

# Scientex Berhad

## Acquires Land in Kulai

By Voon Yee Ping, CFA | [voonyp@kenanga.com.my](mailto:voonyp@kenanga.com.my); Marie Vaz | [msvaz@kenanga.com.my](mailto:msvaz@kenanga.com.my)

Scientex Berhad (“SCIENTX”) has proposed to acquire two parcels of land in Kulai, Johor totalling 121.2 acres for RM123.6m, or RM23.42 psf. We are near-term neutral on the news but long-term positive on development prospect. No change to FY17-18E earnings as interest cost impact to bottom line is minor (<1%) with manageable net gearing increase to 0.3x (from 0.2x). **Maintain OUTPERFORM with unchanged TP of RM7.57.**

**Acquiring 121.2 acres in Kulai.** SCIENTX announced that its wholly-owned subsidiary Scientex Quatari Sdn. Bhd. has entered into a Sale and Purchase Agreement with Dahlia Utama Sdn. Bhd, a wholly-owned subsidiary of Lee Rubber Co. (Pte) Ltd of Singapore, to acquire two parcels of land measuring 121.2 acres for RM123.64m, or RM23.42 psf. We gather that the acquisition is subject to approval of the Estate Land Board. The acquisition is expected to be completed in 2HCY17.

**Short-term neutral, long-term positive.** We are neutral on the immediate prospect of the acquisition as GDV details are yet to be released, indicating that development plan of the area should be over the long-term. We think valuation is fair at RM23.42 per square foot (psf), compared to the historical average of RM15 psf, in view of its proximity to SCIENTX’s existing townships of Taman Scientex Senai and Taman Pulau Mutiara, as well as Senai International Airport and Johor Premium Outlets. Assuming a 80-20 debt-equity funding ratio, we estimate FY17E net gearing to increase to 0.3x from 0.2x, which we think remains fairly manageable.

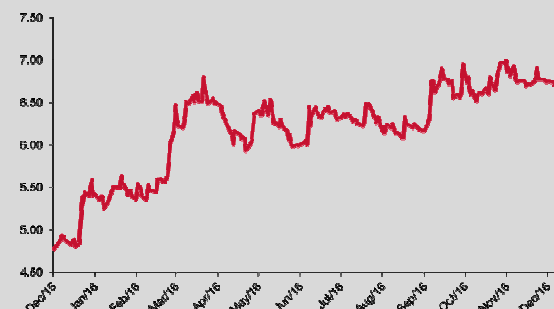
**Maintain FY17-18E CNP at RM292-345m** as we estimate a minimal increase in interest cost resulting in <1% decrease in bottom line.

**Reiterate OUTPERFORM with unchanged TP of RM7.57** based on Sum-of-Parts pegged to CY17E earnings. For the Manufacturing segment, we maintain our applied PER of 17.6x, while for Property segment, we apply a PER of 4.0x, in line with small-mid-cap property players. We expect earnings to pick up in the coming quarters on continued ramp-up of its new BOPP plant as well as expansions in its Rawang and Ipoh plants. We also note that the stronger USD could provide some upside potential to exporters such as SCIENTX and other plastic peers.

# OUTPERFORM ↔

**Price: RM6.70**  
**Target Price: RM7.57** ↔

### Share Price Performance



KLCI	1,630.30
YTD KLCI chg	-3.7%
YTD stock price chg	37.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,105.8
Issued shares	463.6
52-week range (H)	7.08
52-week range (L)	4.72
3-mth avg daily vol:	285,805
Free Float	60%
Beta	0.5

### Major Shareholders

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

### Summary Earnings Table

FY Jul (RM'm)	2015A	2016E	2017E
Turnover	2,201.0	2,945.4	3,280.7
EBIT	312.6	373.6	438.7
PBT	306.3	374.3	441.9
<b>Net Profit (NP)</b>	240.9	292.0	344.9
<b>Core NP*</b>	248.0	292.0	344.9
Consensus (NP)	N.A.	311.8	359.2
Earnings Revision	N.A.	N.A.	N.A.
Core EPS (sen)	54.5	63.5	75.0
Core EPS gwth. (%)	-22.6	17.8	18.1
NDPS (sen)	22.0	19.0	22.5
BVPS (RM)	5.11	3.19	3.82
Core PER	25.2	10.6	8.9
Price/Bv (x)	2.7	2.1	1.8
Net Gearing (x)	0.32	0.31	0.13
Net Div. Yield (%)	3.2	2.8	3.4



Peer Comparison															
NAME	Price (28/12/16)	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)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
<b>PLASTICS UNDER COVERAGE</b>															
SCIENTEX BHD	6.70	3,105.8	12.4	10.6	8.9	5.2%	20.4	1.0	248.0	292.2	344.9	17.8%	18.0%	7.57	OUTPERFORM
THONG GUAN INDUSTRIES	4.33	511.1	23.1	15.5	14.1	3.4%	9.8	3.4	34.5	51.4	56.6	48.8%	10.2%	4.49	OUTPERFORM
SLP RESOURCES BHD	2.23	551.6	21.2	18.8	15.4	3.5%	23.9	2.1	26.0	29.4	35.7	13.2%	21.6%	3.11	OUTPERFORM
SCGM BHD	3.35	442.2	21.9	21.0	16.2	3.0%	18.20	2.9	20.2	23.2	30.1	14.9%	29.8%	3.81	OUTPERFORM
<b>Simple Average</b>			<b>19.7</b>	<b>16.4</b>	<b>13.6</b>										
<b>Weighted Average</b>			<b>17.2</b>	<b>14.5</b>	<b>12.1</b>										
<b>Non-Core Coverage</b>															
DAIBOCHI	2.29	623.2	38.5	24.1	20.3	2.8%	13.9%	3.2	25.9	30.9	34.5	19.3%	11.8%	N.R.	NOT RATED

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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 Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 2626 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
 Head of Research