

07 December 2017

Scientex Berhad

1Q18 Within Expectations

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1Q18 core earnings of RM69.8m came within our and consensus estimates. No dividends, as expected. No changes to FY18-19E earnings where we are expecting its manufacturing capacity to increase to 340k MT p.a (+12% YoY) in FY18, while for FY19, earnings growth is premised on higher utilisation rate and stable property segment. **Maintain MARKET PERFORM and TP of RM8.43.**

1Q18 core net profit of RM69.8m is within our (20%) and consensus (21%) estimates. No dividends, as expected.

Results highlight. QoQ, CNP was up by 2% mainly due to decent top-line growth (+2%) backed by the growth in manufacturing segment (+8%) on improved export sales, which negated the impact from the decline in its property segment (-10%) due to lower recognition. Although EBIT margin saw mild improvement (+1.0ppt), higher effective tax rates this quarter caused flattish CNP margin. **YoY-Ytd**, top-line was up by 23% driven by both segments; (i) manufacturing, from higher export sales 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% (from 10%) on (i) better manufacturing and property EBIT margins likely due to a better product mix, and (ii) lower financing cost (-33%).

Outlook. SCIENTEX's consumer packaging plant expansion is expected to complete by end-CY17, while the Group will focus on ramping up capacity going forward. Its industrial packaging segment is focused on expansion in the United States with contributions (<5% to earnings) accreting mostly in FY19. We believe the Group will allocate c.RM140-100m for capex in FY18-19. The Group is targeting RM800-1,000m worth of launches in FY18.

Maintain FY18-19E CNP of RM347.3-360.8m. FY18 CNP growth will be driven by increased manufacturing capacity (+12% YoY) to 340k MT p.a. While we do not expect additional capacity in FY19, growth is premised on increased utilisation rates for the manufacturing segment in FY18-19 of 70-85%, and stable earnings from the property segment.

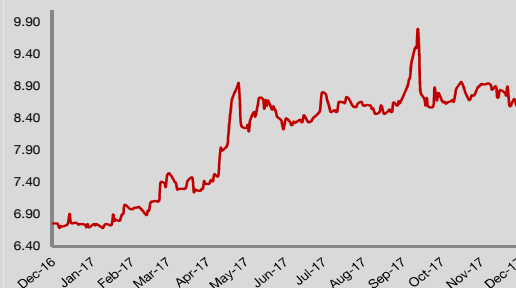
Maintain MARKET PERFORM and TP of RM8.43. Our TP is based on our Sum-of-Parts (SoP) FY18E valuations with; (i) an unchanged 6.8x PER for the Property segment, which is at a 10% discount to small-mid-cap property players due to SCIENTEX's exposure in the challenging Johor market, and (ii) 17.4x applied PER for the manufacturing segment. We are comfortable with our MARKET PERFORM call as foreseeable upsides and risks have been accounted for.

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.

MARKET PERFORM ↔

Price : RM8.58
Target Price : RM8.43 ↔

Share Price Performance



KLCI	1,718.33
YTD KLCI chg	4.7%
YTD stock price chg	28.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	4,150.1
Issued shares	483.7
52-week range (H)	9.85
52-week range (L)	6.67
3-mth avg daily vol:	306,586
Free Float	62%
Beta	0.4

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.	328.3	353.7
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	50.0	68.1	70.8
Core EPS growth (%)	2.6	36.2	4.0
NDPS (sen)	14.9	20.4	21.2
BVPS (RM)	3.00	4.00	4.80
Core PER	17.2	12.6	12.1
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

Results Highlights					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY18	FY17	Chg	FY17	Chg
Turnover	658.7	646.1	2%	534.7	23%
EBIT	93.2	85.5	9%	68.8	35%
Interest income	1.7	1.9	-14%	1.0	59%
Finance costs	(2.3)	(3.2)	-26%	(3.5)	-33%
Associates	0.0	0.0	n.a.	0.0	N.M.
Pretax profit	92.6	84.3	10%	66.4	39%
Taxation	(19.2)	(11.1)	73%	(13.4)	43%
Profit after tax	73.4	73.2	0%	53.0	39%
Minority interest	(1.0)	(1.1)	-9%	(0.9)	7%
Net profit	72.4	72.1	0%	52.1	39%
Core net profit	69.8	68.7	2%	52.2	34%
Core EPS (sen)	14.4	14.3	1%	11.3	27%
NDPS (sen)	0.0	10.0	N.M.	0.0	N.M.
NTA/share (RM)	3.3	3.2	4%	2.6	25%
EBIT margin	14%	13%		13%	
Pretax margin	14%	13%		12%	
Core net profit margin	11%	11%		10%	
Effective tax rate	21%	13%		20%	

Source: Company, Kenanga Research

Segmental Breakdown					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
Y/E : July (RM mn)	FY18	FY17	Chg	FY17	Chg
Turnover					
Manufacturing	469.1	435.3	8%	379.7	24%
Property	189.6	210.8	-10%	155.0	22%
Group Turnover	658.7	646.1	2%	534.7	23%
Segment Results					
Manufacturing	34.7	18.8	84%	23.8	46%
Property	58.6	66.7	-12%	45.1	30%
Group EBIT	93.2	85.5	9%	68.8	35%
EBIT Margin					
Manufacturing	7%	4%		6%	
Property	31%	32%		29%	
Group EBIT Margin	14%	13%		13%	

Source: Company, Kenanga Research

Peer Comparison

NAME	Price (06/12/17)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY17/18 NP Growth (%)	FY18/19 NP Growth (%)	Target Price (RM)	Rating
	(RM)		FY16/17	FY17/18	FY18/19				FY16/17	FY17/18	FY18/19				
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	8.58	4,150.1	17.2	12.6	12.1	2.4%	16.6	2.1	255.0	347.3	360.8	36.2%	3.9%	8.43	MARKET PERFORM
SLP RESOURCES BHD	1.80	570.5	19.5	30.8	18.4	1.9%	19.4	3.1	29.3	18.5	31.0	-36.6%	67.2%	1.83	MARKET PERFORM
THONG GUAN INDUSTRIES BHD	4.11	549.2	14.3	12.6	11.1	3.4%	9.7	1.7	53.0	60.0	68.2	13.2%	13.7%	5.67	OUTPERFORM
SCGM BHD	2.69	519.5	25.4	20.7	16.3	2.4%	13.7	2.0	22.6	27.7	35.1	22.6%	26.5%	3.00	MARKET PERFORM
TOMYPAK HOLDINGS	0.98	411.0	28.7	33.8	21.8	2.1%	11.7	2.5	19.0	16.2	24.8	-14.8%	53.1%	0.82	UNDERPERFORM
Simple Average			21.0	22.1	15.9										
Weighted Average			18.6	16.4	13.6										

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%
 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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