans. Note that, the forecasted mix between

Share Information	
Bloomberg Code	SCI MK
Stock Code	4,731
Listing	Main Market
Share Cap (mn)	226.3
Market Cap (RMmn)	2,978.1
Par Value	0.5
52-wk Hi/Lo (RM)	13.16 / 6.58
12-mth Avg Daily Vol ('000 shrs)	198.7
Estimated Free Float (%)	49.7
Beta	0.5
Major Shareholders (%)	
Scientex Holdings Sdn Bhd	21.5
Scientex Leasing Sdn Bhd	10.1
Lim Teck Meng Sdn Bhd	8.2
Sim Swee Tin Sdn Bhd	5.3

Forecast Revision		
	FY16	FY17
Forecast Revision (%)	0.2	4.1
Core Net Profit (RMm)	254.2	306.0
Consensus	215.7	271.5
TA's / Consensus (%)	117.8	112.7
Previous Rating	Buy (Maintained)	

Financial Indicators		
	FY16	FY17
Net debt/ equity (%)	36.1	27.2
ROE (%)	21.3	21.6
ROA (%)	11.8	12.2
NTA/Share (RM)	3.2	4.4
Price/NTA (x)	4.0	3.0

Share Performance (%)		
Price Change	SCIENTEX	FBM KLCI
1 mth	20.5	1.9
3 mth	36.4	3.6
6 mth	77.8	4.7
12 mth	96.7	(6.0)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

consumer packaging and industrial packaging is 48.9% and 51.1% in FY16.

Additionally, we also anticipate the blended margin to improve with the installation of metalliser machine that could enhance sales of value-added products. The value-added products CPP film (functional film) contribute higher margin compared to the CPP base-film products.

Table 1: Capacity Expansion for Consumer Packaging Segment

Plant	Expected Commencement Date	Additional Capacity (MT/year)	Total Capacity (MT/year) after Expansion Plan	Percentage Additional Capacity (%)
PE Plant, Ipoh	End 2016	3.6	18,000	25
BOPP, Pulau Indah	Nov-16	54,000	60,000	900
CPP, Melaka	March - 2016 (Commenced)	0.0	12,000	NA

Source: TA Research, Company

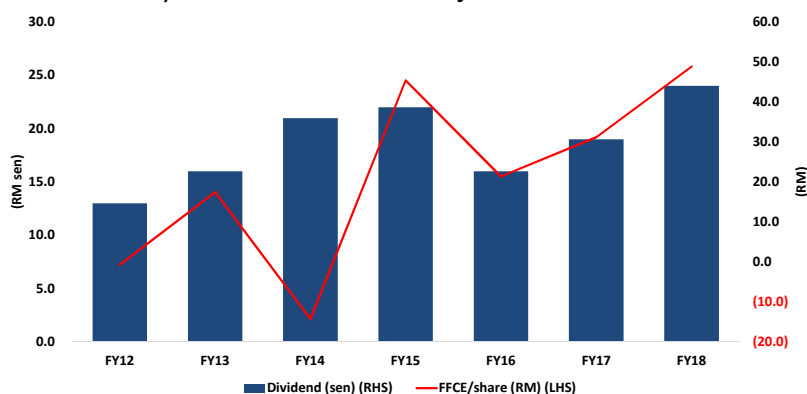
Proposed Bonus Issue

Recently, the group proposed a 1-for-1 bonus issue of up to 230mn new ordinary shares to be listed on the Main Market of Bursa Malaysia. We are positive on this proposal as the enlarged share base would improve the tradability of Scientex's shares in the market. The proposed bonus issue is targeted to be finalised in 3QCY16, pending shareholders approvals.

Possibility of Special Dividend

As at July 2015, Scientex had RM90.6mn cash in hand, We think that, moving forward, after all the expansion has been completed in FY16, there is a possibility of special dividend in FY18 giving that the estimated cash position for the group is sufficient for its working capital and debt repayment. Historically, the group paid a special dividend of 10sen in FY13 after net profit jumped by 28% in the year.

Table 2: FCFE / share remains at healthy level



Source: TA Research

Maintain Buy on Scientex with total upside of 30%

We upgrade our target price to RM16.93 from RM15.32 previously. The target price is derived based on Sum-of-Parts valuation methodology after assigning PER of 18x and 6x for the manufacturing and property segments respectively. We believe the increase in our target PER multiple from 17x previously to 18x now for the manufacturing segment is reasonable after taking into consideration 1) the synergistic benefits from the latest acquisitions, 2) increase in liquidity of the shares after the proposed bonus issues, 3) robust capacity expansion in manufacturing segment in the future, 4) manufacturing segment offers more eye-catching topline growth compared to peers, and 5) larger client base (Scientex is one of the top consumer packaging manufacturer in South East Asia). Maintained Buy on the stock.

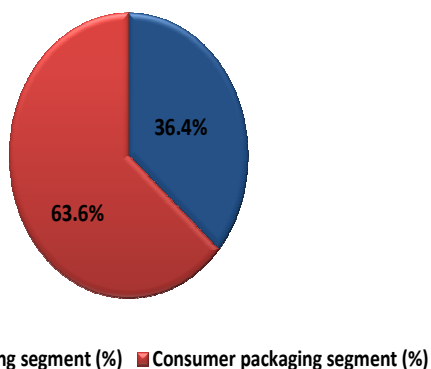
Key risks to our call/forecasts are 1) uncertainty and high volatility in the global marketplace, 2) rally in crude oil price, and 3) slower than expected

demand for industrial packaging 3) slower than expected in property market especially in Johor.

Sum-of-Parts	FY17	Target PER (x)	Segment Value (RM mn)	Comment
Manufacturing	151.7	18	2,760.9	30% premium to peer's average PER
Property	181.4	6	1,088.3	In-line with small-cap property players
		Sub-total	3,849.2	
		Holding co net debts	(17.7)	
		Total Equity value	3,831.5	
		Share cap (mn)	226.3	
		Target Price (RM)	16.93	
		Target Price cum Ex Price (RM)	8.47	
		Implied CY17 PER	11.7	

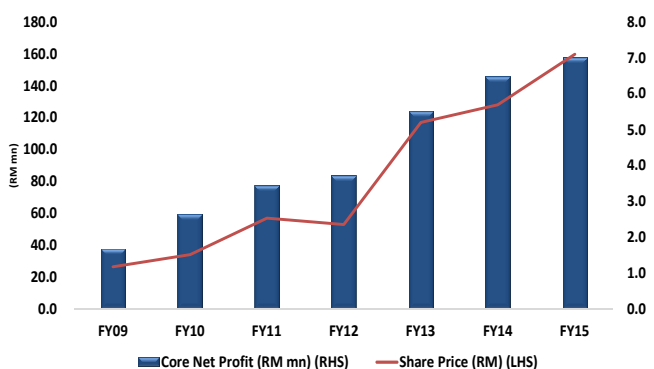
Appendix

Figure 1: Group's FY17 Manufacturing Revenue



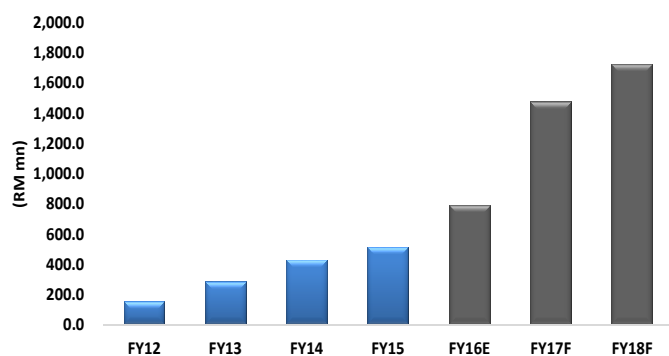
Source: TA Research

Figure 2: Share Price Rallied in Tandem with Surging in Core Net Profit



Source: TA Research, Bloomberg

Figure 3: Group's Forecasted Consumer Packaging Segment Revenue



Source: TA Research

Figure 4: Group's Consumer Packaging Plants



Source: Company

Figure 5: New CPP Production Lines in Melaka



Source: Company

Figure 6: Products Application in Food & Beverages Sector



Source: Company

Earnings Summary

Profit & Loss

FYE June 30 (RM'mn)	2014	2015	2016E	2017F	2018F
Revenue	1,589.7	1,801.7	2,187.5	3,019.8	3,441.9
Core EBIT	187.5	223.3	320.8	387.4	467.2
EI	(2.8)	(0.6)	0.0	0.0	0.0
D&A	(39.5)	(43.8)	(54.6)	(69.3)	(77.7)
Reported PBT	186.3	221.0	315.7	380.1	460.8
Core PBT	183.5	220.4	315.7	380.1	460.8
Taxation	(34.8)	(58.9)	(53.7)	(64.6)	(78.3)
Minority Interest	(3.1)	(3.9)	(7.9)	(9.5)	(11.5)
Reported Net Profit	148.5	158.2	254.2	306.0	371.0
Core Net Profit	145.7	157.6	254.2	306.0	371.0
Core EPS * (sen)	65.9	70.2	55.3	66.5	80.6
Dividend / Share * (sen)	21.0	22.0	16.0	19.0	24.0

Cash Flow

FYE June 30 (RM'mn)	2014	2015	2016E	2017F	2018F
PBT	186.3	221.0	315.7	380.1	460.8
D&A	39.5	43.8	54.6	69.3	77.7
Interest expense	7.1	8.3	8.0	11.1	11.1
Interest income	(2.1)	(1.7)	(2.0)	(2.7)	(3.6)
Others	(4.6)	(1.9)	0.0	0.0	0.0
Cash flow before WC	226.1	269.3	376.3	457.9	546.1
Changes in WC					
Inventories	(23.1)	(2.6)	(22.1)	(51.0)	(33.8)
Receivables	(19.8)	(45.8)	(21.4)	(130.5)	(66.2)
Payable	29.2	20.6	56.4	33.1	129.9
Others	(13.2)	(40.1)	0.0	0.0	0.0
Total working capital	(35.4)	(32.1)	(10.4)	(51.7)	(14.0)
Income tax paid	(37.3)	(45.4)	(53.7)	(64.6)	(78.3)
Others	191.1	237.1	365.9	406.2	532.1
CFO	153.8	191.8	312.2	341.6	453.8
Investing Cash Flow					
Capex	(65.7)	(100.0)	(500.0)	(200.0)	(200.0)
Others	(83.8)	60.9	2.0	2.7	3.6
CFI	(149.5)	(39.1)	(498.0)	(197.3)	(196.4)
Financing Cash Flow					
Net change in debts	(89.2)	(7.5)	300.0	0.0	0.0
Dividends paid	(47.1)	(47.1)	(76.3)	(91.8)	(111.3)
Finance costs paid	(7.2)	(8.3)	(8.0)	(11.1)	(11.1)
Others	70.8	(83.0)	0.0	0.0	0.0
CFF	(72.7)	(145.8)	215.8	(102.9)	(122.4)
Net change	(68.4)	6.9	30.0	41.3	134.9
Beginning cash	152.2	83.8	90.6	120.6	161.9
Ending cash	83.8	90.6	120.6	161.9	296.8

* Based on enlarged share base

Balance Sheet

FYE June 30 (RM mn)	2014	2015	2016E	2017F	2018F
PPE	552.1	642.8	1,088.2	1,218.9	1,341.2
Investment prop. + other inv.	9.6	24.1	24.1	24.1	24.1
Land held for prop. dev.	260.4	268.6	268.6	268.6	268.6
Associates & JV	37.5	41.5	41.5	41.5	41.5
Total Non-Current Assets	859.5	979.1	1,424.5	1,555.2	1,677.5
Prop. Dev. costs	104.6	136.5	136.5	136.5	136.5
Inventories	109.0	112.0	134.0	185.0	218.8
Receivables	243.5	321.7	343.1	473.6	539.8
Cash	83.8	90.6	120.6	161.9	296.8
Tax recoverable	0.0	0.0	0.0	0.0	0.0
Total Current Assets	540.8	660.8	734.2	957.1	1,192.0
Total Assets	1,400.4	1,639.9	2,158.7	2,512.3	2,869.5
Share Capital	115.0	115.0	230.0	230.0	230.0
Reserves	64.3	137.8	22.8	22.8	22.8
Retained profits	533.4	689.2	867.1	1,081.3	1,341.0
Shareholders' funds	712.7	942.0	1,119.9	1,334.1	1,593.8
MI	22.7	62.8	70.6	80.1	91.6
Total Equity	735.4	1,004.8	1,190.5	1,414.2	1,685.4
Non-Current Liabilities					
Loans & Borrowings	77.5	75.5	315.5	315.5	315.5
Others	40.9	59.5	59.5	59.5	59.5
Total Non-Current Liabilities	118.5	135.0	375.0	375.0	375.0
Current Liabilities					
Loans & Borrowings	262.9	149.9	209.9	209.9	209.9
Trade and other payables	254.4	308.3	341.3	471.2	557.2
Others	29.2	42.0	42.0	42.0	42.0
Total Current Liabilities	546.5	500.1	593.2	723.1	809.1
Total Equity and Liabilities	1,400.4	1,639.9	2,158.7	2,512.3	2,869.5

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