

23 March 2018

# Scientex Berhad

## 1H18 Below Expectations

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**1H18 core earnings of RM140.2m came below our and consensus estimates on weaker-than-expected utilisation rates. No dividends, as expected. We lower FY18-19E CNP by 16-15% on lower utilisation rates and USD/MYR assumptions. FY18E CNP will be driven by manufacturing capacity (+44% YoY), and FY19E on improved utilisation, inclusion of KHP and stable property contributions. Maintain MARKET PERFORM but lower TP to RM7.75 (from RM9.00).**

**1H18 core net profit of RM140.2m came in below our and consensus estimates at 40% and 42%, respectively. We believe the weaker-than-expected results were due to our and consensus bullish topline assumptions as we expected improved utilization rates from the ramp up of the new capacity at the Pulau Indah BOPP plant, Ipoh plant and Arizona plant in FY18. All in, topline only made up 40% of our estimate as we expected utilization rates of 70-85% in FY18-19 vs. current levels of c.60%. No dividends, as expected.**

**Results highlight. QoQ**, topline declined by 4% on lower sales from both the property and manufacturing segment. All in, weaker EBIT margins (-1.0ppt) and marginally lower tax rates (19% vs. 21%) caused bottom-line to decrease by 6%. **YoY-Ytd**, topline was up by 15% driven by both segments; (i) manufacturing, from higher export sales as the biaxially oriented polypropylene film (BOPP) plant ramped up capacity, and (ii) property segment on steady construction progress from existing projects in Johor, Melaka and Perak. All in, CNP margin improved by 1.0ppt on lower financing cost (-35%), increasing CNP by 20%.

**Outlook.** SCIENTX's is focused on ramping up utilisation, targeting 70% over the next few years (vs. 60% currently), mostly from its BOPP plant and Arizona plant in the United States which will mostly contribute from FY19 onwards. FY18 CNP growth will be driven by increased manufacturing capacity (+44% YoY) to 455k MT p.a. While we do not expect additional capacity in FY19, growth is premised on; (i) increased utilisation rates for the manufacturing segment in FY18-19 of 62-65%, (ii) full-year contributions from KHPI in FY19, and (iii) stable earnings from the property segment. Unbilled sales of RM500m will be recognized over 2-3 years, while the Group is targeting RM800-1,100m worth of launches in FY18.

**Lower FY18-19E CNP by 16-15% to RM293-318m post accounting for;** (i) lower utilisation rates of 62-65% in FY18-19 (vs. our previous estimates of 70-85%), and (ii) lower USD/MYR assumptions to RM3.90 (vs. RM4.10 previously) in line with our in-house estimates.

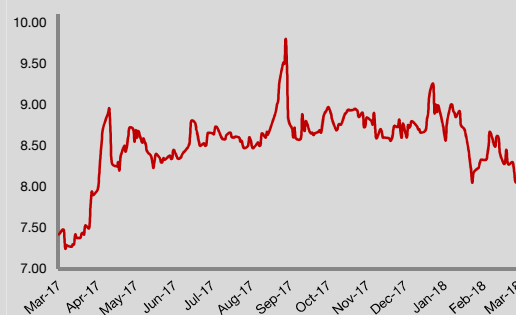
**Maintain MARKET PERFORM but lower TP to RM7.75 (from RM9.00)** post lowering our earnings for FY19E valuations. Our TP is based on our Sum-of-Parts (SoP) FY19E valuations with; (i) an unchanged 6.8x PER for the property segment, which is at a 10% discount to small-mid-cap property players due to SCIENTX's 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 we believe foreseeable risks and upsides have been discounted.

**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 :** RM8.03  
**Target Price :** RM7.75 ↓

### Share Price Performance



KLCI	1,876.87
YTD KLCI chg	4.5%
YTD stock price chg	-7.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,926.1
Issued shares	488.9
52-week range (H)	9.85
52-week range (L)	7.23
3-mth avg daily vol:	162,193
Free Float	62%
Beta	0.9

### Major Shareholders

Scientex Holdings Sdn Bhd	20.9%
Scientex Leasing Sdn Bhd	9.7%
Lim Teck Meng Sdn Bhd	7.8%

### Summary Earnings Table

FYE Jul (RM m)	2017A	2018E	2019E
Turnover	2403.2	2905.8	3396.6
EBIT	325.1	377.4	406.8
PBT	318.0	376.0	407.2
<b>Net Profit (NP)</b>	<b>255.9</b>	<b>293.3</b>	<b>317.8</b>
<b>Core NP*</b>	<b>255.2</b>	<b>293.3</b>	<b>317.8</b>
Consensus (NP)	n.a.	330.3	382.5
Earnings Revision	n.a.	-16%	-15%
Core EPS (sen)	50.0	57.5	62.3
Core EPS growth (%)	2.8	15.0	8.4
NDPS (sen)	14.9	17.3	18.7
BVPS (RM)	3.00	4.13	4.95
Core PER	16.1	14.0	12.9
PBV (x)	2.7	1.9	1.6
Net Gearing (x)	0.21	0.16	0.10
Net Div. Yield (%)	1.9	2.1	2.3

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**OTHER POINTS**

<b>Results Highlights</b>								
	<b>2Q</b>	<b>1Q</b>	<b>Q-o-Q</b>	<b>2Q</b>	<b>Y-o-Y</b>	<b>6M</b>	<b>6M</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY18</b>	<b>FY18</b>	<b>Chg</b>	<b>FY17</b>	<b>Chg</b>	<b>FY18</b>	<b>FY17</b>	<b>Chg</b>
Turnover	634.8	658.7	-4%	586.2	8%	1293.4	1120.9	15%
EBIT	84.9	93.2	-9%	82.6	3%	178.2	151.4	18%
Interest income	2.7	1.7	63%	2.9	-7%	4.4	4.0	11%
Finance costs	(2.3)	(2.3)	-3%	(3.6)	-38%	(4.6)	(7.1)	-35%
Associates	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
<b>Pretax profit</b>	<b>85.4</b>	<b>92.6</b>	<b>-8%</b>	<b>81.8</b>	<b>4%</b>	<b>177.9</b>	<b>148.2</b>	<b>20%</b>
Taxation	(16.5)	(19.2)	-14%	(15.5)	6%	(35.6)	(28.9)	23%
Profit after tax	68.9	73.4	-6%	66.3	4%	142.3	119.3	19%
Minority interest	(0.9)	(1.0)	-7%	(1.1)	-18%	(1.9)	(2.1)	-7%
<b>Net profit</b>	<b>68.0</b>	<b>72.4</b>	<b>-6%</b>	<b>65.2</b>	<b>4%</b>	<b>140.4</b>	<b>117.2</b>	<b>20%</b>
<b>Core net profit</b>	<b>67.9</b>	<b>72.3</b>	<b>-6%</b>	<b>65.2</b>	<b>4%</b>	<b>140.2</b>	<b>117.2</b>	<b>20%</b>
Core EPS (sen)	14.0	15.0	-6%	14.2	-1%	0.0	0.0	14%
NDPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
NTA/share (RM)	3.4	3.3	3%	2.3	49%	3.4	2.3	49%
EBIT margin	13%	14%		14%		14%	14%	
Pretax margin	13%	14%		14%		14%	13%	
Core net profit margin	11%	11%		11%		11%	10%	
Effective tax rate	19%	21%		19%		20%	20%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
	<b>2Q</b>	<b>1Q</b>	<b>Q-o-Q</b>	<b>2Q</b>	<b>Y-o-Y</b>	<b>6M</b>	<b>6M</b>	<b>Y-o-Y</b>
<b>Y/E : July (RM mn)</b>	<b>FY18</b>	<b>FY18</b>	<b>Chg</b>	<b>FY17</b>	<b>Chg</b>	<b>FY18</b>	<b>FY17</b>	<b>Chg</b>
<b>Turnover</b>								
Manufacturing	456.4	469.1	-3%	411.9	11%	925.5	791.6	17%
Property	178.3	189.6	-6%	174.3	2%	367.9	329.4	12%
<b>Group Turnover</b>	<b>634.8</b>	<b>658.7</b>	<b>-4%</b>	<b>586.2</b>	<b>8%</b>	<b>1293.4</b>	<b>1120.9</b>	<b>15%</b>
<b>Segment Results</b>								
Manufacturing	31.6	34.7	-9%	30.2	4%	66.3	54.0	23%
Property	53.3	58.6	-9%	52.3	2%	111.9	97.4	15%
<b>Group EBIT</b>	<b>84.9</b>	<b>93.2</b>	<b>-9%</b>	<b>82.6</b>	<b>3%</b>	<b>178.2</b>	<b>151.4</b>	<b>18%</b>
<b>EBIT Margin</b>								
Manufacturing	7%	7%		7%		7%	7%	
Property	30%	31%		30%		30%	30%	
<b>Group EBIT Margin</b>	<b>13%</b>	<b>14%</b>		<b>14%</b>		<b>14%</b>	<b>14%</b>	

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (23/3/18)	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)	
<b>PLASTICS UNDER COVERAGE</b>															
SCIENTEX BHD	8.03	3,926.1	16.1	14.0	12.9	2.1%	16.6	1.9	255.2	293.3	317.8	14.9%	8.4%	7.75	MARKET PERFORM
SLP RESOURCES BHD	1.28	405.7	22.1	15.2	13.1	2.7%	19.4	1.9	18.3	26.7	31.0	45.9%	16.1%	1.55	MARKET PERFORM
THONG GUAN INDUSTRIES BHD	2.88	392.0	11.0	9.9	9.3	3.5%	9.7	1.2	48.1	53.4	56.9	11.0%	6.6%	4.05	OUTPERFORM
SCGM BHD	1.52	293.0	14.3	16.9	15.4	3.0%	13.7	1.5	22.6	19.3	21.1	-14.6%	9.3%	1.75	MARKET PERFORM
TOMYPAK HOLDINGS	0.850	356.6	62.5	29.0	22.7	2.5%	11.7	1.7	7.6	16.3	20.9	114.5%	28.2%	0.510	UNDERPERFORM
<b>Simple Average</b>			<b>25.2</b>	<b>17.0</b>	<b>14.7</b>										
<b>Weighted Average</b>			<b>19.1</b>	<b>14.9</b>	<b>13.4</b>										

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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