



Scientex Berhad

Results Within Our Expectation

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Damia Othman

Tel: +603-2167-9602

damia@ta.com.my

www.taonline.com.my

Review

- Scientex Berhad's FY17 earnings came in within ours (99%) but below consensus estimates (92%). The adjusted net profit increased slightly by 9.6% YoY to RM252.8mn after excluding exceptional items. The company proposed a final single-tier dividend of 10sen/share during the quarter under review pending approval.
- Manufacturing:** FY17 operating profit declined by 21.5% YoY to RM98.0mn due to i) start-up costs from newly-commissioned biaxially oriented polypropylene (BOPP) and cast polypropylene (CPP) plants as well as ii) penetrative pricing strategy for entering new ASEAN market i.e. Philippines, which contracted product margins. Revenue increased by 7.8% YoY to RM1.7bn due to higher exports contribution which accounted for about 75% of the revenue. QoQ, 4QFY17 operating profit declined by 25.1% to RM18.8mn due to i) decline in revenue of 1.7% to RM435.3mn, ii) operating profit margin was further compressed by penetrative pricing strategy and iii) high start-up costs from the BOPP and CPP plants. The operating profit margin declined by 1.3p.pts QoQ in 4QFY17.
- Property:** On the other hand, operating profit for the property segment improved by 20.9% YoY to RM227.1mn in tandem with positive revenue growth of 12.6% YoY to RM733.5mn. This was attributable to i) maiden contribution from Taman Pulai Mutiara residential development, ii) good take up rates on Melaka, Ipoh and Johor new launches and iii) higher progress billing. Note that FY17 unbilled sales came to RM500.0mn to be recognised over the next two to three years. QoQ, 4QFY17 was also showing similar trends where operating profit increased by 5.8% to RM66.7mn in line with the increase in revenue of 9.0% QoQ to RM210.8mn. This was due to stable sales and construction progress. In this quarter, Scientex had launched six projects in Johor and Ipoh with a potential GDV of RM221.9mn.

Impact

- We raise our earnings forecasts slightly by 1.6% and 1.7% for FY18 and FY19 respectively after imputing FY17 financial results and adjusting the group's earnings mix.

Outlook

- To recap, the Ipoh Scientex polyethylene (PE) film plant expansion is expected to complete in Dec-17 and the production capacity is expected to double to 24,000 metric tonnes/annum. Together with the Rawang plant, Scientex's total PE film production capacity would increase to 84,000 metric tonne/annum in FY18. Short term, we are wary of the penetrative pricing strategy adopted by management for its manufacturing division. Long term, margin is expected to normalize given the continuous management efforts in ramping up capacity to boost efficiency.

TP: RM9.38 (+9.0%)

Last Traded: RM8.60

HOLD

Share Information

| | |
|----------------------------------|-------------|
| Bloomberg Code | SCI MK |
| Stock Code | 4731 |
| Listing | Main Market |
| Share Cap (mn) | 483.6 |
| Market Cap (RMmn) | 4,158.6 |
| Par Value | 0.5 |
| 52-wk Hi/Lo (RM) | 9.85/6.10 |
| 12-mth Avg Daily Vol ('000 shrs) | 288.7 |
| Estimated Free Float (%) | 40.2 |
| Beta | 0.5 |
| Major Shareholders (%) | |
| Scientex Holdings Sdn Bhd | 20.8 |
| Scientex Leasing Sdn Bhd | 9.6 |
| Lim Teck Meng Sdn Bhd | 7.8 |
| TM Lim Sdn Bhd | 5.0 |

Forecast Revision

| | FY18 | FY19 |
|------------------------|-------------------|-------|
| Forecast Revision (%) | 1.6 | 1.7 |
| Core Net Profit (RMmn) | 308.9 | 329.2 |
| Consensus | 331.0 | 369.7 |
| TA's / Consensus (%) | 93.3 | 89.1 |
| Previous Rating | Hold (Maintained) | |

Financial Indicators

| | FY18 | FY19 |
|----------------------|------|------|
| Net debt/ equity (%) | 25.9 | 22.6 |
| ROE (%) | 19.1 | 17.7 |
| ROA (%) | 11.5 | 11.1 |
| NTA/Share (RM) | 3.4 | 3.9 |
| Price/NTA (x) | 2.5 | 2.2 |

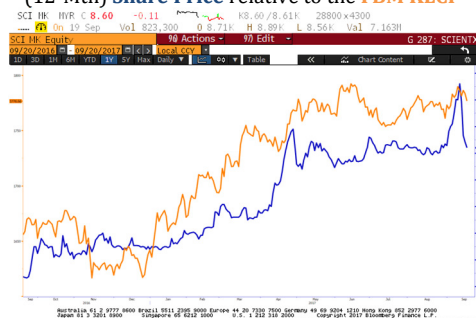
Scorecard

| | % of FY17 | |
|--------------|-----------|--------|
| vs TA | 99 | Within |
| vs Consensus | 92 | Below |

Share Performance (%)

| Price Change | SCIENTEX | FBM KLCI |
|--------------|----------|----------|
| 1 mth | 1.5 | 0.0 |
| 3 mth | 3.1 | (0.2) |
| 6 mth | 15.0 | 1.6 |
| 12 mth | 39.2 | 7.3 |

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

- Moving forward, new property projects to be launched will be from Ipoh, Melaka and Senai with an estimated GDV of RM1.0bn for FY18. Note that property earnings accounted for 70% of Scientex's operating profit in FY17. However, it is expected to drop to 50-60% in FY18-20, in our opinion. Scientex's main business will still be in the manufacturing of plastic packaging products hence for the time being, management has no plans to acquire more landbanks after the recently proposed acquisition of Rawang land in 1QFY18.

Valuation

- We increase our target price to RM9.38/share (previously RM9.28/share) based on SOP valuation of CY18 EPS. Maintain Hold call on the stock as we believe that stock is currently fairly valued. Potential upside on the stock includes i) unexpected increase in operating profit margin within the manufacturing segment in the near term, and ii) acquisitions of new capacity or land in the manufacturing and property divisions.

4QFY17 Results Analysis (RMmn)

| FYE July (RM'mn) | 4QFY16 | 3QFY17 | 4QFY17 | QoQ (%) | YoY (%) | FY16 | FY17 | YoY (%) |
|---------------------------|--------|--------|--------|--------------|--------------|---------|---------|--------------|
| Revenue | 561.1 | 636.2 | 646.1 | 1.6 | 15.2 | 2,201.0 | 2,403.2 | 9.2 |
| ~ Manufacturing | 372.7 | 442.8 | 435.3 | (1.7) | 16.8 | 1,549.5 | 1,669.6 | 7.8 |
| ~ Property | 188.4 | 193.4 | 210.8 | 9.0 | 11.9 | 651.5 | 733.5 | 12.6 |
| Operating Profit | 74.1 | 88.2 | 85.5 | (3.0) | 15.4 | 312.6 | 325.1 | 4.0 |
| ~ Manufacturing* | 15.9 | 25.2 | 18.8 | (25.1) | 18.3 | 124.7 | 98.0 | (21.5) |
| ~ Property* | 58.2 | 63.0 | 66.7 | 5.8 | 14.7 | 187.8 | 227.1 | 20.9 |
| Interest Expense | (4.9) | (3.8) | (3.2) | (16.5) | (35.6) | (13.7) | (14.0) | 2.6 |
| Interest Income | 0.7 | 1.0 | 1.9 | 85.6 | 173.3 | 7.4 | 6.9 | (6.9) |
| Extra-ordinary Items (EI) | (3.1) | 0.0 | 3.4 | nm | nm | (10.3) | (3.1) | (69.6) |
| Reported PBT | 69.9 | 85.4 | 84.3 | (1.4) | 20.6 | 306.3 | 318.0 | 3.8 |
| Adj. PBT | 73.0 | 85.4 | 80.9 | (5.3) | 10.7 | 290.4 | 314.0 | 8.1 |
| Taxation | (15.4) | (18.0) | (11.1) | (38.6) | (28.0) | (59.8) | (58.0) | (2.9) |
| MI | (0.4) | (0.9) | (1.1) | 17.6 | > +100 | (5.7) | (4.1) | (28.7) |
| Reported Profit | 54.1 | 66.5 | 72.1 | 8.5 | 33.2 | 246.6 | 259.9 | 5.4 |
| Adj. Net Profit | 57.3 | 66.5 | 65.3 | (1.8) | 14.0 | 230.6 | 252.8 | 9.6 |
| EPS (sen) | 23.5 | 14.3 | 15.0 | 4.7 | (36.2) | 79.6 | 53.3 | (33.0) |
| Adj EPS (sen) | 24.9 | 14.3 | 13.6 | (5.2) | (45.4) | 81.8 | 53.1 | (35.1) |
| DPS (sen) | 10.0 | 6.0 | 10.0 | 66.7 | 0.0 | 16.0 | 16.0 | 0.0 |
| | | | | %-pts | %-pts | | | %-pts |
| EBIT Margin (%) | 13.2 | 13.9 | 13.2 | (0.6) | 0.0 | 14.2 | 13.5 | (0.7) |
| ~ Manufacturing | 4.3 | 5.7 | 4.3 | (1.3) | 0.1 | 8.1 | 5.9 | (2.2) |
| ~ Property | 30.9 | 32.6 | 31.6 | (0.9) | 0.8 | 28.8 | 31.0 | 2.1 |
| PBT Margin (%) | 13.0 | 13.4 | 12.5 | (0.9) | (0.5) | 13.2 | 13.1 | (0.1) |
| Net Margin (%) | 10.2 | 10.4 | 10.1 | (0.3) | (0.1) | 10.5 | 10.5 | 0.0 |
| Tax rate (%) | 22.0 | 21.1 | 13.1 | (8.0) | (8.9) | 19.5 | 18.2 | (1.3) |

Earnings Summary (RMmn)

| FYE 31 July (RMmn) | 2015 | 2016 | 2017 | 2018F | 2019F |
|-------------------------|---------|---------|---------|---------|---------|
| Revenue | 1,801.7 | 2,201.0 | 2,403.2 | 2,791.9 | 3,030.1 |
| Gross Profit | 359.2 | 440.2 | 546.4 | 589.9 | 614.7 |
| EBITDA | 268.7 | 367.1 | 410.4 | 509.6 | 534.7 |
| EBIT | 225.0 | 312.6 | 325.1 | 415.7 | 433.0 |
| Reported PBT | 221.0 | 306.3 | 318.0 | 383.8 | 409.4 |
| Adj. PBT | 270.4 | 322.3 | 325.2 | 383.8 | 409.4 |
| Reported Net Profit | 158.2 | 240.9 | 255.9 | 313.7 | 334.7 |
| Adj. Net profit | 112.6 | 230.6 | 252.8 | 313.7 | 334.7 |
| Basic/Diluted EPS (sen) | 70.0 | 106.0 | 54.8 | 64.9 | 69.2 |
| Adj. EPS (sen) | 23.3 | 47.7 | 52.3 | 64.9 | 69.2 |
| PER (x) | 12.3 | 8.1 | 15.7 | 13.3 | 12.4 |
| Net Dividend (sen) | 12.0 | 16.1 | 16.0 | 18.0 | 19.0 |
| Dividend Yield (%) | 1.4 | 1.9 | 1.9 | 2.1 | 2.2 |

Valuation

| Sum-of-Parts | EBIT (RMmn) | | | Target PER (x) | Segment Value (RMmn) | Comment |
|--------------------------|-------------|-------|-------|-------------------|-------------------------|---|
| | FY18 | FY19 | CY18 | | | |
| Manufacturing | 135.1 | 151.5 | 141.9 | 19 | 1,654.1 | 10% premium to peer's average PER |
| Property | 249.9 | 244.5 | 247.7 | 8 | 1,981.2 | In-line with small-cap property players |
| Equity value (RMmn) | | | | | 4,534.9 | |
| Share cap (mn) | | | | | 483.6 | |
| Target Price (RM) | | | | | 9.38 | |
| Capital Upside (%) | | | | | 9.0% | |
| Dividend yield (%) | | | | | 2.1% | |
| Total Upside (%) | | | | | 11.2% | |

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, September 20, 2017, the analyst, Damia Othman, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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Kaladher Govindan – Head of Research