

### COMPANY RESULTS

#### Scientex (SCI MK)

3QFY17: Property Arm The Saving Grace Yet Again

Scientex's 3QFY17 results are within expectations. The strong performance from the property arm mitigated the lacklustre results from the manufacturing arm. We expect the manufacturing arm to fare better in 4QFY17 on narrowing losses from the BOPP plant which is running at an estimated 60% utilisation rate. The plant should contribute positively in FY18. Maintain HOLD with a lower target price of RM7.80, after adjusting for sharebase changes post private placement. Entry price: RM7.00.

#### 3QFY17 RESULTS

Year to 31 Jul (RMm)	3Q17	qoq % chg	yoy % chg	9M17	yoy % chg
Turnover	636.2	8.5	17.0	1,757.1	7.1
-Manufacturing	442.8	7.5	15.7	1,234.4	4.9
-Property	193.4	10.9	20.0	522.7	12.9
EBIT	88.2	6.8	13.3	239.6	0.5
-Manufacturing	25.2	(17.4)	(18.9)	79.1	(30.3)
-Property	63.0	20.4	37.8	160.4	23.7
-Others	0.0	(100.0)	(100.0)	0.0	(100.0)
Finance costs	(3.8)	3.7	22.6	(10.9)	23.9
PBT	85.4	4.4	12.7	233.7	(1.2)
Core net profit	66.9	3.7	11.2	183.7	(4.1)
<b>Margins</b>	<b>(%)</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>(%)</b>	<b>+/- ppt</b>
EBIT	13.9	(0.2)	(0.5)	13.6	(0.9)
-Manufacturing	5.7	(1.7)	(2.4)	6.4	(3.2)
-Property	32.6	2.6	4.2	30.7	2.7
PBT	13.4	(0.5)	(0.5)	13.3	(1.1)
Core net profit	10.5	(0.5)	(0.5)	10.5	(1.2)

Source: Scientex, UOB Kay Hian

#### RESULTS

- We deem Scientex's 3QFY17 results within our and consensus expectations, with 9MFY17 core net profit of RM183.7m representing 68% and 65% of the respective full-year earnings forecasts. The results are in line as we expect 4QFY17 earnings to improve qoq on narrowing losses from its biaxially-oriented polypropylene (BOPP) plant. During the quarter, the strong EBIT contribution from the property segment more than offset the lacklustre performance at the manufacturing arm, resulting in EBIT growing 13.3% yoy. An interim DPS of 6 sen was declared (3QFY16: 6 sen).

#### KEY FINANCIALS

Year to 31 Jul (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	1,802	2,201	2,461	3,139	3,674
EBITDA	269	367	424	497	551
Operating profit	225	313	352	420	475
Net profit (rep./act.)	158	241	270	324	365
Net profit (adj.)	173	256	270	324	365
EPS (sen)	37.6	55.7	55.8	66.9	75.4
PE (x)	22.2	15.0	14.9	12.5	11.1
P/B (x)	4.1	3.3	2.9	2.5	2.2
EV/EBITDA (x)	16.6	12.2	10.5	9.0	8.1
Dividend yield (%)	1.3	1.9	2.0	2.4	2.7
Net margin (%)	8.8	10.9	11.0	10.3	9.9
Net debt/(cash) to equity (%)	14.3	31.6	26.2	15.6	1.9
Interest cover (x)	32.6	26.9	34.6	43.2	54.8
ROE (%)	19.1	22.8	21.0	21.5	21.0
Consensus net profit	-	-	282	340	369
UOBKH/Consensus (x)	-	-	0.96	0.95	0.99

Note: There was a one-for-one bonus issue in Aug 16.

Source: Scientex, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM8.34
Target Price	RM7.80
Upside	-6.5%
(Previous TP	RM8.10)

#### COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

#### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	483.6
Market cap (RMm):	4,032.9
Market cap (US\$m):	941.5
3-mth avg daily t'over (US\$m):	0.5

#### Price Performance (%)

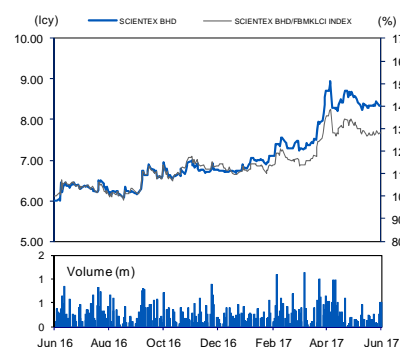
52-week high/low	RM8.95/RM5.99			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.9)	11.5	23.2	39.0	24.5

#### Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.0
Scientex Leasing Sdn Bhd	9.8
Lim Teck Meng Sdn Bhd	7.8

FY17 NAV/Share (RM)	2.89
FY17 Net Debt/Share (RM)	0.76

#### PRICE CHART



Source: Bloomberg

#### ANALYST

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- Manufacturing: Qoq and yoy margin compression.** Although 3QFY17 sales rose 15.7% yoy, EBIT declined 18.9% yoy as EBIT margin shrank 2.4ppt yoy to 5.7%. The margin contraction was due to: a) a higher mix of lower-margin products, b) penetrative pricing strategy particularly for BOPP products, and c) operating losses incurred by the new biaxially-oriented polypropylene (BOPP) plant which operated at a utilisation rate of 45% in 3QFY17. In 3QFY17, the consumer packaging to industrial packaging sales mix was at 51:49 (3QFY16: 48:52), and exports made up 58% of consumer packaging sales for 9MFY17 (9MFY16: 52%).
- Property: Growth momentum continues.** The strong growth momentum continued in 3QFY17 as sales rose 10.9% qoq and 20% yoy on strong progress billings recorded from its six property groupings in Skudai, Pulai, Senai-Kulai, Pasir Gudang, Melaka and Ipoh. During the quarter under review, Scientex launched one project with a RM23.9m GDV in Pasir Gudang. Unbilled sales amounted to RM550m as at end-3QFY17.
- Private placement of 20m new shares at RM7.80/share completed on 17 May 17.** The issuance of new shares represents 4.3% of Scientex's previous sharebase of 463.6m.

### STOCK IMPACT

- New BOPP plant expected to break even by 4QFY17.** The BOPP plant saw its 60,000MT p.a. capacity fully installed after the second line came on board in Dec 16. Currently, the plant is running at an estimated utilisation rate of 60% on higher demand from Indonesia and Japan, and should contribute positively from the start of FY18. We gather that there are plans to install a third line in the new plant by end-17 or early-18, which should raise capacity to approximately 100,000MT p.a.
- PE capacity expansion to be completed by 2H17.** Scientex had completed the installation of additional production lines to its plants in Rawang worth RM21m at end-16, which increased its production output to 60,000MT p.a.. Meanwhile, the RM50m capacity expansion to 24,000 MT p.a. at its Ipoh plant (Scientex Great Wall Ipoh) is expected to be completed by 2H17. Overall, this will increase the annual polyethylene (PE) output from 60,000MT to 84,000MT p.a.
- New stretch film plant in the US to commence operations in end-17.** The US\$25m new stretch film plant in Arizona, US with a capacity of 30,000MT p.a. from two lines will see synergistic benefits from Scientex's efficient manufacturing operations with savings in logistics costs. It is also expected to benefit from ample supply of shale gas-based resin. We estimate that the US stretch film plant should start contributing from FY19 onwards. We also gather that the plant has the floor space to expand production capacity to as much as 80,000MT p.a. in the likely case of a demand pick-up.

### EARNINGS REVISION/RISK

- No change to our earnings forecasts.

### VALUATION/RECOMMENDATION

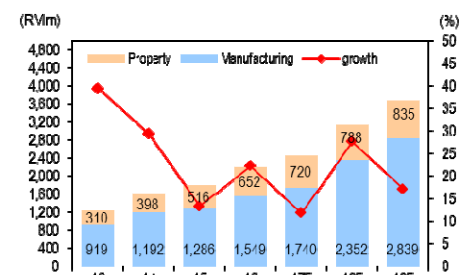
- Maintain HOLD with a lower SOTP-based target price of RM7.80 (from RM8.10),** after adjusting for issuance of 20m new shares post private placement. Our target price is based on an unchanged 15x PE for the manufacturing segment and 6x PE for the property segment. Our target price implies 11.1x 2018F PE.

### SOTP VALUATION

	2018F Net Profit (RMm)	Methodology	Fair Value (RMm)
Manufacturing	171.2	15x PE	2,567.5
Property	169.6	10% discount to RNAV of RM2.47/share based on NPV@7% and remaining GDV of RM7.7b	1,194.4
<b>Total</b>	<b>340.7</b>		<b>3,761.8</b>
Current No. of Shares (m)			483.6
<b>Target Price (RM)</b>			<b>7.80</b>

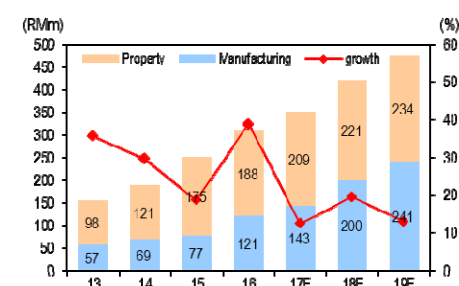
Source: UOB Kay Hian

### SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

### EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

### KEY ASSUMPTIONS

Year to 31 Jul	FY17F	FY18F	FY19F
Current assumptions			
Sales	2,461	3,139	3,674
Manufacturing	1,740	2,352	2,839
Property	720	788	835
EBIT margin (%)			
Manufacturing	8.2	8.5	8.5
Property	29.0	28.0	28.0
US\$/RM	4.25	4.30	4.30

Source: Scientex, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
<b>Net turnover</b>	<b>2,201</b>	<b>2,461</b>	<b>3,139</b>	<b>3,674</b>
EBITDA	367	424	497	551
Deprec. & amort.	55	72	77	76
EBIT	313	352	420	475
Associate contributions	7	9	10	10
Net interest income/(expense)	(14)	(12)	(12)	(10)
<b>Pre-tax profit</b>	<b>306</b>	<b>348</b>	<b>418</b>	<b>475</b>
Tax	(60)	(73)	(88)	(100)
Minorities	(6)	(5)	(7)	(11)
<b>Net profit</b>	<b>241</b>	<b>270</b>	<b>324</b>	<b>365</b>
Net profit (adj.)	256	270	324	365

### CASH FLOW

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
<b>Operating</b>	<b>380</b>	<b>336</b>	<b>360</b>	<b>386</b>
Pre-tax profit	306	348	418	475
Tax	(65)	(73)	(88)	(100)
Deprec. & amort.	55	72	77	76
Working capital changes	70	(11)	(47)	(65)
Other operating cashflows	14	0	0	0
<b>Investing</b>	<b>(561)</b>	<b>(250)</b>	<b>(150)</b>	<b>(60)</b>
Capex (growth)	(287)	(250)	(150)	(60)
Investments	(55)	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(220)	0	0	0
<b>Financing</b>	<b>190</b>	<b>(133)</b>	<b>(137)</b>	<b>(199)</b>
Dividend payments	(50)	(81)	(97)	(109)
Issue of shares	0	0	0	0
Proceeds from borrowings	218	0	0	0
Loan repayment	0	(52)	(40)	(90)
Others/interest paid	22	0	0	0
<b>Net cash inflow (outflow)</b>	<b>10</b>	<b>(46)</b>	<b>73</b>	<b>127</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>91</b>	<b>101</b>	<b>54</b>	<b>127</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>101</b>	<b>54</b>	<b>127</b>	<b>254</b>

### BALANCE SHEET

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
<b>Fixed assets</b>	<b>953</b>	<b>1,130</b>	<b>1,204</b>	<b>1,188</b>
Other LT assets	537	546	549	553
Cash/ST investment	101	54	127	254
Other current assets	662	715	876	1,023
<b>Total assets</b>	<b>2,253</b>	<b>2,446</b>	<b>2,755</b>	<b>3,018</b>
ST debt	233	200	200	150
Other current liabilities	479	495	618	716
LT debt	239	220	180	140
Other LT liabilities	61	61	61	61
Shareholders' equity	1,175	1,398	1,617	1,862
Minority interest	66	72	79	89
<b>Total liabilities &amp; equity</b>	<b>2,253</b>	<b>2,446</b>	<b>2,755</b>	<b>3,018</b>

### KEY METRICS

Year to 31 Jul (%)	2016	2017F	2018F	2019F
<b>Profitability</b>				
EBITDA margin	16.7	17.2	15.8	15.0
Pre-tax margin	13.9	14.2	13.3	12.9
Net margin	10.9	11.0	10.3	9.9
ROA	12.4	11.5	12.4	12.6
ROE	22.8	21.0	21.5	21.0
<b>Growth</b>				
Turnover	22.2	11.8	27.6	17.0
EBITDA	36.6	15.4	17.4	10.8
Pre-tax profit	38.6	13.7	20.1	13.5
Net profit	52.3	12.0	19.9	12.7
Net profit (adj.)	48.2	5.4	19.9	12.7
EPS	48.2	0.2	19.9	12.7
<b>Leverage</b>				
Debt to total capital	27.5	22.2	18.3	12.9
Debt to equity	40.1	30.0	23.5	15.6
Net debt/(cash) to equity	31.6	26.2	15.6	1.9
Interest cover (x)	26.9	34.6	43.2	54.8

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