

25 April 2017

Scientex Berhad

Expansion Plans Progressing Well

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We met up with SCIENTX's management last week and came away feeling comforted as their expansion plans are well on track. As expected, the Group is focused on the expansion of its BOPP and PE plants, and longer term growth of stretch film plant in Arizona, US. All in, we maintain FY17-18E earnings. Downgrade to MARKET PERFORM (from OP) but increase TP to RM9.38 on a higher PE of 6.8x for our property segment.

PE plant expansion at Ipoh to be completed by end CY17. As part of expanding its consumer segment, SCIENTX is in the midst of completing capacity expansion at its PE plant in SGW Ipoh to 24,000MT p.a. by end CY17 (1HFY18), increasing total capacity for the PE segment to 84,000MT p.a. which is on track.

BOPP plant focused on ramping up capacity. The BOPP plants in Rawang and Pulau Indah currently have a total capacity of 60,000MT p.a. (as at Dec 2016) and will continue to see a ramp-up in capacity utilised going forward. The Pulau Indah plant which commenced operations in Sept 2016, is currently utilizing 35% of its capacity, while we believe up to 50% of capacity could be utilized by end CY17, with full utilisation within two years.

Growth from US expansion to accrete mostly in FY19. SCIENTX's venture into the United States was to penetrate a new stretch film market outside its existing major exposure (i.e. Japanese market), with cost savings from anticipated ample supply of shale gas-based resin, as well as lower distribution costs to the American market. We believe the plant will start operations in 2H18, targeting 30,000MT p.a. capacity, with accretion to earnings mostly by FY19. Based on our back of the envelope calculations, once the US plant is at full capacity by FY19-20, we believe it could contribute c.RM12-13m to the bottom-line.

Property segment focusing on affordable residential. As for the property segment, the Group has launched five new projects worth RM190m in 2Q17, which includes maiden launches in Ipoh, consisting mainly affordable properties. Unbilled sales of RM600m are expected to be recognized over the next 2-3 years, while a pipeline GDV of RM6b is expected to sustain for another 8-10 years.

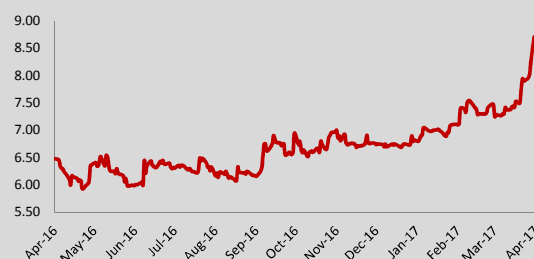
No change to earnings as expansion plans well on track. The Group expects its consumer packaging plant expansion to be completed by end-CY17, and will focus on ramping up capacity going forward, while the industrial packaging segment is focused on expansion in the US, contributions accreting mostly in FY19. All in, we expect total capacity to increase to 304-340k MT p.a. in FY17-18, while we expect sales tonnage to ramp up by c.18-29% YoY as plant utilisation increases throughout FY17-18. We believe the Group will allocate c. RM260-140m for capex in FY17-18, which we have accounted for in our estimates. **As such, we maintain FY17-18E earnings of RM292-347m.**

Downgrade to MARKET PERFORM (from OP) on a higher TP of RM9.38 (from RM8.36) based on our Sum-of-Parts FY18E valuations. For the Property segment, we apply a higher PER of 6.8x (from 4.0x), which is at a 10% discount to small-mid-cap property players due to as SCIENTX's exposure in Johor, and maintain an applied PER of 17.6x for the manufacturing segment. We downgrade our call to MARKET PERFORM (from OP) as most upsides have been priced in, while its share price has done well (+30% YTD).

MARKET PERFORM

Price: **RM8.71** ↓
Target Price: **RM9.38** ↑

Share Price Performance



KLCI	1,756.05
YTD KLCI chg	7.0%
YTD stock price chg	30.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,037.6
Issued shares	463.6
52-week range (H)	8.80
52-week range (L)	5.75
3-mth avg daily vol:	314,498
Free Float	60%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

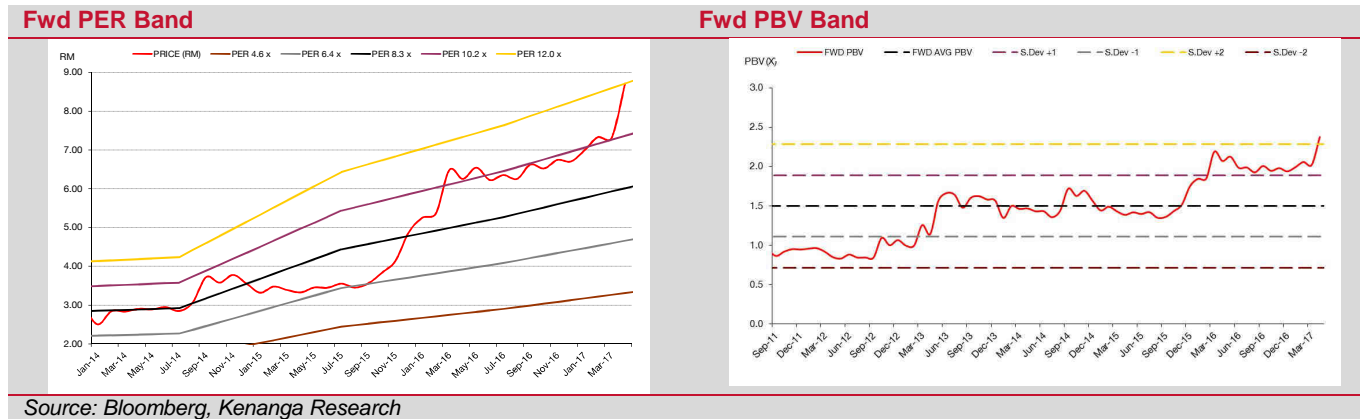
FY Jul (RM'm)	2016A	2017E	2018E
Turnover	2201.0	2969.6	3329.4
EBIT	312.6	376.2	441.7
PBT	306.3	374.7	444.9
Net Profit (NP)	240.9	292.3	347.3
Core NP*	248.0	292.3	347.3
Consensus (NP)	N.M.	300.3	352.0
Earnings Revision	N.M.	0%	0%
Core EPS (sen)	53.9	63.5	75.5
Core EPS growth (%)	66.2	17.9	18.8
NDPS (sen)	16.0	19.1	22.6
BV/Share (RM)	2.55	3.19	3.82
NTA/share (RM)	2.55	3.19	3.82
PER (x)	16.2	13.7	11.5
PBV (x)	3.4	2.7	2.3
P/NTA (x)	3.4	2.7	2.3
Net gearing (%)	0.32	0.31	0.13
Div. Yield (%)	1.8	2.2	2.6

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OTHER POINTS

Risks to our call include; (i) higher-than-expected resin cost, (ii) weaker product demand from overseas, (iii) weaker-than-expected property sales, (iv) foreign currency risk from strengthening Ringgit, and (iv) new entrants/competition biting into its market share.

Income Statement						Financial Data & Ratios					
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E	FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E
Revenue	1590.5	1801.7	2201.0	2969.6	3329.4	Growth (%)					
EBITDA	229.5	268.8	367.1	465.1	539.6	Turnover	29.4	13.3	22.2	34.9	12.1
Depreciation	-39.9	-43.8	-54.5	-88.9	-97.9	EBITDA	29.2	17.1	36.6	26.7	16.0
Operating Profit	189.6	225.0	312.6	376.2	441.7	Operating Profit	29.8	18.6	38.9	20.3	17.4
Interest Exp	-7.1	-8.3	-13.7	-13.1	-8.5	PBT	30.3	18.6	38.6	22.3	18.7
Associate	3.8	4.2	7.4	11.7	11.7	Net Profit	34.6	6.6	52.3	21.3	18.8
Exceptionals	0.0	9.0	-7.1	0.0	0.0	Core Net Profit	34.6	0.5	66.2	17.9	18.8
PBT	186.3	221.0	306.3	374.7	444.9	Profitability (%)					
Taxation	-34.8	-58.9	-59.8	-75.2	-89.1	EBITDA Margin	14.4	14.9	16.7	15.7	16.2
Minority Interest	-3.1	-3.9	-5.7	-7.2	-8.6	Operating Margin	11.9	12.5	14.2	12.7	13.3
Net Profit	148.5	158.2	240.9	292.3	347.3	PBT Margin	11.7	12.3	13.9	12.6	13.4
Core Net Profit	148.5	149.2	248.0	292.3	347.3	Net Margin	9.3	8.8	10.9	9.8	10.4
						Core Net Margin	9.3	8.3	11.3	9.8	10.4
Balance Sheet						Eff. Tax Rate	18.7	26.6	19.5	20.1	20.0
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E	ROA	11.1	10.4	12.5	10.9	11.8
Fixed Assets	551.8	642.8	952.5	1174.0	1256.1	ROE	22.1	19.1	23.9	22.1	21.5
Prepaid lease pmts	0.0	0.0	0.0	0.0	0.0	DuPont Analysis					
Other investments	9.6	24.1	25.0	24.1	24.1	Net Margin (%)	9.3	8.3	11.3	9.8	10.4
Other Fixed Assets	297.9	310.1	512.3	644.5	644.5	Assets T/O (x)	1.1	1.1	1.0	1.0	1.1
Inventories	109.0	112.0	137.0	205.9	229.3	Leverage Fac (x)	2.1	2.0	2.1	2.2	1.8
Receivables	243.5	321.7	350.7	505.0	566.1	ROE (%)	22.1	18.0	23.4	22.1	21.5
Ot. Current Asset	104.6	136.5	174.7	150.1	135.1	Leverage					
Cash	83.8	90.6	100.6	255.4	49.8	Debt/Asset (x)	0.2	0.1	0.2	0.2	0.1
Total Assets	1400.1	1637.8	2252.8	2959.0	2905.1	Debt/Equity (x)	0.5	0.2	0.4	0.5	0.2
Payables	272.1	328.6	458.8	564.1	629.7	Net					
ST Borrowings	262.9	149.9	232.7	412.8	177.2	Cash/(Debt)	-256.7	-134.8	-371.0	-450.0	-221.2
Other ST Liability	11.5	21.6	20.0	35.7	40.0	Net Debt/Eq (x)	0.4	0.1	0.3	0.3	0.1
LT Borrowings	77.5	75.5	238.9	292.7	93.8	Valuations					
Other LT Liability	40.9	57.4	60.7	82.1	89.8	EPS (sen)	32.3	32.4	53.9	63.5	75.5
Minority Interest	22.7	62.8	66.5	103.5	116.0	NDPS (sen)	21.0	22.0	16.0	19.1	22.6
Net Assets	712.4	942.0	1175.2	1468.2	1758.6	BV (RM)	1.55	2.05	2.55	3.19	3.82
Share Capital	115.0	115.0	115.0	115.0	115.0	NTA (RM)	1.55	2.05	2.55	3.19	3.82
Reserves	597.7	827.0	1060.2	1353.2	1643.6	PER	27.0	26.9	16.2	13.7	11.5
Shareholder Eq.	712.7	942.0	1175.2	1468.2	1758.6	Net Div.Yield	3.1	2.4	2.5	1.8	2.2
Cashflow Statement						PBV	5.6	4.3	3.4	2.7	2.3
FY Jul (RMm)	2014A	2015A	2016A	2017E	2018E	P/NTA	5.6	4.3	3.4	2.7	2.3
Operating CF	153.8	303.3	380.4	633.9	603.6	EV/EBITDA	18.6	15.4	10.8	9.6	7.8
Investing CF	-149.5	-170.0	-560.7	-280.0	-180.0						
Financing CF	-72.7	-132.9	190.2	65.4	-547.1						
Change In Cash	-68.4	0.4	10.0	419.3	-123.5						
Free CF	4.3	133.3	-180.3	353.9	423.6						



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Peer Comparison															
NAME	Price (21/4/17) (RM)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
			FY15/16	FY16/17	FY17/18				FY15/16	FY16/17	FY17/18				
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.71	4,037.6	16.2	13.7	11.5	2.2%	20.4	2.7	248.0	292.3	347.3	17.8%	18.8%	9.38	MARKET PERFORM
SLP RESOURCES BHD	2.70	667.8	22.8	18.3	13.8	2.2%	23.9	4.4	29.3	36.6	48.5	25.0%	32.5%	3.18	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.46	549.4	15.3	13.7	12.0	3.1%	12.4	1.9	53.6	60.0	68.2	11.9%	13.7%	4.76	MARKET PERFORM
SCGM BHD	4.04	586.6	26.4	23.1	17.9	2.2%	18.20	3.5	20.2	25.4	32.7	25.9%	28.7%	4.48	OUTPERFORM
Simple Average			20.2	17.2	13.8										
Weighted Average			19.9	16.9	13.9										

Source: Bloomberg, 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:

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