

PP14767/04/2012(029)

Tuesday, September 27, 2016

## Scientex Berhad

### “Unstoppable Growth Amid Challenging Times”

#### Results Review

- Actual vs. expectations.** Scientex Berhad (Scientex) saw its revenue surpassing RM2 billion mark in FY16 to RM2.2 billion (+22% y-o-y), seventh consecutive year of advancement since 2010. 12M16 net profit came in line with our expectations of RM247 million (+71% y-o-y), making up 106% of our FY16 full year earnings forecast. The bottom line soared 52% y-o-y from RM162 million in FY15, driven by both manufacturing and property divisions which EBIT jumped 62.2% and 7.1% to RM124.7 million and RM187.8 million respectively.
- Dividend.** The Board announced its final dividend payout of 10 sen during the quarter, making up 22 sen total payout for FY16. Of note, the group completed its one-for-one bonus issue on 15 August 2016, enlarging its outstanding share to 460 million.
- 4Q FY16.** Scientex recorded RM561.1 million sales turnover (+3% q-o-q; +24% y-o-y) during the quarter, evenly boosted by manufacturing and property arms that brought in additional revenue of RM52.8 million and RM55.8 million, respectively. Sales in consumer packaging surged to RM187.6 million (+42% y-o-y) backed by expanded clientele base as well as RM40.2 million new contribution from SGW Ipoh. On the other hand, strong take-up rates and new property sales in Johor and Melaka also pushed property division's revenue to RM188.4 million (+42.1% y-o-y). Notwithstanding that, EBIT

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#### BUY (TP: RM8.33)

Current Price (RM)	RM6.30
New Target Price (RM)	RM8.33
Previous Target Price (RM)	RM7.50
Previous Recommendation	HOLD
Upside/(Downside) To Target	32%
Dividend Yield	2%

#### Stock Code

Bloomberg	SCI MK
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#### Stock Information

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	460.9
Market Cap (RM mn)	2,903.9
YTD Chg in Share Price	29.2%
Beta (x)	0.58
52-week Hi/Lo (RM)	6.80   3.52
6M Average Volume (shrs)	0.37mn
Estimated Free Float	29%

#### Major Shareholders

Scientex Holdings SdnBhd	21%
Scientex Leasing SdnBhd	10%
Lim Teck Meng SdnBhd	8%

slid marginally to RM74.1million (-5% q-o-q; -4% y-o-y) due to lower product margins and slower property sales.

- Consumer packaging plays a dominating role.** In terms of sales contribution, consumer packaging has surpassed industrial packaging in 4Q16 after registering RM187.6 million in sales (+42% y-o-y), versus the latter's RM185.2 million (-1.4% y-o-y). The sales weightage of industrial packaging also plunged from 60% in FY15 to 52% in FY16 while the remaining 48% was filled by higher margins consumer packaging business. With more contribution from the new CPP, BOPP and PE production lines in 2017 onwards, the consumer packaging segment will overtake its industrial packaging, becoming the key earnings driver in manufacturing arm. Segment margins will be lifted as well due to more customization and complex manufacturing process in consumer packaging compared to industrial film making.
- Property division.** In line with other prominent property players, Scientex has scaled back the number of new property launches in FY16 to 12 (GDV: RM657.8 million) compared to 14 (RM667.4 million) in FY15 amid the slowdown in property industry. The group stayed put on its strategy at focussing on affordable residential properties. In 4Q16, Scientex launched 341 units of 2-storey terrace houses worth RM129 million GDV, on part of its newly acquired 326 acres land in Pulai.

Unbilled sales rose from RM584.9 million to RM717.2 million (+22.6% y-o-y) in FY16. That said, we are confident on steady contribution from property segment over the next 2-3 years as the unbilled sales will be recognized progressively in stages.

- Outlook.** The strong outperformance in consumer packaging was only reflecting part of the outcome of Scientex's expansion plan. The new CPP plant (12,000 MTpa) has already been put in commercial run in January 2016 and is currently conducting trial runs with other potential customers. Full contribution from the CPP plant is expected in 2017. Whereas the state-of-art BOPP film manufacturing plant (60,000 MTpa) has just started commercial run in September 2016 and we shall see full contribution in FY17-18 after the trial runs and other line commissioning. After spending RM71 million Capex on both Rawang and SGW Ipoh plants, the production of PE film manufacturing will also triple to 84,000 MTpa in 2017 from merely 24,000 MTpa in 2014. On the back of these aggressive plans, we expect consumer packaging division alone would continue its double-digit growth and contribute more than RM1 billion sales in FY17 compared to RM745.8 million as at 12M16.

On the property segment, the group is expected to focus on building affordable properties while scaling back high-end residential products to match market demand. The management will continue to develop more affordable homes in Pulai after witnessing strong take-ups of its two maiden launches. This is due to the construction of a new link road by the Government to Gelang Patah as well as a proposed Kangkar Pulai Interchange to the Second Link Expressway which will enhance the accessibility and connectivity in Pulai town.

- **Change to forecast.** We make no changes on the earnings estimates, maintaining our FY17-18 earnings forecast at RM361 million/RM378 million, translating into EPS of 78 sen /81 sen, respectively.
- **Valuation & recommendation.** We maintain our target price of RM8.33 based on SOTP valuation with an unchanged **BUY** call on Scientex. Using the SOTP, we assign 14.6x P/E for the manufacturing segment, which is the average P/E of selected industry peers shown in Fig 2. On the property segment, we pegged the group's earnings to 5.0x P/E which is in line with small-cap property stocks listed on Bursa. Re-rating catalysts include i) weaker USD against Ringgit as the export sales from industrial and consumer packaging make up 90% and 53%, respectively of the segment sales; ii) rebound in crude oil prices that drive cost of production higher as resin price rises; iii) fall in factory output which could suppress the demand of industrial packaging

Fig 1: SOTP valuation

SOTP Valuation	FY17 Net Profit (RM'm)	PE (x)	Fair Value (RM'm)
Manufacturing segment	242.8	14.6	3,545
Property segment	125.7	5.0	629
SOP value	-		4,174
Net debt	-		(344)
Equity value	-		3,830
Outstanding share (million)	-		460
Target price after bonus issue (RM)	-		8.33

Source: M&amp;A Securities

Fig 2: Peers comparison

Company	FYE	Price (RM)	EPS (sen)		P/E (x)		P/B (x)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
SCIENTEX	JUL	6.30	67	70	8	10	2	2	19	3		BUY
DAIBOCHI	DEC	2.24	9	10	20	23	3	3	15	2	NA	NA
TOMYPAK	DEC	1.64	6	17	17	13	1	2	20	4	NA	NA
THONG GUAN	DEC	4.17	17	37	11	9	1	1	11	3	NA	NA
BP PLASTICS	DEC	1.59	6	12	14	15	1	2	14	3	NA	NA
SLP RESOURCES	DEC	2.44	5	11	12	17	2	4	26	2	NA	NA
Average			18	26	14	14	1	2	17	3		

Source: Bloomberg, M&amp;A Securities

Fig 3: Financial Forecast

FYE JULY (RM million)	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	1,590	1,802	2,201	3,255	3,430
EBITDA	229	269	367	541	572
EBIT	190	225	313	479	508
Interest expense	(7)	(8)	(14)	(17)	(15)
PBT	186	221	306	466	497
Tax	(35)	(59)	(60)	(106)	(119)
PAT	152	162	247	361	378
MI	(3)	(4)	(6)	(4)	(4)
PATMI	148	158	241	357	374
EPS	67	70	106	78	81
EBITDA margin	14%	15%	17%	17%	17%
EBIT margin	12%	12%	14%	15%	15%
PBT margin	12%	12%	14%	14%	15%
Net profit margin	10%	9%	11%	11%	11%

Source: M&amp;A Securities

Fig 4: Results Analysis

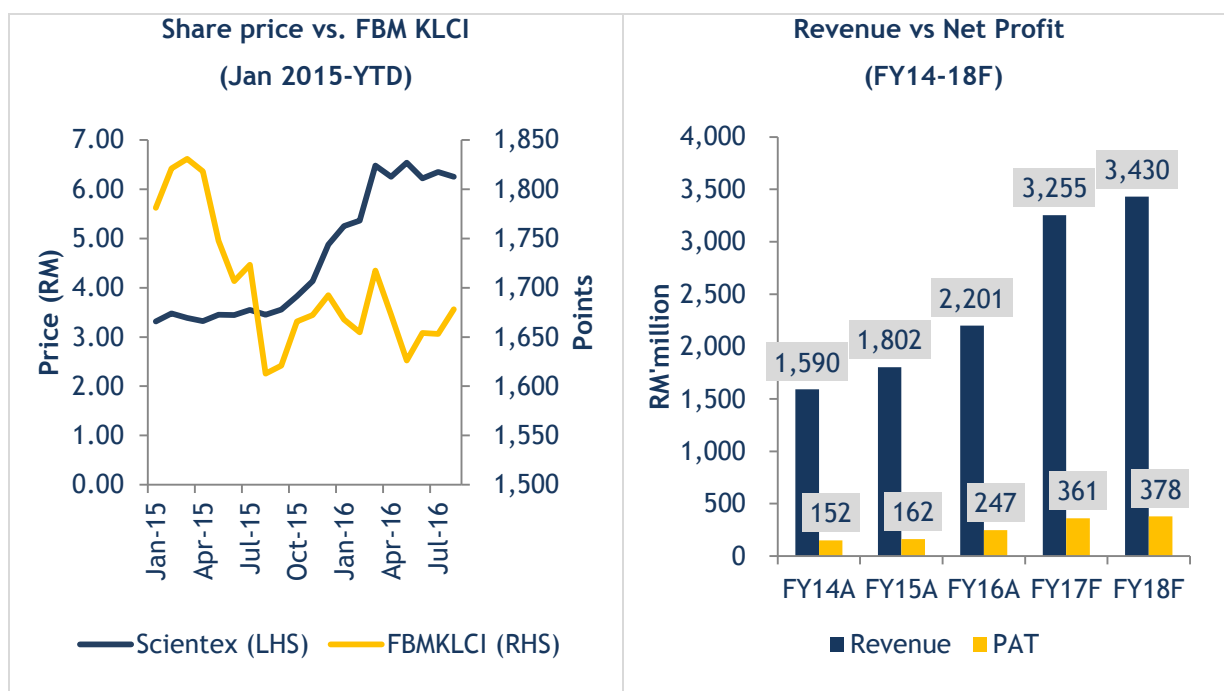
FYE JULY (RM million)	4Q16	3Q16	4Q15	Q-o-Q	Y-o-Y	12M16	12M15	Y-o-Y
Revenue	561	544	452	3%	24%	2,201	1,802	22%
EBITDA	88	91	89	-3%	0%	367	269	37%
D&A	14	13	11	5%	24%	55	44	24%
EBIT	74	78	77	-5%	-4%	55	44	24%
Interest expense	(5)	(3)	(2)	59%	113%	(14)	(8)	66%
PBT	70	76	77	-8%	-9%	306	221	39%
Tax	(15)	(13)	(27)	17%	-43%	(60)	(59)	2%
PAT	55	63	50	-13%	9%	247	162	52%
MI	(0)	(1)	(1)	-71%	-57%	(6)	(4)	46%
PATMI	54	61	49	-12%	11%	241	158	52%
EPS (sen)	24	27	22	-12%	9%	106	70.0	51%
EBITDA margin	16%	17%	20%	-1%	-4%	17%	15%	2%
EBIT margin	13%	14%	17%	-1%	-4%	2%	2%	0%
PBT margin	12%	14%	17%	-1%	-5%	14%	12%	2%
Net profit margin	10%	12%	11%	-2%	-1%	11%	9%	2%

Source: M&amp;A Securities

Fig 5: Segmental Results

	12M16	12M15	Y-o-Y
<b>Revenue</b>			
Manufacturing	RM1,549.5 mn	RM1,286.0 mn	+21%
Property	RM651.5 mn	RM515.7 mn	+26%
<b>EBITDA</b>			
Manufacturing	RM176.9 mn	RM91.5 mn	+93%
Property	RM190.2 mn	RM164.7 mn	+16%

Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +15\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -15\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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