

21 June 2017

Scientex Berhad

9M17 Below Expectations

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9M17 core earnings of RM183.2m are slightly below our (63%) and consensus (65%) expectations as we expected stronger contribution from its new BOPP, Rawang and Ipoh plants in 2H17. An interim dividend of 6.0 sen was declared. We lower FY17-18E CNPs by 9-4% on lower utilisation at the new plants and manufacturing margins. Maintain MARKET PERFORM but lower TP to RM8.15 (from RM8.50) on lower earnings and FY18E SoP.

9M17 core net profit of RM183.2m are below our (63%) and consensus (65%) FY17E expectations with top-line making up 60% of our estimates as we expected stronger contributions from: (i) its BOPP plant (opened in Sept 2016) as it ramps up utilisation towards 2H17, and (ii) expansions at its Rawang and Ipoh plants, which should contribute to a stronger in 2H17. A 6.0 sen interim dividend was declared making up 35% of our FY17 estimate of 17.2 sen. Management has a 30% dividend pay-out policy which will mostly be paid out in 4Q, which is in line with our estimate.

Results highlight. QoQ, CNP improved by 3% making 3Q17 the strongest quarter to date, driven by strong top-line growth (+9%) from both segments; (i) manufacturing, as the Biaxially oriented polypropylene film (BOPP) plant continues to ramp up capacity, and, (ii) property on steady construction progress from existing projects. However, slightly lower CNP margins of 10% (from 11%) from higher finance cost (+4%), lower interest income (-64%) and higher tax rates (+2.0ppt) weighed down on top-line growth. YoY-Ytd, top-line was up by 7% due to similar reason. However, CNP declined by 4% on weaker manufacturing EBIT (-27%) as margins slipped to 6% (from 9%) likely on commencement of new consumer product plants, and competitive pricing strategies coupled with higher financing cost (+24%) to fund working capital for expansion plans, and slight increase in effective tax rates to 20% (vs. 19%).

Outlook. 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 with contributions accruing mostly in FY19. All in, we expect total capacity to increase to 304-340k MT p.a. in FY17-18, and sales tonnage to ramp up by c.16-27% 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 for the property segment, the Group has launched 10 new projects worth RM395m up to 9M17, which includes maiden launches in Ipoh, mainly consisting of affordable properties.

We lower earnings by 9-4% to RM266-333m in FY17-18E as we may have been slightly optimistic on the newer plants capacity utilisation which is lowered to 45-65% in FY17-18E (from 55-70%), while we also lower manufacturing margin estimates slightly as management is eyeing penetrative pricing strategy. As such, core net margin is lowered to 9.5% (from 10%) in FY17, while FY18 margin is maintained at 10%.

Maintain MARKET PERFORM but lower TP to RM8.15 (from RM8.50) post lowering our earnings. Our TP is based on our Sum-of-Parts (SoP) FY18E valuations, applying an unchanged 6.8x PER for the Property segment, which is at a 10% discount to small-mid-cap property players due to as SCIENTX's exposure in Johor, and 17.6x applied PER for the manufacturing segment. We are comfortable with our MARKET PERFORM call as foreseeable upsides and risks have been accounted for.

MARKET PERFORM ↔

Last Price: **RM8.34**
Target Price: **RM8.15** ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,780.71 |
| YTD KLCI chg | 8.5% |
| YTD stock price chg | 24.5% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SCI MK Equity |
| Market Cap (RM m) | 4,032.9 |
| Issued shares | 483.6 |
| 52-week range (H) | 8.99 |
| 52-week range (L) | 5.97 |
| 3-mth avg daily vol: | 283,594 |
| Free Float | 62% |
| Beta | 0.5 |

Major Shareholders

| | |
|----------------------|-------|
| Scientex Holdings Sd | 20.8% |
| Scientex Leasing Sdn | 9.6% |
| Lim Teck Meng Sdn Bh | 7.8% |

Summary Earnings Table

| FY Jul (RM'm) | 2016A | 2017E | 2018E |
|------------------------|--------------|--------------|--------------|
| Turnover | 2201.0 | 2789.6 | 3249.9 |
| EBIT | 312.6 | 342.2 | 421.9 |
| PBT | 306.3 | 340.7 | 426.4 |
| Net Profit (NP) | 240.9 | 265.8 | 332.8 |
| Core NP* | 248.0 | 265.8 | 332.8 |
| Consensus (NP) | n.a. | 282.0 | 339.8 |
| Earnings Revision | n.a. | -9% | -4% |
| Core EPS (sen) | 48.6 | 52.1 | 65.3 |
| Core EPS growth (%) | 66.2 | 7.2 | 25.2 |
| NDPS (sen) | 16.0 | 15.6 | 19.6 |
| BVPS (RM) | 2.55 | 3.34 | 4.15 |
| Core PER | 17.8 | 16.0 | 12.8 |
| PBV (x) | 3.3 | 2.5 | 2.0 |
| Net Gearing (x) | 0.32 | 0.16 | 0.00 |
| Net Div. Yield (%) | 1.9 | 1.9 | 2.3 |

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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.

| Results Highlights | | | | | | | | |
|---------------------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|
| | 3Q | 2Q | Q-o-Q | 3Q | Y-o-Y | 9M | 9M | Y-o-Y |
| Y/E : July (RM mn) | FY17 | FY17 | Chg | FY16 | Chg | FY17 | FY16 | Chg |
| Turnover | 636.2 | 586.2 | 9% | 543.9 | 17% | 1757.1 | 1639.9 | 7% |
| EBIT | 88.2 | 82.6 | 7% | 77.8 | 13% | 239.6 | 238.5 | 0% |
| Interest income | 1.0 | 2.9 | -64% | 1.0 | 2% | 5.0 | 6.7 | -26% |
| Finance costs | (3.8) | (3.6) | 4% | (3.1) | 23% | (10.9) | (8.8) | 24% |
| Associates | 0.0 | 0.0 | n.a. | 0.0 | N.M. | 0.0 | 0.0 | N.M. |
| Pretax profit | 85.4 | 81.8 | 4% | 75.8 | 13% | 233.7 | 236.4 | -1% |
| Taxation | (18.0) | (15.5) | 16% | (13.2) | 37% | (47.0) | (44.4) | 6% |
| Profit after tax | 67.4 | 66.3 | 2% | 62.6 | 8% | 186.7 | 192.0 | -3% |
| Minority interest | (0.9) | (1.1) | -18% | (1.4) | -33% | (3.0) | (5.3) | -44% |
| Net profit | 66.5 | 65.2 | 2% | 61.3 | 9% | 183.7 | 186.7 | -2% |
| Core net profit | 66.5 | 64.5 | 3% | 60.1 | 11% | 183.2 | 191.4 | -4% |
| Core EPS (sen) | 14.3 | 14.0 | 2% | 13.1 | 10% | 14.3 | 13.1 | 10% |
| NDPS (sen) | 0.0 | 0.0 | n.a. | 12.0 | N.M. | 0.0 | 12.0 | -100% |
| NTA/share (RM) | 2.5 | 2.3 | 9% | 2.5 | -1% | 2.5 | 2.5 | -1% |
| EBIT margin | 14% | 14% | | 14% | | 14% | 15% | |
| Pretax margin | 13% | 14% | | 14% | | 13% | 14% | |
| Core net profit margin | 10% | 11% | | 11% | | 10% | 12% | |
| Effective tax rate | 21% | 19% | | 17% | | 20% | 19% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|----------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| | 3Q | 2Q | Q-o-Q | 3Q | Y-o-Y | 9M | 9M | Y-o-Y |
| Y/E : July (RM mn) | FY17 | FY17 | Chg | FY16 | Chg | FY17 | FY16 | Chg |
| Turnover | | | | | | | | |
| Manufacturing | 442.8 | 411.9 | 7% | 382.8 | 16% | 1234.4 | 1176.8 | 5% |
| Property | 193.4 | 174.3 | 11% | 161.1 | 20% | 522.7 | 463.1 | 13% |
| Group Turnover | 636.2 | 586.2 | 9% | 543.9 | 17% | 1757.1 | 1639.9 | 7% |
| Segment Results | | | | | | | | |
| Manufacturing | 25.2 | 30.2 | -17% | 32.1 | -22% | 79.1 | 108.8 | -27% |
| Property | 63.0 | 52.3 | 20% | 45.7 | 38% | 160.4 | 129.7 | 24% |
| Group EBIT | 88.2 | 82.6 | 7% | 77.8 | 13% | 239.6 | 238.5 | 0% |
| EBIT Margin | | | | | | | | |
| Manufacturing | 6% | 7% | | 8% | | 6% | 9% | |
| Property | 33% | 30% | | 28% | | 31% | 28% | |
| Group EBIT Margin | 14% | 14% | | 14% | | 14% | 15% | |

Source: Company, Kenanga Research

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| Peer Comparison | | | | | | | | | | | | | | | |
|--------------------------------|--------------------|------------|-------------|-------------|-------------|-----------------------------|-------------------|------|------------------|---------|---------|--------------------------------|--------------------------------|-----------------|----------------|
| NAME | Price (21/6/17) | 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) | FY16/17 | FY17/18 | FY18/19 | (%) | (%) | (x) | FY15/16 | FY16/17 | FY17/18 | | | (RM) | |
| PLASTICS UNDER COVERAGE | | | | | | | | | | | | | | | |
| SCIENTEX BHD | 8.34 | 4,032.9 | 17.2 | 16.0 | 12.8 | 1.9% | 20.4 | 2.5 | 248.0 | 265.8 | 332.8 | 7.2% | 25.2% | 8.15 | MARKET PERFORM |
| SLP RESOURCES BHD | 2.45 | 606.0 | 22.1 | 17.7 | 14.2 | 2.3% | 19.4 | 4.0 | 29.3 | 36.6 | 45.7 | 25.0% | 24.9% | 3.72 | OUTPERFORM |
| THONG GUAN INDUSTRIES BHD | 4.15 | 531.5 | 14.3 | 12.7 | 11.2 | 3.4% | 12.4 | 1.8 | 53.6 | 60.0 | 68.2 | 11.9% | 13.7% | 5.41 | OUTPERFORM |
| SCGM BHD | 4.10 | 595.3 | 26.8 | 23.4 | 18.2 | 2.1% | 18.2 | 3.5 | 20.2 | 25.4 | 32.7 | 25.9% | 28.7% | 4.48 | MARKET PERFORM |
| TOMYPAK HOLDINGS | 0.99 | 411.5 | 28.9 | 23.1 | 18.7 | 2.9% | 11.7 | 2.5 | 19.0 | 23.8 | 29.4 | 25.1% | 23.8% | 1.00 | MARKET PERFORM |
| Simple Average | | | 21.8 | 18.6 | 15.0 | | | | | | | | | | |
| Weighted Average | | | 19.1 | 17.1 | 13.7 | | | | | | | | | | |

Source: Bloomberg, Kenanga Research

*Note that SCGM Ex-All TP is RM3.05 (post dilution Bonus Issue and Full Dilution from Warrants)

*Note that SLP Ex-All TP is RM3.10 (post dilution from Placement and Bonus Issue)

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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