

Scientex Berhad

FY17 Within Our Expectation

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FY17 core earnings of RM255.0m came within our forecast (96%) but below consensus estimate (93%). The declared final dividend per share of 10.0 sen which implies a total dividend of 14.9 sen per share for FY17 (post placement and bonus issue) is also within expectation (95%). We expect its manufacturing capacity to increase to 340k MT p.a (+12% YoY) in FY18, while FY19 earnings growth is premised on higher utilisation rates in FY18-19E of 70-85% and also a stable property segment. Maintain MARKET PERFORM and TP of RM8.50.

FY17 core net profit of RM255.0m is within our (96%) but slightly below consensus (93%) FY17E estimates. We believe the deviation from consensus estimate was likely due to an overly bullish top-line (86%) likely on expectations of stronger contributions from the BOPP plant (opened in Sept 2016), and expansions at its Rawang and Ipoh plants. A single-tier final dividend of 10 sen was declared implying FY17 total dividend of RM75.8m or 14.9 sen post accounting for the enlarged share base from the bonus issue (completed Aug 2016) and up to 10% private placement (1st tranche completed May 2017). This is also within our expectation at 95% of our FY17E dividend of 15.6 sen.

Results highlight. QoQ, CNP improved by 8% making 4Q17 the strongest quarter to date, driven by decent top-line growth (+2%) from both segments; (i) manufacturing, as the biaxially oriented polypropylene film (BOPP) plant continued to ramp up capacity, and (ii) property segment on steady construction progress from existing projects. CNP margin also improved to 11.1% (from 10.4%) due to: (i) slightly lower finance cost (-17%), and (ii) lower tax rates (-8.0ppt) on tax incentives. YoY-Ytd, top-line was up by 9% due to similar reasons, while CNP increased by 3%. The drag on CNP growth vs. topline was due to lower EBIT margins (-1.3ppt) on higher startup cost for the BOPP and cast polypropylene (CPP) plants, as well as penetrative pricing strategies which lowered product margins.

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 accreting mostly in FY19. All in, we expect total capacity to increase to 340k MT p.a (+12% YoY) by end FY18, and utilisation to ramp up to 70-85% in FY18-19. We believe the Group will allocate c.RM140-100m for capex in FY18-19, which we have accounted for in our estimates. As for the property segment, the Group has launched 16 projects worth RM617m in FY17, which includes maiden launches in Ipoh, mainly consisting of affordable properties. Unbilled sales of RM500m will be recognized over 2-3 years while the Group is targeting RM800-1,000m worth of launches in FY18.

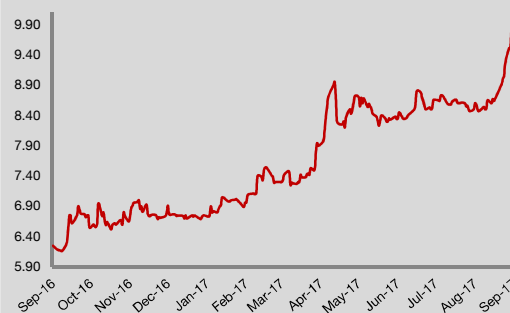
Maintain FY18E NP of RM347m and introduce FY19E NP of RM361m. We do not expect additional capacity in FY19 (total capacity of 340k MT p.a in FY18), but FY19 growth is premised on increased utilisation for the manufacturing segment in FY18-19E of 70-85%, and stable earnings from the property segment.

Maintain MARKET PERFORM and TP of RM8.50. 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 SCIENTX's exposure in the challenging Johor market, 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 ↔

Price : RM8.60
Target Price : RM8.50 ↔

Share Price Performance



KLCI	1,776.66
YTD KLCI chg	8.2%
YTD stock price chg	28.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,158.6
Issued shares	483.6
52-week range (H)	9.85
52-week range (L)	6.10
3-mth avg daily vol:	301,653
Free Float	62%
Beta	0.5

Major Shareholders

Scientex Holdings Sdn Bhd	20.8%
Scientex Leasing Sdn Bhd	9.6%
Lim Teck Meng Sdn Bhd	7.8%

Summary Earnings Table

FYE Jul (RM m)	2017A	2018E	2019E
Turnover	2403.2	3314.9	3675.4
EBIT	325.1	440.4	492.7
PBT	318.0	444.9	493.0
Net Profit (NP)	255.9	347.3	360.8
Core NP*	255.0	347.3	360.8
Consensus (NP)	n.a.	331.0	369.7
Earnings Revision	0%	0%	0%
Core EPS (sen)	50.0	68.1	70.8
Core EPS growth (%)	2.6	36.2	3.9
NDPS (sen)	14.9	20.4	21.2
BVPS (RM)	3.0	4.0	4.8
Core PER	17.2	12.6	12.2
PBV (x)	2.9	2.1	1.8
Net Gearing (x)	0.21	0.06	-0.08
Net Div. Yield (%)	1.7	2.4	2.5



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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

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	646.1	636.2	2%	561.1	15%	2403.2	2201.0	9%
EBIT	85.5	88.2	-3%	74.1	15%	325.1	312.6	4%
Interest income	1.9	1.0	86%	0.7	173%	6.9	7.4	-7%
Finance costs	(3.2)	(3.8)	-17%	(4.9)	-36%	(14.0)	(13.7)	3%
Associates	0.0	0.0	n.a.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	84.3	85.4	-1%	69.9	21%	318.0	306.3	4%
Taxation	(11.1)	(18.0)	-39%	(15.4)	-28%	(58.0)	(59.8)	-3%
Profit after tax	73.2	67.4	9%	54.5	34%	259.9	246.6	5%
Minority interest	(1.1)	(0.9)	18%	(0.4)	174%	(4.1)	(5.7)	-29%
Net profit	72.1	66.5	8%	54.1	33%	255.9	240.9	6%
Core net profit	71.8	66.5	8%	57.1	26%	255.0	248.5	3%
Core EPS (sen)	14.1	13.0	8%	11.2	26%	50.0	48.7	3%
NDPS (sen)	9.4	5.5	73%	9.0	N.M.	14.9	19.8	-25%
NTA/share (RM)	3.0	2.2	33%	2.3	30%	3.0	2.3	30%
EBIT margin	13.2%	13.9%		13.2%		13.5%	14.2%	
Pretax margin	13.0%	13.4%		12.5%		13.2%	13.9%	
Core net profit margin	11.1%	10.4%		10.2%		10.6%	11.3%	
Effective tax rate	13.1%	21.1%		22.0%		18.2%	19.5%	

Source: Company, Kenanga Research

*per share data based enlarged share base of 509.9m post 1-for-1 bonus issue (completed in Aug-16) and up to 10% placement.

Segmental Breakdown

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
Y/E : July (RM mn)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover								
Manufacturing	450.3	442.8	2%	372.7	21%	1684.6	1549.5	9%
Property	195.8	193.4	1%	188.4	4%	718.5	651.5	10%
Group Turnover	646.1	636.2	2%	561.1	15%	2403.2	2201.0	9%
Segment Results								
Manufacturing	18.8	25.2	-25%	15.9	18%	98.0	124.7	-21%
Property	66.7	63.0	6%	58.2	15%	227.1	187.8	21%
Group EBIT	85.5	88.2	-3%	74.1	15%	325.1	312.6	4%
EBIT Margin								
Manufacturing	4%	6%		4%		6%	8%	
Property	34%	33%		31%		32%	29%	
Group EBIT Margin	13%	14%		13%		14%	14%	

Source: Company, Kenanga Research

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Peer Comparison															
NAME	Price (19/09/17)	Mkt Cap	PER (x)			Est. NDiv. Yld. **	Historical ROE	P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.60	4,158.6	17.2	12.6	12.2	2.4%	16.6	2.1	255.0	347.3	360.8	36.2%	3.9%	8.50	MARKET PERFORM
SLP RESOURCES BHD	1.94	614.9	21.0	21.3	15.9	1.9%	19.4	3.3	29.3	28.9	38.7	-1.3%	34.0%	2.63	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.07	539.2	14.0	12.5	11.0	3.4%	12.4	1.8	53.6	60.0	68.2	11.9%	13.7%	5.40	OUTPERFORM
SCGM BHD	2.89	559.5	27.2	22.2	17.6	2.2%	13.7	2.2	22.6	27.7	35.1	22.6%	26.5%	3.05	MARKET PERFORM
TOMYPAK HOLDINGS	0.96	400.5	28.0	25.5	20.0	2.6%	11.7	2.4	19.0	20.9	26.6	9.9%	27.3%	0.92	MARKET PERFORM
Simple Average			21.5	18.8	15.3										
Weighted Average			18.9	15.1	13.4										
<i>Source: Bloomberg, Kenanga Research</i>															

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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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