

21 March 2014

## Scientex Bhd

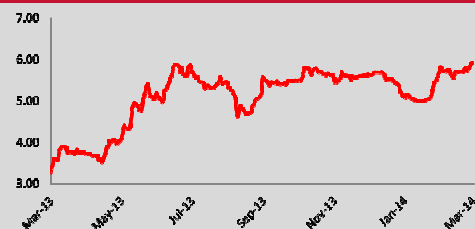
### Positive Outlook Intact

- Period** ■ 2Q14/1H14
- Actual vs. Expectations** ■ SCIENTEX recorded 2Q14 net profit (NP) of RM33.9m (+15.6% QoQ, +32.5% YoY), bringing its 1H14 NP to RM63.3m (+25.3% YoY).  
 ■ This is slightly below expectations, at 40.8% of our full-year estimates and 41.7% of the consensus numbers, with the key culprits being: (i) higher raw material costs, which affected margins for the manufacturing segment and (ii) overly aggressive estimates for property launches.
- Dividends** ■ No dividends were declared for the quarter, as expected.
- Key highlights** ■ **QoQ**, SCIENTEX registered a topline growth of 5.1% while net profit increased by 15.6%. Revenue from the manufacturing segment was flat (-0.3% QoQ) with higher resin prices and the electricity tariff hike leading to a 9.9% QoQ decline in EBIT. Nevertheless, the property segment was more than able to offset the weaker performance from the manufacturing segment, with a 25.7% revenue growth and 32.1% increase in EBIT.  
 ■ **YoY**, SCIENTEX's 2Q14 Group revenue rose by 41.5% with growth being driven by both the manufacturing segment (+49.1%) and the property segment (+22.5%). For the manufacturing segment, the increase in revenue was underpinned by higher demand for stretch film products in the Asia-Pacific region as well as full-quarter contributions from the consumer packaging products. At the same time, the Group's property division benefited from positive responses for new launches and higher progress billings from existing projects. Given the larger contribution from the lower margin manufacturing segment, overall net profits increased by smaller proportion of 32.5% YoY.  
 ■ **YTD**, 1H14 revenue enjoyed a decent growth of 46.0% with increases from both the manufacturing (+57.8% YoY) and property segments (16.4% YoY). In addition to the higher stretch film sales mentioned above, the manufacturing segment also benefited from a full 6-month contribution from the newly acquired consumer packaging subsidiary compared to just 1-month contribution in 1H13 (Jan 2013). Meanwhile, revenue growth from the property segment was attributed to resilient demand in Iskandar Malaysia and Melaka as a result of its strategic location and affordable selling prices. In line with the better topline performance, 1H14 net profit rose by 25.3%.
- Outlook** ■ While the rise in raw material prices had affected margins for the manufacturing segment, we remain positive on Scientex's longer-term prospects. Ongoing expansion plans for higher margin consumer packaging films and product extensions such as the thinner gauge film (6 microns) should also provide added buffers against margin contractions.  
 ■ At the same time, the group has also recently completed the expansion of its stretch film capacity to 194k MT/ annum (Dec 2013), which would provide the impetus for growth in manufacturing revenue and accelerate the prospects of spinning off the Group's property division- a potential rerating catalyst for the stock.
- Change to Forecasts** ■ We are trimming our FY14-15E earnings forecasts to RM145.5m (-6.1%) and RM170.4m (-6.8%), respectively, after reducing our gross margin assumptions for the manufacturing segment, and also by assuming less aggressive property launches.
- Rating** **Maintain OUTPERFORM**
- Valuation** ■ Despite the slightly lower earnings forecast, we are raising our SOP-based TP to RM6.69 (from RM6.28) after rolling over our manufacturing segment valuation base year to FY15.
- Risks to Our Call** ■ Sharp increases to crude oil/resin prices which could disrupt the raw material pass-through mechanism.  
 ■ Property sector risks, including negative policies.

## OUTPERFORM ↔

**Price:** RM5.92  
**Target Price:** RM6.69 ↑

### Share Price Performance



KLCI	1818.17
YTD KLCI chg	-2.6%
YTD stock price chg	4.0%

### Stock Information

Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	1,309.2
Issued shares	221.2
52-week range (H)	6.03
52-week range (L)	3.23
3-mth avg daily vol:	241,392
Free Float	64%
Beta	1.3

### 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)	2013A	2014E	2015E
Turnover	1,229.0	1,692.0	1,946.7
EBIT	146.1	195.4	226.4
PBT	143.0	189.3	221.3
<b>Net Profit (NP)</b>	<b>110.3</b>	<b>145.5</b>	<b>170.4</b>
<b>Core Net Profit</b>	<b>110.3</b>	<b>145.5</b>	<b>170.4</b>
Consensus (NP)	-	151.7	181.7
Earnings Revision	-	-6.1%	-6.8%
EPS (sen)	47.9	63.2	74.1
EPS growth (%)	31.4	31.9	17.2
NDPS (sen)	16.0	22.1	25.9
BVPS (RM)	2.7	2.7	2.7
Core PER	12.3	9.4	8.0
Price/BVPS (x)	2.2	2.2	2.2
Net Gearing (x)	0.3	0.2	0.1
Dividend Yield (%)	2.7	3.7	4.4

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Result Highlights								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY July (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	383.5	364.8	5.1%	271.1	41.5%	748.3	512.7	46.0%
EBIT	45.1	39.3	14.8%	34.2	32.0%	84.4	65.7	28.6%
PBT	44.4	37.8	17.5%	33.2	33.8%	82.2	64.5	27.4%
Tax	(9.7)	(7.9)	22.5%	(7.2)	35.2%	(17.7)	(13.2)	33.4%
Minority Interest	(0.8)	(0.5)	53.0%	(0.4)	92.1%	(1.2)	(0.8)	57.0%
<b>Net Profit (NP)</b>	<b>33.9</b>	<b>29.3</b>	<b>15.6%</b>	<b>25.6</b>	<b>32.5%</b>	<b>63.3</b>	<b>50.5</b>	<b>25.3%</b>
EPS (sen)	15.3	13.3	15.6%	11.9	28.8%	28.6	23.5	21.8%
EBIT margin (%)	11.8%	10.8%		12.6%		11.3%	12.8%	
PBT margin (%)	11.6%	10.4%		12.2%		11.0%	12.6%	
NP margin (%)	8.8%	8.0%		9.4%		8.5%	9.8%	
Effective tax rate (%)	-21.9%	-21.0%		-21.7%		-21.5%	-20.5%	
Net Gearing (x)	0.42	0.37		0.28		0.42	0.28	
BV/Share (RM)	2.92	2.85		2.82		2.92	2.82	

Source: Company, Kenanga Research

Segmental Results								
	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FY July (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
<b>Revenue:</b>								
Manufacturing	288.5	289.2	-0.3%	193.6	49.1%	577.7	366.2	57.8%
Property Development	95.0	75.6	25.7%	77.5	22.5%	170.6	146.5	16.4%
<b>Total</b>	<b>383.5</b>	<b>364.8</b>	<b>5.1%</b>	<b>271.1</b>	<b>41.5%</b>	<b>748.3</b>	<b>512.7</b>	<b>46.0%</b>
<b>Operating Profit:</b>								
Manufacturing	15.9	17.7	-9.9%	10.6	51.0%	33.6	21.0	60.5%
Property Development	29.3	22.2	32.1%	23.0	27.3%	51.5	44.0	17.0%
Foreign exchange difference	-0.2	-0.6	-73.0%	0.6	-128.4%	-0.8	0.7	-213.6%
<b>Total</b>	<b>45.1</b>	<b>39.3</b>	<b>14.8%</b>	<b>34.2</b>	<b>32.0%</b>	<b>84.4</b>	<b>65.7</b>	<b>28.6%</b>
<b>Operating Margins:</b>								
Manufacturing	5.5%	6.1%		5.5%		5.8%	5.7%	
Property Development	30.9%	29.4%		29.7%		30.2%	30.0%	

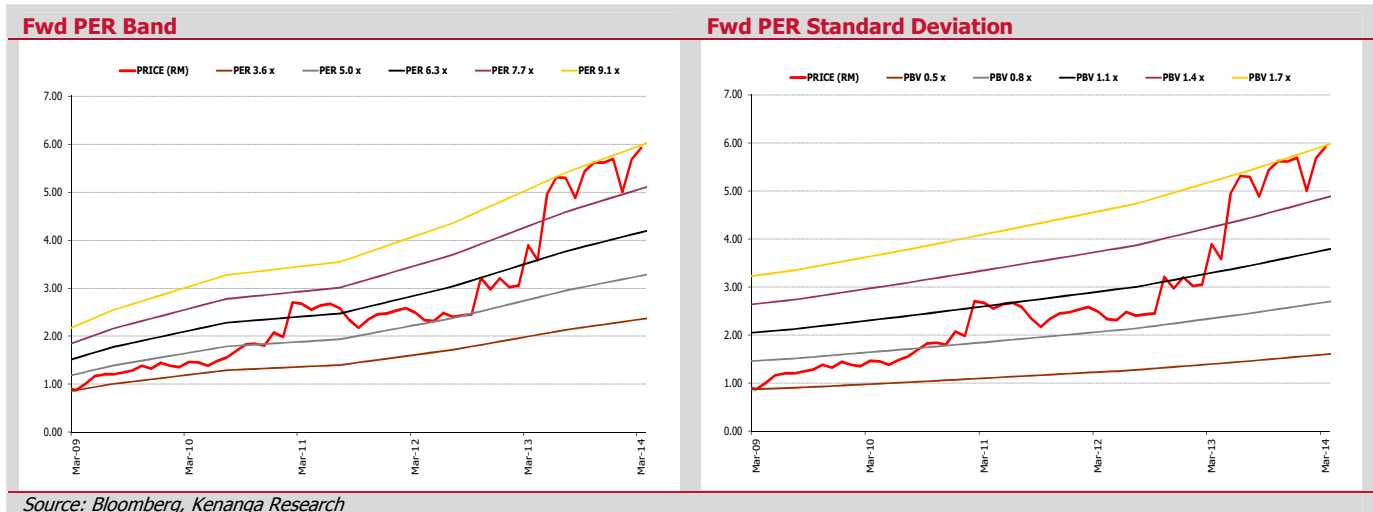
Source: Company, Kenanga Research

SOP Valuation		
	RM 'm	Comments
Property	925.9	Property development RNAV-DCF of Future Profits @ 10% WACC. Applied 35% discount to the RNAV value.
Manufacturing SOP	783.53	10.2x FY15E PER
No. of Shares ('m)	1,709.4	
Holding company discount	230.0	
Target Price (RM)	10%	
	6.69	

Source: Company, Kenanga Research

FD RNAV – DCF								
Projects	Location	Stake	Gross Land size (ac)	Start of Recognition	Remaining GDV (RM'm)	Remaining Net Profit (RM 'm)	WACC (%)	DCF (RM'm)***
Unbilled Sales		100%	N.A.	FY14	308	44	10.0%	39
Taman Scientex Pasir Gudang	Johor	100%	318	FY14	644	128	10.0%	107
Taman Scientex Kulai	Johor	100%	234.4	FY14	837	167	10.0%	138
Taman Mutiara Mas, Skudai	Johor	100%	120	FY14	1,637	513	10.0%	425
Taman Muzaffar Heights	Melaka	100%	103	FY14	491	140	10.0%	116
Taman Scientex Senai	Johor	100%	250	FY14	1,155	263	10.0%	229
*** Effective Stake			<b>1,025.4</b>		<b>4,764</b>	<b>1,256</b>		
<b>RAV</b>								<b>1,054</b>
Shareholder's Funds								370.8
<b>RNAV</b>								<b>1,424</b>
<b>Discount to FD RNAV</b>								<b>35%</b>
<b>RNAV after discount</b>								<b>925.9</b>

Source: Bloomberg, Kenanga Research



Source: Bloomberg, Kenanga Research

**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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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