

25 September 2014

Scientex Bhd

Stellar 4Q14 Results

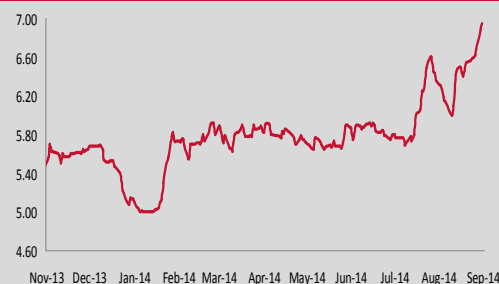
By Ooi Mong Huey | monghuey@kenanga.com.my

- Period** ■ 4Q14/FY14
- Actual vs. Expectations** ■ SCIENTX recorded 4Q14 net profit of RM48.8m, bringing FY14 net profit to RM148.5m which was 8.1% and 4.8% above our forecast and consensus, respectively. The variance from our forecast was due to better-than-expected profit margins for the manufacturing segment.
- Dividends** ■ A single tier final dividend of 13.0 sen was declared in 4Q14, bringing the total for FY14 to 21.0 sen, which was within our dividend forecast of 20.9 sen.
- Key highlights** ■ 4Q14 net profit grew 34% QoQ to RM48.8m mainly due to better product mix in manufacturing segment (with the shift to more consumer packaging) and lower effective tax rate (11% in 4Q14 vs. 23% in 3Q14) due to a tax rebate entitlement for the ongoing capacity expansion.
 ■ On a YoY comparison, 4Q14 net profit surged by 61% mainly due to the lower effective tax rate (11% in 4Q14 vs. 22% in 4Q13) and better margin in manufacturing segment (6% in 4Q14 vs. 4% in 4Q13) again due to the better product mix as mentioned above.
 ■ FY14 net profit grew by 35% due to: (i) better performance achieved from industrial packaging and the full year contribution from consumer packaging products (vs 6 months contribution in FY13) in the manufacturing segment and (ii) overwhelming response to the Taman Scientex Senai project in the property segment.
- Outlook** ■ In conjunction with the FY14 result announcement yesterday, SCIENTX held a signing ceremony between Scientex Great Wall Sdn Bhd (SGW) and Futamura Chemical Co., Ltd. The agreement entails SGW investing RM300m CAPEX over the next 3 years (2014-2016) to increase its capacity to 120,000MT p.a. (from 30,000MT p.a.). This will spur SCIENTX's consumer packaging segment.
 ■ SCIENTX also acquired its first nano-layer technology line recently which is able to produce up to 22-layer films and reduces the stretch films thickness to 6 micron. This could be another margin driver for the stretch film segment.
 ■ The above developments will enhance the manufacturing segment, which could accelerate the prospects of spinning off the Group's property division.
- Change to Forecasts** ■ We are adjusting our FY15E earnings forecasts to RM169.7m (+4.9%) after increasing the capacity (from 32,000MT p.a. to 52,000MT p.a.) and utilisation rate (from 67.5% to 70.0%) of the consumer packaging segment.
 ■ Meanwhile, we introduce FY16E earnings forecasts of RM179.6m on which we assume earnings growth of 4.8% and 3.9% in manufacturing segment (increase in average utilisation rate of 65.0% in FY16 vs 63.3% in FY15) and property segment (launching more affordable house), respectively. We highlight that our net profit forecasts for FY16E do not include the additional BOPP film's new production capacity from the Futamura deal pending a clearer timeline of the expansion plan.
- Rating** **Maintain OUTPERFORM**
- Valuation** ■ We raise our ascribed PER for manufacturing segment to 13.0x (from 10.2x) a premium to TGUAN due to its larger stretch film's capacity but at a 23% discount to DAIBOCI PER of 16.0x due to lower manufacturing margins. (SCIENTX's manufacturing segment EBIT margin of 5.8% vs. DAIBOCI's EBIT margin of 16.8%)
 ■ As a result of the higher manufacturing earnings forecast and adjustment of the ascribed PER and FD RNAV (due to revised remaining GDV value), our new SoP-based target price is now at RM7.63/share from RM6.34/share.
- Risks to Our Call** ■ Sharp increases in crude oil/resin prices which could disrupt the raw material pass-through mechanism.
 ■ Property sector risks, including negative policies.

OUTPERFORM ↔

Price: RM6.95
Target Price: RM7.63 ↑

Share Price Performance



KLCI	1840.08
YTD KLCI chg	-1.4%
YTD stock price chg	22.1%

Stock Information

Bloomberg Ticker	SCI MK
Market Cap (RM m)	1,537.03
Issued shares	221.16
52-week range (H)	7.00
52-week range (L)	4.94
3-mth avg daily vol:	234,597
Free Float	61%
Beta	1.4

Major Shareholders

SCIENTEX HOLDINGS S/B	19.7%
SCIENTEX LEASING S/B	10.5%
SIM SWEE TIN SDN S/B	5.6%

Summary Earnings Table

FY July (RM'm)	2014A	2015E	2016E
Turnover	1590.5	1920.5	2007.8
EBIT	189.6	215.8	227.1
PBT	186.3	216.3	229.1
Net Profit (NP)	148.5	169.7	179.6
Core Net Profit	148.5	169.7	179.6
Consensus (NP)	N.A.	168.3	196.5
Earnings Revision	N.A.	+4.9%	-
EPS (sen)	68.7	78.5	83.1
EPS growth (%)	34.6	14.3	5.8
Net DPS (sen)	21.0	23.6	24.9
BV (RM)	3.3	3.8	4.4
NTA/share (RM)	3.3	3.8	4.4
PER (x)	10.1	8.8	8.4
PBV (x)	2.1	1.8	1.6
P/NTA (x)	2.1	1.8	1.6
Gearing (%)	-0.4	-0.2	-0.1
Div. Yield (%)	3.0	3.4	3.6

Result Highlights								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY July (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	415.4	426.8	-3%	371.2	12%	1590.5	1229.0	29%
EBIT	56.2	49.0	15%	40.5	39%	189.6	146.1	30%
Interest income	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Finance costs	(1.9)	(1.8)	5%	(1.6)	21%	(7.1)	(4.5)	60%
Associates	1.7	1.0	81%	1.3	28%	3.8	1.3	184%
Pretax profit	56.0	48.1	17%	40.2	39%	186.3	143.0	30%
Taxation	(6.2)	(10.9)	-43%	(8.9)	-31%	(34.8)	(30.5)	14%
Minority interest	(1.0)	(0.8)	19%	(1.0)	-3%	(3.1)	(2.2)	38%
Net profit	48.8	36.3	34%	30.3	61%	148.5	110.3	35%
Core net profit	48.8	36.3	34%	30.3	61%	148.5	110.3	35%
EPS (sen)	22.6	16.8	34%	14.0	61%	68.7	51.0	35%
NDPS (sen)	13.0	8.0	63%	19.0	-32%	21.0	26.0	-19%
NTA/share (RM)	3.22	3.10	4%	2.84	13%	3.22	2.84	13%
EBIT margin	14%	11%		11%		12%	12%	
Pretax margin	13%	11%		11%		12%	12%	
Core net profit margin	12%	9%		8%		9%	9%	
Effective tax rate	11%	23%		22%		19%	21%	

Source: Company, Kenanga Research

Segmental Results								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY July (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Revenue:								
Manufacturing	297.3	317.2	-6%	277.4	7%	1192.2	918.8	30%
Property Development	118.1	109.6	8%	93.8	26%	398.3	310.2	28%
Total	415.4	426.8	-3%	371.2	12%	1590.5	1229.0	29%
Operating Profit:								
Manufacturing	18.8	16.3	15%	11.1	69%	68.8	47.4	45%
Property Development	36.9	32.5	14%	31.4	17%	120.9	98.7	22%
Foreign exchange difference	0.6	0.2	201%	(2.0)	-128%	0.0	0.0	N.A.
Total	56.2	49.0	15%	40.5	39%	189.6	146.1	30%
Operating Margins:								
Manufacturing	6%	5%		4%		6%	5%	
Property Development	31%	30%		33%		30%	32%	

Source: Company, Kenanga Research

SOP Valuation			Comments
	RM m		
Property	992.4		Property development RNAV-DCF of Future Profits @ 10% WACC. Applied 35% discount to the RNAV value. 13.0x FY15E PER
Manufacturing	763.4		
SOP	1,755.8		
No. of Shares (m)	230.0		
SOP per Share	RM7.63		

Source: Kenanga Research

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Other points:

Strategic alliance with Futamura. In conjunction with the FY14 result announcement yesterday, SCIENTEX held a signing ceremony between Scientex Great Wall Sdn Bhd (SGW) & Futamura Chemical Co. Ltd. The agreement entails SGW investing RM300m CAPEX over the next 3 years (2014-2016) to increase the BOPP capacity to 120,000MT p.a. (from 30,000MT p.a.). The capacity expansion (4x capacity growth) is expected to bring the segment's revenue to the RM1b mark (from the recorded FY14 revenue of RM295m), and assuming a PBT margin of 7%-8%, this segment should yield a PBT of c.RM70-80m p.a. In order to maintain its long-term partnership with Futamura, SGW will issue 10m shares, while SCIENTEX and Futamura will inject RM40m capital respectively for the 5m shares issued. Futamura is entitled to purchase up to 20% of SGW over the next 5 years. In addition, SCIENTEX had also signed machineries agreement with business partners Windmoeller & Hoelscher, Hudson-Sharp and The Japan Steel Works. Ltd. The 9-layer Barrier Film Line machine and 10-color CI Flexo Press are the first in Southeast Asia. These new machineries will enhance SCIENTEX's production capability and the consumer packaging segment's margin.

SGW 3-year plan



Source: Company, Kenanga Research

Equity participation of Futamura



Source: Company, Kenanga Research

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New machineries

Barrier Film	Printing	Bread Bag
 <p>Barrier Film</p>	 <p>Printed Film</p>	 <p>Wicket Bags</p>
<p>Business partner:</p> 	<p>Business partner:</p> 	<p>Business partner:</p> 
 <p>9-layer Barrier Film Line</p>	 <p>10-color CI Flexo Press</p>	 <p>High Speed Servo Wicketter</p>
<p>Benefits:</p> <ul style="list-style-type: none"> ▪ 9 extruders solutions ▪ High film quality ▪ High productivity ▪ High flexibility ▪ Fast changeovers 	<p>Benefits:</p> <ul style="list-style-type: none"> ▪ High productivity ▪ High print quality (10 colours) ▪ Capable of water based inks ▪ Fast changeover 	<p>Benefits:</p> <ul style="list-style-type: none"> ▪ Consistent bag quality ▪ High output (400 cycles/min) ▪ High versatility (multiple bag options) ▪ High productivity (auto seal bar cleaning)

Source: Company, Kenanga Research

Added in new nano stretch film production line. Stretch films available in the current market are generally between 12-15 micron thicknesses. Recently, SCIENTX acquired its first nano-layer technology line which is able to produce up to 22-layer films and reduces the stretch films thickness to 6 micron. The nano-layer stretch films have stronger puncture force; higher stretch ability and tear resistance which fetch higher profit margins compared to the traditional stretch film

Plastics and Packaging Companies Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY13	CY14	CY15				CY14	CY15		
SCIENTX	6.95	1,537.0	12.2	9.8	8.8	3.4	19.0	2.3	24.7	10.5	7.63	OP
TGUAN	2.19	230.4	8.2	6.6	5.9	4.5	9.7	0.8	23.3	12.1	3.70	OP
Simple average			10.2	8.2	7.4							
Weighted average			16.2	13.9	12.2							

Source: Kenanga Research

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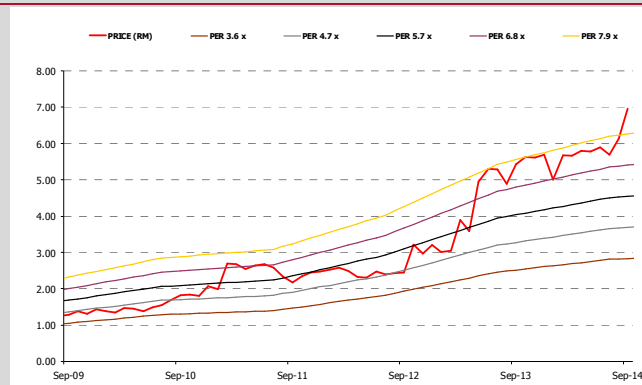
Income Statement						Financial Data & Ratios					
FY Jul (RM m)	2012A	2013A	2014A	2015E	2016E	FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	881.0	1229.0	1590.5	1920.5	2007.8	Growth					
EBITDA	130.7	177.6	229.2	270.0	289.5	Turnover (%)	9.6	39.5	29.4	20.8	4.5
Depreciation	-23.0	-31.5	-39.5	-54.2	-62.4	EBITDA (%)	9.6	36.0	29.0	17.8	7.2
Operating Profit	107.6	146.1	189.6	215.8	227.1	Operating Profit (%)	10.4	35.8	29.8	13.8	5.2
Interest Exp	-0.9	-4.5	-7.1	-3.5	-2.2	PBT (%)	10.9	33.4	30.3	16.1	5.9
Associate	0.5	1.3	3.8	4.0	4.2	Core Net Profit (%)	8.6	31.4	34.6	14.3	5.8
Exceptional Items	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	107.2	143.0	186.3	216.3	229.1	EBITDA	14.8	14.5	14.4	14.1	14.4
Taxation	-19.3	-30.5	-34.8	-43.3	-45.8	Operating Profit	12.2	11.9	11.9	11.2	11.3
Minority Interest	-4.0	-2.2	-3.1	-3.4	-3.7	PBT	12.2	11.6	11.7	11.3	11.4
Net Profit	83.9	110.3	148.5	169.7	179.6	Net Profit	9.5	9.0	9.3	8.8	8.9
Core Net Profit	83.9	110.3	148.5	169.7	179.6	Core Net Profit	9.5	9.0	9.3	8.8	8.9
						Effective Tax Rate	3.3	18.0	21.3	18.7	20.0
						ROA	10.9	10.5	11.1	11.9	11.9
						ROE	16.9	19.1	22.1	22.0	20.1
						DuPont Analysis					
						Net Margin (%)	9.5	9.0	9.3	8.8	8.9
						Assets Turnover (x)	1.7	1.2	1.4	1.6	1.6
						Leverage Factor (x)	1.0	1.6	1.5	1.4	1.3
						ROE (%)	16.0	17.5	20.8	20.4	18.8
						Leverage					
						Debt/Asset (x)	0.1	0.3	0.3	0.1	0.1
						Debt/Equity (x)	0.1	0.5	0.5	0.2	0.1
						Net Cash/(Debt)	-19.4	-183.3	-256.7	-156.5	-105.1
						Net Debt/Equity	0.0	-0.3	-0.4	-0.2	-0.1
						Valuations					
						EPS (sen)	39.0	51.0	68.7	78.5	83.1
						NDPS (sen)	7.0	26.0	21.0	23.6	24.9
						BV (RM)	2.4	2.9	3.3	3.8	4.4
						NTA (RM)	2.4	2.9	3.3	3.8	4.4
						PER	17.8	13.6	10.1	8.8	8.4
						Net Dividend Yield	1.0	3.7	3.0	3.4	3.6
						PBV	2.8	2.4	2.1	1.8	1.6
						P/NTA	2.8	2.4	2.1	1.8	1.6
						EV/EBITDA	11.6	9.5	7.7	6.1	5.5

Balance Sheet					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	210.9	491.3	552.1	632.9	735.5
Prepaid lease	0.0	0.0	0.0	0.0	0.0
Other Inv.	9.7	9.6	9.6	9.0	9.0
Other FA	292.7	288.6	297.9	288.4	274.4
Inventories	61.0	80.7	109.0	135.7	141.2
Receivables	124.1	192.0	243.5	274.0	286.4
Other CA	74.4	72.0	104.6	105.3	91.8
Cash	36.3	152.2	83.8	17.4	4.9
Total Assets	809.0	1286.4	1400.4	1462.6	1543.3
Payables	155.6	258.4	272.1	369.5	385.2
ST Borrowings	50.7	167.6	262.9	133.9	80.0
Other ST Liability	6.8	10.8	11.5	13.9	14.5
LT Borrowings	5.0	167.8	77.5	40.0	30.0
Other LT Liability	31.2	33.0	40.9	46.5	47.8
Minorities Int.	34.0	20.0	22.7	27.4	28.7
Net Assets	525.7	628.7	712.7	831.5	957.2
Share Capital	115.0	115.0	115.0	115.0	115.0
Reserves	410.7	513.7	597.7	716.5	842.2
Equity	525.7	628.7	712.7	831.5	957.2

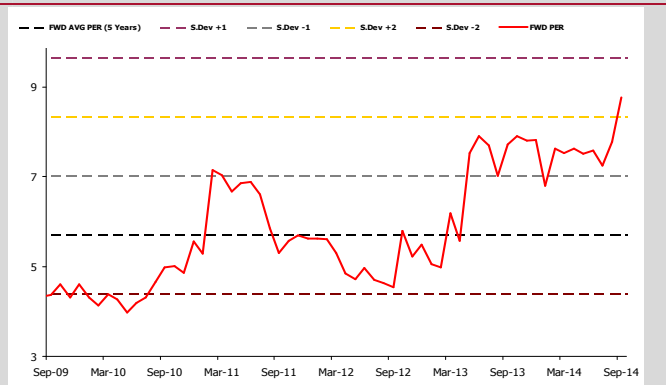
Cashflow Statement					
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	129.4	213.1	153.5	106.9	273
Investing CF	-111.8	-348.5	-149.2	-135.0	-165
Financing CF	-22.0	251.2	-72.7	-38.3	-120
Change In Cash	-4.4	115.8	-68.4	-66.4	-12
Free CF	17.6	-135.4	4.3	-28.1	108
Capex	-40.9	-57.2	-65.7	-135.0	-165

Source: Kenanga Research

Fwd PER Band



Fwd PER Standard Deviation



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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