Scientex Bhd

Better Quarters Ahead

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OUTPERFORM ↔

Price: RM6.91
Target Price: RM7.57 ↔

Scientex Berhad (SCIENTX)'s 1Q17 CNP at RM52m came in at 16% and 18% of consensus and our forecasts, respectively. We deem this broadly as within expectation as we are expecting stronger contribution from its new BOPP plant in coming quarters. No dividend was declared, as expected. As we expect no change in earnings our OUTPERFORM call and TP of RM7.57 are maintained.

1Q17 broadly within. 1Q17 CNP at RM52m came in at 16% of consensus' RM318m forecast and 18% of our RM292m forecast. We deem this as broadly within, as we expect the newly commissioned BOPP plant to ramp up its utilization over the next few months which should lead to revenue and margin improvement going forward. No dividend was announced, as expected.

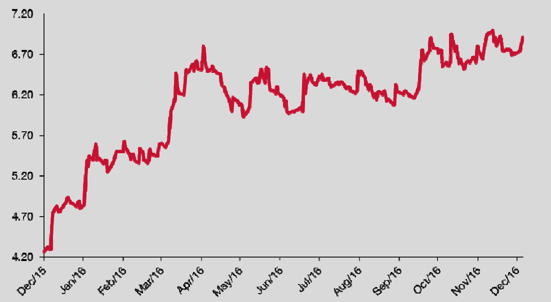
Temporary setbacks. YoY, 1Q17 CNP declined 19% largely on weaker Manufacturing EBIT (-37%) as margins slipped to 6% (from 10%) on the commencement of new consumer product plants, as well as management's strategy to gain market share via price competition. Industrial packaging revenue also softened by 7% due to slower orders, in line with the weaker export market. Meanwhile, Property earnings were slightly lower (-5%) on launch timing and different affordable product mix. **QoQ,** 1Q17 CNP softened 8% mainly on lower Property earnings (-22%) due to lower launches, but this was partly offset by Manufacturing improvement (+49%) on the gradual ramp-up of its new plant.

Expect pick-up in coming quarters. We believe the continued ramp-up of the BOPP plant as well as expansion in the Rawang (+25% to 60k metric tons (MT)/year) and Ipoh (+43% to 24k MT/year) plants should contribute to a stronger 2H, while long-term growth should be sustained by its new venture into the United States (due 2H18). We are long-term positive on this project as it will allow the company to penetrate into a new market outside its existing major exposure to the Japanese market. Furthermore, we expect to see cost savings in its new plant from the anticipated ample supply of shale gas-based resin, as well as lower distribution costs in the American market. We also note that the recent sharp appreciation of the USD could provide potential upside to exporters, including SCIENTX and other plastic segment peers, as exports are largely denominated in USD across the sector. Meanwhile, on the Property side, management noted that its Pulai project contribution should start in subsequent quarters, with sustained sales in the medium-term.

No change to our FY17-18E CNP of RM292-345m as we expect earnings improvement in the coming quarters.

Maintain OUTPERFORM and TP of RM7.57 based on Sum-of-Parts pegged to CY17E earnings. For the Manufacturing segment, we maintain an applied PER of 17.6x, while for the Property segment, we apply a PER of 4.0x which is in line with small-mid-cap property players during this slow market environment. Potential risks to our call include lower-than-expected crude oil prices or weaker Property sales. Nevertheless, we reiterate our OUTPERFORM call as we expect continued ramp-up of new facilities, better product mix and stronger USD to benefit margins in the coming quarters.

Share Price Performance



KLCI	1,636.99
YTD KLCI chg	-3.3%
YTD stock price chg	41.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,203.2
Issued shares	463.6
52-week range (H)	7.08
52-week range (L)	4.27
3-mth avg daily vol:	292,656
Free Float	60%
Beta	0.5

Major Shareholders

SCIENTEX HOLDINGS SD	21.4%
SCIENTEX LEASING SDN	10.0%
LIM TECK MENG SDN BH	8.1%

Summary Earnings Table

FY Jul (RM'm)	2015A	2016E	2017E
Turnover	2201.0	2945.4	3280.7
EBIT	312.6	373.6	438.7
PBT	306.3	374.3	441.9
Net Profit (NP)	**240.9**	**292.0**	**344.9**
Core NP	**248.0**	**292.0**	**344.9**
Consensus (NP)	n.a.	317.6	369.8
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	27.0	63.5	75.0
EPS growth (%)	-21.6	17.8	18.1
NDPS (sen)	22.0	19.0	22.5
BV/Share (RM)	2.55	3.19	3.82
NTA/Share (RM)	2.55	3.19	3.82
Core PER	25.2	10.9	9.2
Price/BV (x)	2.7	2.2	1.8
P/NTA (x)	2.7	2.2	1.8
Net Gearing (x)	0.32	0.22	0.06
Net Div. Yield (%)	3.2	2.8	3.3

** Our 1Q17 CNP excludes one-offs such as forex loss (RM0.2m), receivables writeback (RM0.2m) and provision for inventories (<RM0.1m).*

Result Highlight

Y/E : July (RM mn)	1Q FY17	4Q FY16	Q-o-Q Chg	1Q FY16	Y-o-Y Chg
Turnover	534.7	561.1	-5%	550.6	-3%
EBIT	68.8	74.1	-7%	82.1	-16%
Interest income	1.0	0.7	48%	1.8	-42%
Finance costs	(3.5)	(4.9)	-29%	(3.1)	12%
Associates	0.0	0.0	N.M.	0.0	N.M.
Pretax profit	66.4	69.9	-5%	80.8	-18%
Taxation	(13.4)	(15.4)	-13%	(18.0)	-26%
Profit after tax	53.0	54.5	-3%	62.8	-16%
Minority interest	(0.9)	(0.4)	135%	(1.9)	-51%
Net profit	52.1	54.1	-4%	60.9	-14%
Core net profit	52.2	56.5	-8%	64.3	-19%
Core EPS (sen)	11.3	12.3	-8%	14.0	-19%
NDPS (sen)	0.0	10.0	N.M.	0.0	N.M.
NTA/share (RM)	2.2	2.6	-14%	2.2	0%
EBIT margin	13%	13%		15%	
Pretax margin	12%	12%		15%	
Core net profit margin	10%	10%		12%	
Effective tax rate	20%	22%		22%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : July (RM mn)	1Q FY16	4Q FY16	Q-o-Q Chg	1Q FY15	Y-o-Y Chg
Turnover					
Manufacturing	379.7	372.7	2%	392.0	-3%
Property	155.0	188.4	-18%	158.6	-2%
Group Turnover	**534.7**	**561.1**	**-5%**	**550.6**	**-3%**
Segment Results					
Manufacturing	23.8	15.9	49%	38.0	-37%
Property	45.1	58.2	-22%	47.5	-5%
Foreign exchange differences	0.2	0.6	-62%	(3.5)	-106%
Group EBIT	69.0	74.6	-8%	82.1	**-16%**
EBIT Margin					
Manufacturing	6%	4%		10%	
Property	29%	31%		30%	
Group PBT Margin	**13%**	**13%**		**15%**	

Source: Company, Kenanga Research

Peer Comparison

NAME	Price (15/12/16)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	Y15/16	Y16/17	Y17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	6.91	3,203.2	12.8	10.9	9.2	2.8%	20.4	1.0	248.0	292.2	344.9	17.8%	18.0%	7.57	OUTPERFORM
THONG GUAN INDUSTRIES	4.44	522.2	23.7	15.9	14.4	3.3%	9.8	3.5	34.5	51.4	56.6	48.8%	10.2%	4.49	OUTPERFORM
SLP RESOURCES BHD	2.22	549.1	21.1	18.7	15.4	3.5%	23.9	2.1	26.0	29.4	35.7	13.2%	21.6%	3.11	OUTPERFORM
SCGM BHD	3.37	444.8	22.0	21.1	16.2	3.0%	18.20	2.9	20.2	23.2	30.1	14.9%	29.8%	3.81	OUTPERFORM
Simple Average			**19.9**	**16.6**	**13.8**										
Weighted Average			**17.5**	**14.7**	**12.3**										

Source: Bloomberg, Kenanga Research

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 tothe 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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