

Scientex Bhd

Taking Business to America

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SCIENTX is investing USD25m (RM106m) to set up a new stretch film plant in Arizona, United States. We are neutral on this news in the near term as the impact to earnings is minimal post the plant completion in end CY17, but positive on the long-term prospect as it is expanding its footprint to a brand new and extremely large market abroad. Maintain FY17-18E earnings. Maintain OUTPERFORM and TP of RM7.57.

News. Scientex Berhad (via Scientex Packaging Film Sdn Bhd) has formed a wholly-owned subsidiary, Scientex Phoenix, LLC in Arizona, United States of America (US) and is investing USD25m (RM106m) to set up a new stretch film plant which is expected to be completed by end CY17 (mid-FY18E). The plant is the group's first stretch film plant overseas with a targeted annual production capacity of 30k MT p.a.

Neutral in the near-term, positive in the long run. We are neutral on the deal as the size of this new plant is relatively small making up 25% of SCIENTX stretch film capacity and 9% of total manufacturing capacity in FY18. Additionally, contribution to earnings is neutral in FY18 (<1%) from 7 months contribution, and could increase to 2% p.a. in FY19. However, we view this as a **long-term positive** for SCIENTX as it is penetrating a new market for stretch film since 95% of existing stretch film is currently exported to Japan. Having the new plant located in the US will not only provide SCIENTX a foot in the door to the large and new markets of North, Central and South America, but will allow cost savings for production (from anticipated ample supply of shale gas-based resin) and lower distribution cost to the US market as the company gradually expands its footprint there.

Manufacturing segment continues to expand. The new BOPP plant is set to begin contributions in 1Q17; expansion is underway in the Rawang (+25% to 60k metric tons (MT)/year) and Ipoh (+43% to 24k MT/year) plants which is likely to contribute to 2H17 earnings, while this recent venture to the US will contribute to 2H18, which we have accounted for in our forecast. In the property sector, we expect the on-going sector slowdown to persist due to tighter lending policies and poor market sentiment. However, SCIENTX is targeting to launch more affordable houses (c.90% of total launches) in the next two years which should provide some earnings resiliency.

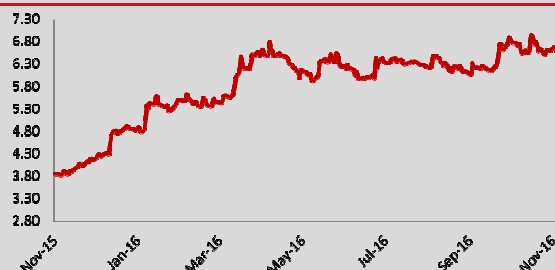
We maintain FY17-18E earnings of RM292-345m. We make no changes to FY17-18E post accounting for (i) minimal accretion to top line in FY18 (+2%), and (ii) on the back of higher expenditure related to start-up cost and higher financing cost for the new plant. We expect this plant to contribute c.2% to earnings once operations are in full swing in 2-3 years. Net gearing is expected to increase to 0.22-0.06x (from 0.16-0.01x) in FY17-18E.

Reiterate OUTPERFORM and TP of RM7.57 based on Sum-of-Parts pegged to CY17E earnings. In the manufacturing segment, we maintain our applied PER of 17.6x, and applied PER of 4.0x for the property segment, in line with small-mid cap property players in a slow market environment. Downside risks to our call include: (i) lower-than-expected crude oil prices, (ii) lower-than-expected property sales forecast or margins. We reiterate our OUTPERFORM call as we expect the drive for manufacturing expansion will support earnings growth and expand margins on stronger product mix.

OUTPERFORM ↔

Price: RM6.80
Target Price: RM7.57 ↔

Share Price Performance



KLCI	1,652.74
YTD KLCI chg	-2.3%
YTD stock price chg	39.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,134.4
Issued shares	460.9
52-week range (H)	6.99
52-week range (L)	3.81
3-mth avg daily vol:	287,430
Free Float	60%
Beta	0.6

Major Shareholders

Scientex Holdings Sdn Bhd	21.5%
Scientex Leasing Sdn Bhd	10.1%
Lim Teck Meng Sdn Bhd	8.2%

Summary Earnings Table

FY Jul (RM'm)	2016A	2017E	2018E
Turnover	2201.0	2945.4	3280.7
EBIT	312.6	373.9	442.6
PBT	306.3	374.6	445.9
Net Profit (NP)	240.9	292.0	344.9
Core net profit	248.0	292.0	344.9
Consensus (NP)	n.a.		
Earnings Revision	n.a.	n.a.	n.a.
EPS	54.5	63.5	75.0
EPS growth (%)	-22.6	15.4	17.8%
Net DPS (sen)	22.0	19.0	22.5
BV (RM)	5.11	3.19	3.82
NTA/share (RM)	5.11	3.19	3.82
PER (x)	12.5	10.7	9.1
PBV (x)	1.3	2.1	1.8
P/NTA (x)	1.3	2.1	1.8
Net gearing (%)	0.32	0.22	0.06
Div. Yield (%)	3.2	2.8	3.3

11 November 2016

Peer Comparison

Company	Price (RM)	Mkt Cap (RM'm)	PER			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target	Rating
			CY15	CY16	CY17				CY16	CY17		
Core Coverage												
Scientex	6.80	3,134.4	16.3	11.6	10.0	4.9	20.4	3.3	39.9	16.6	7.57	OUTPERFORM
SLP	2.33	576.3	22.2	19.6	16.1	2.0	22.8	5.1	13.2	21.6	3.11	OUTPERFORM
Thong Guan	4.03	463.8	13.4	9.0	8.2	2.1	8.9	1.2	48.8	10.3	4.49	MARKET PERFORM
Simple Average			17.3	13.4	11.4							
Weighted Average			16.8	12.4	10.6							
Non-Core Coverage												
Daibochi	2.28	620.5	23.2	23.2	20.7	2.8	14.7	3.4	-0.1	12.5	NOT RATED	NOT RATED
SCGM	3.35	442.2	23.8	19.2	16.8	3.6	15.6	4.5	23.5	14.5	NOT RATED	NOT RATED
Simple Average			23.5	21.2	18.7							
Weighted Average			23.4	21.6	19.1							

Source: Kenanga Research

11 November 2016

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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