



## Scientex Berhad

Slower Than Expected Margin Expansion

**TP: RM6.37 (+7.1%)**

Last traded: RM5.95

**HOLD**

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### Result Review

- Scientex 1H FY14 net profit grew by 25.3% YoY to RM63.3mn. It was below expectations as it accounted for only 41% and 42% of ours and street's estimates respectively. No dividends were declared just as that in the corresponding period of last year.
- Sales in 1HFY14 grew by 46.0% YoY to RM748.3mn. This was attributed to both its manufacturing (+57.8% to RM577.7mn) and property (+16.4% to RM170.6mn) segments. The significant jump in sales from the manufacturing segment was attributed to the acquisition of GW Plastic end of 2QFY13 and higher export sales.
- Meanwhile, the encouraging growth from its property segment was driven by strong demand for: i) three new launches of double storey houses in Taman Scientex Senai, Johor with a GDV of RM129.5mn where Phase 1 & 2 were fully sold within weeks, and ii) the launch of high rise service apartments in Melaka with a GDV of RM68.9mn.
- Although operating profit grew by a staggering 28.6% YOY to RM84.4mn in 1HFY14, it was slower than that the growth in sales. This was due to the contraction in operating margin (-1.5ppt YoY) which in turn was attributed to its manufacturing segment (-0.1ppt to 5.8%). While the decline was marginal, impact on operating profit was quite substantial.
- Management highlighted that despite the higher margin usually garnered from consumer packaging compared to industrial packaging (its original business), cost pass through for the packaging segment is now slower due to the intricacy of the consumer packaging production compared to industrial packaging.
- Other factors that led to the contraction in margin include: i) the implementation of minimum wage, and ii) electricity tariff hike effective early this year. Note that utilities make up c.5% of total operating cost.
- QoQ, operating profit grew by 14.8% RM33.9mn on the back of higher sales (+5.1% to RM383.5mn) and improving operating margin of 1.0ppt to 11.8%. The wider margin was underpinned by the property segment, which gained 1.6ppt in contrast to its manufacturing segment, which reported a contraction of 0.6ppt to 5.5%.

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	221.2
Market Cap (RMmn)	1315.9
Par Value	0.50
52-wk Hi/Lo (RM)	6.03/ 3.292
12-mth Avg Daily Vol ('000 shrs)	283.1
Estimated Free Float (%)	60.19
Beta	1.29

### Major Shareholders (%)

Scientex Holdings Sdn Bhd	-20.69
Scientex Leasing Sdn Bhd	-10.53
Sim Swee Ti Sdn Bhd	- 5.59
Scientex Bhd	- 4.00

### Forecast Revision

	FY14	FY15
Forecast Revision (%)	-5.1%	-4.9%
Net profit (RMm)	148.9	181.8
Consensus	151.7	176.0
TA's / Consensus (%)	98.1%	103.3%
Previous Rating	Buy (Downgraded)	

### Financial Indicators

	FY14	FY15
Net debt/ equity (%)	25.1%	net cash
ROE (%)	19.7%	20.5%
ROA (%)	10.9%	12.6%
NTA/Share (RM)	3.4	4.0
Price/NTA (x)	1.7	1.5

### Scorecard

	% of FY14	
vs TA	41.0%	Below
vs Consensus	42.0%	Below

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	3.32	-0.69
3 mth	5.15	-1.08
6 mth	8.94	0.91
12 mth	76.14	11.49

## Impact

- In tandem with its 1H FY14 results, we have made the following revision to our assumptions: i) revised manufacturing sales downward by 1.0%/2.2%/2.8% for FY14/FY15/FY16 after adjusting for lower utilization of new lines, and ii) lower manufacturing operating margin by 0.7ppt/0.6ppt/0.6ppt to 6.3%/6.5%/6.5% for FY14/FY15/FY16 to consider for the weaker than expected margin reported in 1H FY14. As a result, earnings have been revised downwards by 5.1%/4.9%/4.4% for FY14/FY15/FY16.

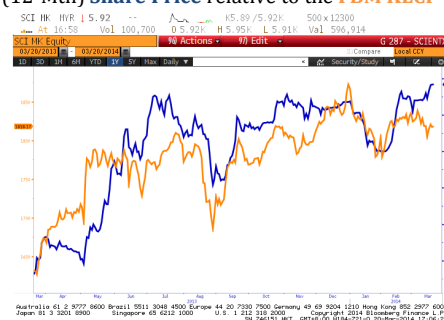
## Outlook

- Five blown film lines totaling 17kMt/year, which started commissioning on a staggered basis beginning January till July this year and 2 new stretch film lines totaling 25kMT/year, which came in October and December last year are expected to further enhance earnings in the second half of FY14.
- Additionally, with the completion of acquisition in Seacera Polyfilms mid of last month, the group would be able to further strengthen its consumer packaging segment with new product known as BOPP films. It has a market size three times larger than stretch films. Although earnings contribution from Seacera appears unattractive at this time, management intends to expand this business segment with new lines. We are only expecting to see meaningful contribution in FY15 onwards. That said, we have not imputed any earnings contribution from this segment at this juncture.
- As for the property sector, we are maintaining our current year sales forecast of RM379mn on the back of unbilled sales of RM580mn which should be realized over the next three years and upcoming launches for the remaining part of FY14.
- Some of these launches include: i) Phase 4&5 in Taman Scientex Senai, Johor, ii) 2<sup>nd</sup> tower in Melaka, and iii) affordable housing in Kulai. Current outstanding GDV for the group is RM5.6bn based on 979 acres of land. This should keep the group busy for the next 10 years. Beyond FY14, we are expecting more meaningful contribution from Senai and the new Kulai land acquired end of last year. Both have an estimated GDV of RM1.3bn and RM170mn respectively. Having said that, we are watchful of any slowdown in demand post implementation of various cooling measures especially for its higher end properties. On the back of that, we are only applying a PE of 7.0x for its property segment, which is the average PE for small cap property players.

## Valuations

- Downgrade Scientex to **Hold** as valuation gets stretched on the back of the 76% surge in share price over the past 12 months. Our SOP-derived TP is also lowered to RM6.37 (previously RM6.71) due to the downward revision to our estimates. Our 1-year forward implied PE on the stock is 8.7x.

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



Source: Bloomberg

	CY14 EBIT	PE	Value
Manufacturing	81.2	10.0	811.7
Property	134.1	7.0	938.9
Net interest income			-3.7
Share of associate			1.8
Sum of parts valuation			1748.8
After tax of 22%			1364.1
Net cash at Co. level			43.6
<b>Total value</b>			<b>1407.7</b>
Shares out			221.2
Target price			<b>6.37</b>

### Results Analysis ( RM'mn)

FYE 31 July	2Q14	1Q14	QoQ %	2Q13	YoY %	1H14	1H13	YOY %
Revenue	383.5	364.8	5.1%	271.1	41.5%	748.3	512.7	46.0%
Core EBIT	45.1	39.3	14.8%	34.2	32.0%	84.4	65.7	28.6%
El	0.0	0.0	na	0.0	na	0.0	0.0	na
Interest expense	(1.7)	(1.6)	8.5%	(0.7)	na	-3.4	(0.9)	na
Investing	1.0	0.1	nm	(0.3)	nm	1.1	(0.2)	nm
Reported PBT	44.4	37.8	17.5%	33.2	33.8%	82.2	64.5	27.4%
Taxation	(9.7)	(7.9)	22.5%	(7.2)	35.2%	-17.7	(13.2)	33.4%
MI	(0.8)	(0.5)	53.0%	(0.4)	92.1%	-1.2	(0.8)	57.0%
Core Net profit	33.9	29.3	15.6%	25.6	32.5%	63.3	50.5	25.3%
EPS (sen)	15.3	13.3	15.6%	11.9	28.8%	28.6	23.5	21.8%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
Core EBIT margin (%)	11.8%	10.8%		12.6%		11.3%	12.8%	
PBT margin (%)	11.6%	10.4%		12.2%		11.0%	12.6%	
Net margin (%)	8.8%	8.0%		9.4%		8.5%	9.8%	
Tax rate (%)	21.9%	21.0%		21.7%		21.5%	20.5%	

### Results Analysis Breakdown( RM'mn)

FYE 31 July	2Q14	1Q14	QoQ %	2Q13	YoY %	1H14	1H13	YOY %
<b>Revenue</b>								
Manufacturing (RM'mn)	288.5	289.2	-0.2%	193.5	49.1%	577.7	366.2	57.8%
Property (RM'mn)	95.0	75.6	25.6%	77.6	22.5%	170.6	146.5	16.4%
<b>Total (RM'mn)</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 (RM'mn)	16.0	17.7	-9.9%	11.1	43.3%	33.6	21.6	55.5%
Property (RM'mn)	29.4	22.2	32.6%	23.0	27.4%	51.5	44.0	17.0%
<b>Total (RM'mn)</b>	<b>45.3</b>	<b>39.8</b>	<b>13.7%</b>	<b>34.2</b>	<b>32.6%</b>	<b>85.2</b>	<b>65.7</b>	<b>29.7%</b>
<b>Operating margin</b>								
Manufacturing %	5.5%	6.1%		5.8%		5.8%	5.9%	
Property %	30.9%	29.3%		29.7%		30.2%	30.0%	
<b>Total %</b>	<b>11.8%</b>	<b>10.9%</b>		<b>12.6%</b>		<b>11.4%</b>	<b>12.8%</b>	

**Earnings Summary ( RM'mn)**

<b>FYE 31 July</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13*</b>	<b>FY14F#</b>	<b>FY15F</b>	<b>FY16F</b>
Revenue	804.0	881.0	1229.0	1601.2	1821.5	2095.5
EBITDA	119.3	130.6	185.1	241.1	289.1	348.3
EBITDA margin	14.8%	14.8%	15.1%	15.1%	15.9%	16.6%
Reported PBT	96.6	107.2	143.0	194.7	237.8	298.9
Core Net profit	77.2	83.9	119.8	148.9	181.8	228.6
EPS (sen)	36.0	39.0	54.2	67.3	82.2	103.3
EPS Growth (%)	28.0%	8.3%	38.9%	24.3%	22.1%	25.7%
PER (x)	16.5	15.3	11.0	8.8	7.2	5.8
Net Div (sen)	12.0	14.0	26.0	20.2	24.7	31.0
Div Yield (%)	2.0%	2.4%	4.4%	3.4%	4.1%	5.2%

\* Prorated to include GW Plastics' since consolidation on 8 January 2013

# Includes GW Plastics' contribution on a full year basis

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