

27 September 2016

Consumer Non-cyclical | Packaging

Scientex

Buy (Maintained)

Expect a Thumping FY17

Target Price: MYR7.83
 Price: MYR6.30
 Market Cap: USD703m
 Bloomberg Ticker: SCI MK

We attended Scientex's results briefing at its newly constructed BOPP plant in Pulau Indah yesterday. We came away feeling convinced about Scientex's FY17 earnings outlook, which would be buoyed by contribution from the new packaging capacities which came on-stream in 2H16. Market opportunities for its BOPP films look promising. Maintain BUY with a higher TP of MYR7.83 (from MYR7.27, 24% upside).

Much in store. Scientex's highly anticipated BOPP film plant, which would raise capacity ten-fold to 60,000 tonnes, come into operation in September. The new plant was part of a strategic alliance with Futamura to employ advanced Japanese film-manufacturing technology to produce high-quality BOPP films. As we understand, the BOPP film supply landscape in Malaysia presents promising market potential for Scientex, as the bulk of local demand for BOPP film is currently imported. Secondly, its state-of-the-art BOPP facility would allow cost-efficiencies to ensure price competitiveness, while offering high quality films that local competition may lack (see Page 2).

Property division delivered despite soft market. Scientex's new property sales rose a solid 30.8% YoY to MYR794m in FY16 (Jul). Management has plans to launch projects worth about MYR700m in FY17, after achieving targeted launches of ~MYR650m in FY16.

Going forward, management plans to direct its focus on affordable housing below the MYR500,000/unit mark, where demand for housing remains resilient. Unbilled sales stood at MYR717.2m in FY16 (FY15: MYR584.9m) and would provide earnings visibility for the next few years.

4QFY16 (Jul) earnings: In line

(MYR m)	4QFY16	3QFY16	QoQ(%)	4QFY15	YoY(%)	Comments
Revenue	561	544	3.2	452	24.0	Higher YoY due to contribution from SGW Ipoh and stronger orders
EBITDA	88	91	(3.4)	89	(0.3)	
EBITDA (%)	15.7	16.8		19.6		
EBIT	74	78	(4.8)	77	(3.9)	
EBIT (%)	13.2	14.3		17.0		Slight blip due to higher operating cost from new plant start-up.
Core NI	57	60	(6.0)	45	24.3	In line, at 101%/99% of our/consensus forecasts
Core NI (%)	10.1	11.1		10.1		

Source: Company data, RHB

Maintain BUY. We keep our FY17-FY18F earnings relatively unchanged and introduce our FY19 projection. We raise our SOP-derived TP to MYR7.83, after incorporating our latest house view on DCF assumptions. We value our manufacturing segment using DCF (7.9% WACC, 0.5% TG) and property segment based on an unchanged 40% discount to RNAV. Maintain BUY on attractive valuations and exciting growth plans in its manufacturing segment.

Forecasts and Valuations	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Total turnover (MYRm)	1,802	2,201	3,293	3,873	4,284
Reported net profit (MYRm)	158	242	328	395	441
Recurring net profit (MYRm)	158	242	328	395	441
Recurring net profit growth (%)	8.5	52.7	35.6	20.6	11.7
Recurring EPS (MYR)	0.35	0.53	0.71	0.86	0.96
DPS (MYR)	0.11	0.16	0.21	0.26	0.29
Recurring P/E (x)	18.2	12.0	8.8	7.3	6.6
P/B (x)	3.06	2.47	2.06	1.72	1.46
P/CF (x)	14.7	7.8	12.0	6.5	6.8
Dividend Yield (%)	1.7	2.6	3.4	4.1	4.6
EV/EBITDA (x)	11.0	8.9	6.4	5.0	4.3
Return on average equity (%)	19.1	22.8	25.4	25.6	24.0
Net debt to equity (%)	13.4	29.9	23.5	6.1	net cash
Our vs consensus EPS (adjusted) (%)			9.5	7.4	0.0

Source: Company data, RHB

Share Data

Avg Daily Turnover (MYR/USD)	1.73m/0.43m
52-wk Price low/high (MYR)	3.53 - 6.80
Free Float (%)	29
Shares outstanding (m)	461
Estimated Return	24%

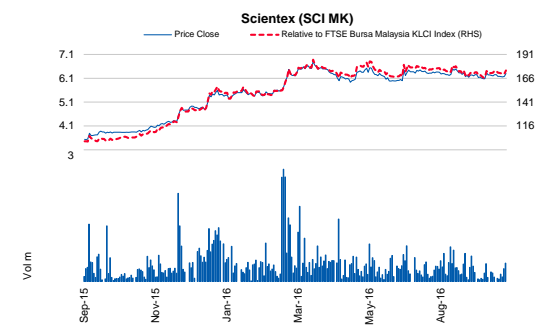
Shareholders (%)

Scientex Holdings Sdn Bhd	21.5
Scientex Leasing Sdn Bhd	10.1
Lim Teck Meng	8.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.2	1.0	4.8	1.3	78.7
Relative	30.6	1.8	2.6	3.3	75.3

Source: Bloomberg



Source: Bloomberg

Analyst

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BOPP plant takes off

In conjunction with its 4QFY16 (Jul) results release yesterday, Scientex management hosted a plant tour at its biaxially oriented polypropylene (BOPP) film plant which commenced operations in mid 2016. With the new production facility, Scientex is now the largest BOPP film producer in Malaysia. As part of Scientex's strategic alliance with Futamura Chemical Co., Ltd (Futamura), forged in 2014, the former's new BOPP plant would employ Futamura's state-of-the art manufacturing technology to produce high-quality films which adhere to stringent Japanese film standards.

Terms agreed in the alliance include that Futamura would be allowed to purchase up to one-third of total BOPP production capacity, or 18,000MT pa.

We think demand uptake for Scientex BOPP films looks promising for the following reasons:

- i. The bulk of supply catering to local demand is currently being imported. In this respect, Scientex's quicker delivery times compared to imported films is a market advantage;
- ii. Being the largest BOPP manufacturer in Malaysia, Scientex is able to offer more competitive pricing due to the benefit of scale. Based on our ground checks, Scientex's BOPP films are highly anticipated by some local converters due to the superior quality.

Besides catering to local and Futamura demand for BOPP films, management also has plans to export around one-third of BOPP production to South-East Asian markets.

Figure 1 : 4QFY16 results review

FYE July (MYRm)	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)	Comments
Revenue	452.5	543.9	561.1	3.2	24.0	1,801.7	2,201.0	22.2	See segmental breakdown in Figure 2
EBITDA	88.5	91.3	88.2	(3.4)	(0.3)	268.8	367.1	36.6	
Depreciation	(11.4)	(13.5)	(14.1)	4.9	23.9	(43.8)	(54.5)	24.4	
EBIT	77.1	77.8	74.1	(4.8)	(3.9)	225.0	312.6	38.9	
<i>EBIT Margin (%)</i>	<i>17.0</i>	<i>14.3</i>	<i>13.2</i>			<i>12.5</i>	<i>14.2</i>		
Interest expense	(2.3)	(3.1)	(4.9)	59.0	nm	(8.3)	(13.7)	65.6	
Interest income	2.2	1.0	0.7	(30.8)	(67.4)	4.2	7.442	nm	
Associates	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
El/Others	3.4	1.1	(2.4)	(318.6)	nm	(5.4)	(7.2)	32.8	
Pretax profit	77.0	75.8	69.908	(7.8)	(9.2)	221.0	306.3	38.6	
<i>Pretax Margin (%)</i>	<i>17.0</i>	<i>13.9</i>	<i>12.5</i>			<i>12.3</i>	<i>13.9</i>		
Tax	(27.2)	(13.2)	(15.4)	16.8	(43.4)	(58.9)	(59.8)	1.5	
<i>Effective tax rate (%)</i>	<i>35.3</i>	<i>17.4</i>	<i>22.0</i>			<i>26.6</i>	<i>19.5</i>		Lower effective tax rate due to reinvestment allowance
Minority Interest	0.9	1.4	0.4	(71.2)	(57.4)	3.9	5.7	46.0	
Net Profit	48.9	61.3	54.1	(11.6)	10.7	158.2	240.9	52.3	At 101%/99% of our and consensus forecasts respectively
Core Profit	45.5	60.2	56.5	(6.0)	24.3	163.6	248.0	51.6	
<i>Net Margin (%)</i>	<i>10.1</i>	<i>11.1</i>	<i>10.1</i>			<i>9.1</i>	<i>11.3</i>		

Source: Company, RHB

Figure 2: Segmental breakdown

FYE July (MYRm) Revenue	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)	Comments
Manufacturing	319.9	382.8	372.7	-2.6%	16.5%	1,286.0	1,549.5	20.5%	Higher YoY due to: - MYR40.2m revenue contribution from SGW Ipoh and stronger orders for consumer packaging films. - Increase in overall consumer packaging sales tonnage (+34.3% YoY), though this is slightly offset by slight decline (-1.1% YoY) in industrial packaging sales tonnage
Property	132.6	161.1	188.4	16.9%	42.1%	515.7	651.5	26.3%	Higher YoY due to revenue recognition across all ongoing projects.
Total	452.5	543.9	561.1	3.2%	24.0%	1,801.7	2,201.0	22.2%	
EBIT									
Manufacturing	24.7	32.1	15.9	-50.4%	-35.5%	76.8	124.7	62.4%	
Property	61.6	45.7	58.2	27.2%	-5.6%	175.4	187.8	7.1%	
Total	86.3	77.8	74.1			252.2	312.6		
EBIT Margin									
Manufacturing	7.7%	8.4%	4.3%			6.0%	8.1%		- Weaker 4Q manufacturing margin YoY due to higher operating expenses from the newly-commenced BOPP plant. - Higher EBIT margin in FY16 due to higher operating leverage, better product and weaker MYR against USD
Property	46.5%	28.4%	30.9%			34.0%	28.8%		Stable margin of property division

Source: Company, RHB

Figure 3: SOP-derived TP

Manufacturing	DCF (WACC: 7.9%)	2,871.3
Property	RNAV (Discount of 40%)	729.1
Total Equity Value		3,600.4
No. of shares (m)		460.0
TP per share (MYR)		7.83

Source: RHB

Figure 4: Scientex's DCF-derived valuation for manufacturing segment

(MYRm)	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
Free cash flow to firm (FCFF)	132.5	156.6	197.1	223.0	224.3	231.8	241.4	243.5	258.9	288.1
PV of FCFF	122.8	134.5	156.9	164.4	153.3	146.8	141.6	132.4	130.5	134.6
Sum of PV of FCFF	1,417.7									
Terminal Value	3,907									
PV of Terminal Value	1,825									
Firm value	3,242.3									
Net debt (4QFY16)	(371)									
Equity Value	2,871.3									

WACC computation

Risk free rate	3.6%
Market risk premium	6.0%
Beta	1
Cost of Equity	9.5%
Cost of debt (after-tax)	3.8%
WACC	7.9%

Source: RHB

Figure 5: Scientex's peer comparison

Company	Bloomberg Ticker	Rec	TP	Price	Mkt Cap (MYRm)	P/E (x)		P/BV(x)		DY (%)		ROE (%)	
						2016	2017F	2016	2017F	2016	2017F	2016	2017F
Thong Guan Industries	TGI MK	Buy	5.27	4.17	439.0	8.1	7.0	1.0	0.9	4.3	5.0	13.2	14.1
BP Plastics	BPP MK	NR	NR	1.59	298.0	13.3	n.a.	1.9	1.9	4.5	5.5	13.8	6.5
Daibochi	DPP MK	Sell	1.6	2.24	608.8	23.0	22.0	3.2	3.0	2.6	2.9	14.3	14.7
Average					368.5	14.8	14.5	2.0	1.9	3.8	4.5	13.8	11.8

Note: Data as of 26 Sep

Source: Bloomberg, RHB

Financial Exhibits

Financial model updated on : 2016-09-27.

Asia
 Malaysia
 Consumer Non-cyclical
Scientex
 Bloomberg SCI MK
 Buy

Valuation basis

Sum-of-parts: DCF valuation for its manufacturing segment, and 40% discount to RNAV for its property division

Key drivers

- Ongoing capacity expansion of its plastic segment;
- Venture into new film products that bear exciting market opportunities locally

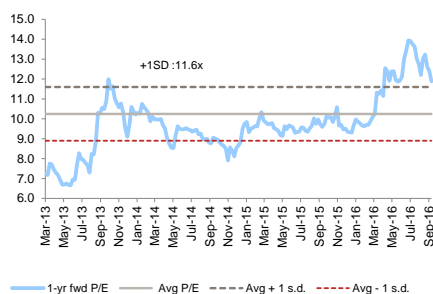
Key risks

- Weak consumer spending;
- Soft property market

Company Profile

Scientex is a manufacturer of industrial packaging with manufacturing facilities in Malaysia and Vietnam. It also has a property development arm with projects concentrated in Malaysia's southern region.

Scientex's historical forward P/E band



Financial summary	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Recurring EPS (MYR)	0.35	0.53	0.71	0.86	0.96
EPS (MYR)	0.35	0.53	0.71	0.86	0.96
DPS (MYR)	0.11	0.16	0.21	0.26	0.29
BVPS (MYR)	2.06	2.55	3.05	3.65	4.33
Weighted avg adjusted shares (m)	458	460	460	460	460

Valuation metrics	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Recurring P/E (x)	18.2	12.0	8.8	7.3	6.6
P/E (x)	18.2	12.0	8.8	7.3	6.6
P/B (x)	3.06	2.47	2.06	1.72	1.46
FCF Yield (%)	3.4	3.1	4.9	12.9	12.3
Dividend Yield (%)	1.7	2.6	3.4	4.1	4.6
EV/EBITDA (x)	11.0	8.9	6.4	5.0	4.3
EV/EBIT (x)	13.4	10.4	7.3	5.6	4.8

Income statement (MYRm)	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Total turnover	1,802	2,201	3,293	3,873	4,284
Gross profit	388	474	722	838	915
EBITDA	275	365	505	599	649
Depreciation and amortisation	(50)	(52)	(64)	(69)	(73)
Operating profit	225	313	441	530	576
Net interest	(8)	(14)	(19)	(17)	(3)
Income from associates & JVs	4	7	4	5	5
Pre-tax profit	221	306	426	517	577
Taxation	(59)	(60)	(92)	(114)	(127)
Minority interests	(4)	(5)	(7)	(8)	(9)
Recurring net profit	158	242	328	395	441

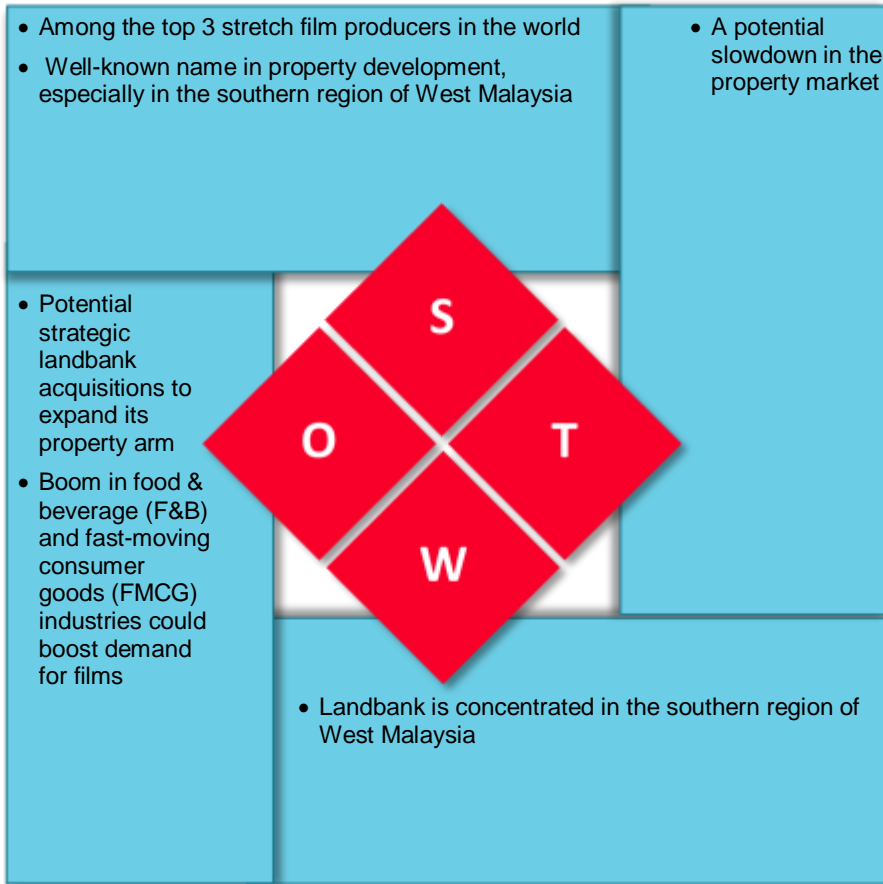
Cash flow (MYRm)	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Change in working capital	(34)	70	(172)	(41)	(95)
Cash flow from operations	197	370	242	445	427
Capex	(100)	(281)	(100)	(70)	(70)
Cash flow from investing activities	(37)	(561)	(100)	(70)	(70)
Dividends paid	(48)	(53)	(98)	(119)	(132)
Cash flow from financing activities	(146)	190	(97)	(96)	(86)
Cash at beginning of period	84	91	101	146	424
Net change in cash	14	(0)	45	279	271
Ending balance cash	98	90	146	424	696

Balance sheet (MYRm)	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Total cash and equivalents	91	101	146	424	701
Tangible fixed assets	911	1,400	1,436	1,436	1,433
Total investments	66	90	94	99	99
Total assets	1,638	2,253	2,629	3,050	3,487
Short-term debt	150	233	246	266	291
Total long-term debt	76	239	246	266	291
Other liabilities	19	24	24	24	24
Total liabilities	633	1,011	1,151	1,288	1,407
Shareholders' equity	942	1,175	1,404	1,681	1,990
Minority interests	63	66	73	81	90
Total equity	1,005	1,242	1,478	1,762	2,080
Net debt	135	371	347	108	(118)
Total liabilities & equity	1,638	2,253	2,629	3,050	3,487

Key metrics	Jul-15	Jul-16	Jul-17F	Jul-18F	Jul-19F
Revenue growth (%)	13.3	22.2	49.6	17.6	10.6
Recurrent EPS growth (%)	(47.6)	52.1	35.6	20.6	11.7
Gross margin (%)	21.5	21.5	21.9	21.6	21.3
Operating EBITDA margin (%)	15.3	16.6	15.3	15.5	15.1
Net profit margin (%)	8.8	11.0	9.9	10.2	10.3
Dividend payout ratio (%)	31.4	30.6	30.0	30.0	30.0
Capex/sales (%)	5.6	12.8	3.0	1.8	1.6
Interest cover (x)	27.3	22.9	23.7	30.5	177.2

Source: Company data, RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-03-23	Buy	14.5	6.3
2016-03-18	Buy	13.1	6.0
2015-12-18	Buy	10.7	4.8
2015-09-30	Buy	8.3	3.6
2015-08-06	Buy	8.8	3.8
2015-06-30	Buy	7.9	3.4
2015-03-24	Buy	8.2	3.3
2014-12-18	Buy	8.6	3.5
2014-09-25	Buy	8.6	3.5
2014-08-10	Buy	7.2	3.0

Note: History was not adjusted for 1-for-1 bonus issue (ex date: 10 Aug 2016)

Source: RHB, Bloomberg

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