

27 September 2016

# Scientex Bhd

## FY16 Within Expectations

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**OUTPERFORM** ↔

Last Price: **RM6.30**

Target Price: **RM7.57** ↔

**FY16 Core Net Profit of RM248m came in within our (98%) and consensus (99%) forecasts. An interim dividend of 10.0 sen was announced, for full-year adjusted DPS of 16.0 sen, largely in line with our adjusted estimate of 16.9 sen. No change to FY17E earnings of RM292m as we introduce FY18E earnings of RM345m. Maintain OUTPERFORM call with an unchanged TP of RM6.30 based on Sum-of-Parts.**

**Within expectations.** FY16 core net profit (CNP\*) of RM248m came in within expectations, coming in at 98% of our forecast (RM253m) and 99% of consensus (RM250m). A final dividend of 10.0 sen was announced, for full-year adjusted DPS of 16.0 sen. We deem this in line with our FY16E adjusted DPS of 16.9 sen. This implies a pay-out ratio of 31%, in line with the company dividend policy of 30%.

**Fruits of expansion. YoY-Ytd,** CNP rose 66% largely on manufacturing improvements, both on topline (+20%) and EBIT level (+62%) on new contribution from its Ipoh acquisition, favourable USD and lower resin costs, which increased EBIT margins from 6% to 8%. Property revenue improved 26% but EBIT rose by only 7% as its focus on affordable housing reduced EBIT margin from 34% to 29%. Meanwhile, **QoQ,** earnings declined 6% as manufacturing EBIT halved on higher fixed costs incurred prior to the start of operations at its new BOPP plant. Property topline improved 17% and EBIT rose 27% on margin improvement (28% to 31%) on higher new launches (RM256m GDV), notably at its recently acquired Pulau land (RM129m).

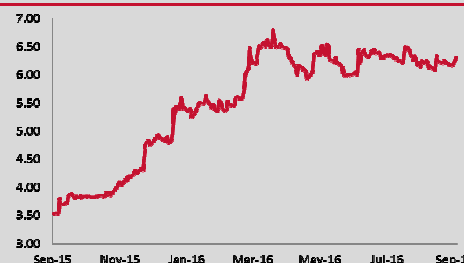
**Manufacturing growth to continue** as the new BOPP plant is set to begin contributions in the coming 1Q17, while expansion is underway in the Rawang (+25% to 60k metric tons (MT)/year) and Ipoh (+43% to 24k MT/year) plants. The coming capacity is likely to contribute to 2H17 earnings, which we have accounted for in our forecast. In the property sector, we expect the on-going sector slowdown to persist due to tighter lending policies and poor market sentiment. However, SCIENTX is targeting to launch more affordable houses (c.90% of total launches) in the next two years which should provide some earnings resiliency.

**No changes to our FY17E CNP of RM292m** as we introduce our FY18E CNP of RM344m, representing an 18% earnings increase on additional consumer packaging capacities.

**Reiterate OUTPERFORM with unchanged TP of RM7.57** based on Sum-of-Parts pegged to CY17E earnings. In the manufacturing segment, we maintain our applied PER of 17.6x based on our fundamental sector comparison (see our Sector Update published 7-Sep-16). In the property segment, we reiterate our applied PER of 4.0x in line with small-mid cap property players in a slow market environment.

**Downside risks to our call include:** (i) lower-than-expected crude oil prices, (ii) lower-than-expected property sales forecast or margins. However, we maintain our OUTPERFORM call as we expect manufacturing expansion to support earnings growth and expand margins on stronger product mix.

### Share Price Performance



KLCI	1,669.50
YTD KLCI chg	-1.4%
YTD stock price chg	29.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	2,903.9
Issued shares	460.9
52-week range (H)	6.80
52-week range (L)	3.52
3-mth avg daily vol:	296,813
Free Float	60%
Beta	0.6

### Major Shareholders

Scientex Holdings Sdn Bhd	21.5%
Scientex Leasing Sdn Bhd	10.1%
Lim TeckMeng Sdn Bhd	8.2%

### Summary Earnings Table

FYE July (RM m)	2016A	2017E	2018E
Turnover	2201.0	2945.4	3227.5
EBIT	312.6	373.9	436.1
PBT	306.3	374.6	442.1
<b>Net Profit (NP)</b>	<b>240.9</b>	<b>292.0</b>	<b>344.9</b>
<b>Core NP</b>	<b>248.0</b>	<b>292.0</b>	<b>344.9</b>
Consensus (NP)	250.3	317.5	370.7
Earnings Revision	n.a.	n.a.	n.a.
EPS (sen)	54.5	63.5	75.0
EPS growth (%)	-22.6	15.4	17.8
Net DPS (sen)	16.0*	19.0	22.5
BV (RM)	5.11	3.19	3.82
NTA/share (RM)	5.11	3.19	3.82
PER (x)	11.6	9.9	8.4
PBV (x)	1.2	2.0	1.6
P/NTA (x)	1.2	2.0	1.6
Net gearing (%)	0.32	0.16	0.01
Div. Yield (%)	2.5	3.0	3.6

\* Adjusted for 1-1 bonus issue

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OTHER POINTS

Result Highlights

	4Q	3Q	QoQ	4Q	YoY			YoY-Ytd
Y/E : July (RM mn)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Turnover</b>	<b>561.1</b>	<b>543.9</b>	<b>3%</b>	<b>452.5</b>	<b>24%</b>	<b>2201.0</b>	<b>1801.7</b>	<b>22%</b>
EBIT	74.1	77.8	-5%	77.1	-4%	312.6	225.0	39%
Interest income	0.7	1.0	-31%	2.2	-67%	7.4	4.2	76%
Finance costs	(4.9)	(3.1)	59%	(2.3)	113%	(13.7)	(8.3)	66%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	69.9	75.8	-8%	77.0	-9%	306.3	221.0	39%
Taxation	(15.4)	(13.2)	17%	(27.2)	-43%	(59.8)	(58.9)	2%
Profit after tax	54.5	62.6	-13%	49.8	9%	246.6	162.1	52%
Minority interest	(0.4)	(1.4)	-71%	(0.9)	-57%	(5.7)	(3.9)	46%
Net profit	54.1	61.3	-12%	48.9	11%	240.9	158.2	52%
<b>Core net profit</b>	<b>56.5</b>	<b>60.1</b>	<b>-6%</b>	<b>39.9</b>	<b>42%</b>	<b>248.0</b>	<b>149.2</b>	<b>66%</b>
Core EPS (sen)	24.6	26.3	-7%	17.7	39%	109.0	66.4	64%
NDPS (sen)	10.0	6.0*	67%	6.5*	54%	16.0*	11.0*	45%
NTA/share (RM)	5.1	5.0	2%	4.2	23%	5.11	4.17	23%
EBIT margin	13%	14%		17%		14%	12%	
Pretax margin	12%	14%		17%		14%	12%	
Core net profit margin	10%	11%		9%		11%	8%	
Effective tax rate	22%	17%		35%		20%	27%	

\* Adjusted for 1-1 bonus issue

Source: Company, Kenanga Research

Segmental Breakdown/Trends

	4Q	3Q	QoQ	4Q	YoY			YoY-Ytd
Y/E : July (RM mn)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Turnover</b>								
Manufacturing	372.7	382.8	-3%	319.9	16%	1549.5	1286.0	20%
Property	188.4	161.1	17%	132.6	42%	651.5	515.7	26%
<b>Group Turnover</b>	<b>561.1</b>	<b>543.9</b>	<b>3%</b>	<b>452.5</b>	<b>24%</b>	<b>2201.0</b>	<b>1801.7</b>	<b>22%</b>
<b>Segment Results</b>								
Manufacturing	15.9	32.1	-50%	24.7	-36%	124.7	76.8	62%
Property	58.2	45.7	27%	61.6	-6%	187.8	175.4	7%
Foreign exchange differences	0.6	1.1	-49%	(9.2)	-106%	(4.2)	(27.2)	-84%
<b>Group EBIT</b>	<b>74.6</b>	<b>78.9</b>	<b>-5%</b>	<b>77.1</b>	<b>-3%</b>	<b>308.3</b>	<b>225.0</b>	<b>37%</b>
<b>EBIT Margin</b>								
Manufacturing	4%	8%		8%		8%	6%	
Property	31%	28%		46%		29%	34%	
<b>Group PBT Margin</b>	<b>13%</b>	<b>15%</b>		<b>17%</b>		<b>14%</b>	<b>12%</b>	

Source: Company, Kenanga Research

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Peer Comparison												
Company	Price (RM)	Mkt Cap (RM'm)	PER			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target	Rating
			CY15	CY16	CY17				CY16	CY17		
<b>Core Coverage</b>												
Scientex	6.30	2,903.9	10.9	9.2	14.4	3.0	18.3	2.8	39.9	17.9	7.57	OUTPERFORM
SLP	2.44	603.5	23.2	20.5	16.9	1.9	22.8	5.3	13.2	21.6	3.11	OUTPERFORM
Thong Guan	4.17	439.0	12.7	8.5	7.8	2.0	8.9	1.1	48.8	10.3	4.49	MARKET PERFORM
<b>Simple Average</b>			<b>15.6</b>	<b>12.8</b>	<b>13.0</b>							
<b>Weighted Average</b>			<b>13.0</b>	<b>10.9</b>	<b>14.1</b>							
<b>Non-Core Coverage</b>												
Daibochi	2.24	608.8	22.8	22.8	20.3	2.9	14.7	3.4	-0.1	12.5	NOT RATED	NOT RATED
SCGM	3.23	426.4	22.9	18.5	16.2	3.7	15.6	4.3	23.5	14.5	NOT RATED	NOT RATED
<b>Simple Average</b>			<b>22.8</b>	<b>20.7</b>	<b>18.2</b>							
<b>Weighted Average</b>			<b>22.8</b>	<b>21.0</b>	<b>18.6</b>							

Source: Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
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