



## Scientex Berhad

### Earnings Picking Up

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**TP: RM8.50 (+17.2%)**

Last Traded: RM7.25

**BUY**

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#### Review

- Scientex Berhad's 1HFY17 adjusted net profit came in at RM116.1mn (-11.9% YoY) after excluding exceptional items of RM0.6mn. This was at 34% of our full-year forecast and 38% of the consensus estimates. We consider the results within expectation as the second BOPP line had started the commercial run in Dec-16 and production is expected to continue ramping up from the current utilisation rate of 35%.
- Manufacturing:** Revenue in 1HFY17 reduced by 0.3% to RM791.6mn on the back of weaker Asia Pacific market activity, which led to lower exports for the industrial packaging segment. Operating profit for 1HFY17 declined by 29.6% to RM54.0mn because of lower product margin from the penetrative pricing strategy. Whereas 2QFY17 experienced higher revenue by 2.5% YoY and 8.5% QoQ due to stronger exports and higher contribution from the consumer packaging segment. Operating profit for this quarter improved by 27.2% QoQ due to stronger product margin.
- Property:** 1HFY17 revenue improved by 9.0% to RM329.4mn as the development projects were seeing stable sales and construction progress. This has translated to better operating profit, which increased by 16.1% YoY. 2QFY17 operating profit also increased to RM52.3mn (+16.1% QoQ, +43.8% YoY) in line with the improvement in revenue (+12.5% QoQ, +21.5% YoY). Note that unbilled sales stood at RM600.0mn as of Jan-17 to be recognized over the next two to three years.
- No dividend was proposed for this quarter.

#### Impact

- No change to our earnings forecast.

#### Outlook

- We are positive on the prospects of the manufacturing division due to i) continuing operational efficiencies, ii) industrial packaging segment is expanding presence in existing and new markets, iii) capacity expansion for consumer packaging segment and iii) continuing efforts by Scientex to ramp up sales.
- The property division is also showing signs of resiliency especially from those affordable homes projects. Note that Scientex has launched its property developments in Ipoh with potential GDV of RM745.0mn (Meru and Klebang projects).

#### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	460.9
Market Cap (RMmn)	3,341.5
Par Value	0.5
52-wk Hi/Lo (RM)	7.61/5.75
12-mth Avg Daily Vol ('000 shrs)	331.1
Estimated Free Float (%)	33.0
Beta	0.5
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.4
Scientex Leasing Sdn Bhd	10.0
Lim Teck Meng Sdn Bhd	8.1
TM Lim Sdn Bhd	5.3

#### Forecast Revision

	FY17	FY18
Forecast Revision (%)	0.0	0.0
Core Net Profit (RMmn)	346.5	381.9
Consensus	307.8	350.3
TA's / Consensus (%)	112.6	109.0
Previous Rating	Buy (Maintained)	

#### Financial Indicators

	FY17	FY18
Net debt/ equity (%)	47.1	46.9
ROE (%)	23.1	21.4
ROA (%)	12.1	11.3
NTA/Share (RM)	2.2	2.7
Price/NTA (x)	3.3	2.7

#### Scorecard

	% of FY17	
vs TA	34	Within
vs Consensus	38	Within

#### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	2.1	2.4
3 mth	7.6	7.7
6 mth	17.7	4.7
12 mth	12.1	1.4

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



Source: Bloomberg

## Valuation

- FY17 earnings are expected to be back-end loaded as the new BOPP plant is expected to make its maiden contribution in 2HFY17. Target price is maintained at **RM8.50**/share based on SOP valuation. Maintain **Buy** on Scientex.

## 2QFY17 Results Analysis (RMmn)

FYE July (RM'mn)	2QFY16*	1QFY17*	2QFY17	QoQ (%)	YoY (%)	1HFY16*	1HFY17	YoY (%)
Revenue	545.4	534.7	586.2	9.6	7.5	1,096.0	1,120.9	2.3
~ Manufacturing	402.0	379.7	411.9	8.5	2.5	794.0	791.6	(0.3)
~ Property	143.4	155.0	174.3	12.5	21.5	302.0	329.4	9.0
Operating Profit	81.3	69.0	81.9	18.7	0.7	166.9	150.8	(9.6)
~ Manufacturing	38.7	23.8	30.2	27.2	(21.9)	76.7	54.0	(29.6)
~ Property	36.4	45.1	52.3	16.1	43.8	83.9	97.4	16.1
Interest Expense	(2.6)	(3.5)	(3.6)	4.9	39.5	(5.7)	(7.1)	24.7
Interest Income	3.9	1.0	2.9	178.2	(25.5)	5.7	4.0	(30.8)
Extra-ordinary Items	(2.7)	(0.1)	0.7	nm	nm	(6.3)	0.6	nm
Reported PBT	79.9	66.4	81.8	23.2	2.5	160.6	148.2	(7.7)
Adj. PBT	82.6	66.5	81.1	22.0	(1.7)	166.9	147.7	(11.5)
Taxation	(13.2)	(13.4)	(15.5)	15.5	17.5	(31.2)	(28.9)	(7.3)
MI	(2.0)	(0.9)	(1.1)	21.2	(44.5)	(3.9)	(2.1)	(47.7)
Reported Profit	64.6	52.1	65.2	25.2	0.9	125.5	117.2	(6.6)
Adj. Net Profit	67.3	52.3	63.8	22.0	(5.2)	131.8	116.1	(11.9)
EPS (sen)	14.3	11.3	14.1	24.5	(1.4)	27.8	25.4	(8.5)
Adj EPS (sen)	14.9	11.4	13.8	21.3	(7.4)	29.2	25.2	(13.7)
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>
EBIT Margin (%)	14.9	12.9	14.0	1.1	(0.9)	15.2	13.5	(1.8)
~ Manufacturing	9.6	6.3	7.3	1.1	(2.3)	9.7	6.8	(2.8)
~ Property	25.4	29.1	30.0	0.9	4.6	27.8	29.6	1.8
PBT Margin (%)	15.1	12.4	13.8	1.4	(1.3)	15.2	13.2	(2.1)
Net Margin (%)	12.3	9.8	10.9	1.1	(1.5)	12.0	10.4	(1.7)
Tax rate (%)	16.5	20.2	19.0	(1.3)	2.4	19.4	19.5	0.1

\*Restated

## Earnings Summary (RMmn)

FYE July (RMmn)	FY15	FY16	FY17E	FY18F	FY19F
Revenue	1,801.7	2,201.0	3,221.7	3,693.6	3,871.5
EBITDA	264.6	367.1	529.5	585.0	608.0
EBITDA margin	14.7	16.7	16.4	15.8	15.7
Reported pre-tax profit	221.0	306.3	441.0	486.1	507.0
Reported net profit	158.2	240.9	346.5	381.9	398.3
Core net profit	157.6	242.7	346.5	381.9	398.3
EPS (sen)	34.4	52.4	75.3	83.0	86.6
Core EPS (sen)	34.3	52.8	75.3	83.0	86.6
PE (x)	21.1	13.8	9.6	8.7	8.4
Adj. DPS (sen)	11.0	16.0	21.0	24.0	26.0
Div. yield (%)	1.5	2.2	2.4	3.0	3.4

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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