STANDARD & POOR'S

# Scientex Incorporated

Recommendation: **HOLD**

Stock Code: 4731 | Bloomberg: SCI MK | Price: MYR3.52 | 12-Month Target Price: MYR3.67 | Date: January 9, 2007

**Board:** Main

**Sector:** Industrial Products

**GICS:** Materials/Commodity Chemicals

**Market Value - Total:** MYR239.1 mln

**Summary:** Scientex Incorporated Berhad (Scientex) is principally engaged in property development and the manufacturing of industrial packaging products. It also produces polymer products for automotive interiors and adhesive materials for flexible food packaging. Scientex was listed on the Main Board in 1990.

**Analyst:** David Chong, CA


## Results Review & Earnings Outlook

- Scientex's 1QFY07 (Jul.) net profit of MYR8.2 mln (+20% YoY) was broadly within our expectations. Excluding the one-off gain arising from the disposal of a subsidiary (amounting to around MYR0.4 mln), Scientex's 1QFY07 net profit made up about 23.6% of our full-year estimate. We expect earnings in the following quarters to be stronger due to the recently completed capacity expansion of its industrial packaging division [under its subsidiary, Scientex Packaging (SciPack) (SCIP MK, MYR1.97, Hold)].

- Revenue for 1QFY07 rose by 7.7% YoY led by the industrial packaging division, which reported a 13.9% YoY revenue growth. The industrial packaging division saw three new stretch film lines installed and commissioned during the quarter, which raised its annual production capacity by 50%.

- Scientex's 1QFY07 operating margin expanded to 8.6% (1QFY06: 8%), thanks largely to the above-mentioned gain and its property division, whose operating margin jumped 5.7 ppt YoY to 24.1%. We note that this division has been reporting operating margins of between 20% and 25% for the past three quarters and believe that the lower margin in 1QFY06 may have been due to higher marketing expenses. This higher operating margin largely filtered down to Scientex's bottom-line, resulting in the expansion of 1QFY07's net profit margin by 0.5 ppt YoY.

- We leave our earnings forecasts unchanged.

## Recommendation & Investment Risks

- We maintain our Hold recommendation on Scientex but raise our 12-month target price to MYR3.67 from MYR3.30. The increase in our target price incorporates the rolling-forward and updating of our valuation parameters.

- Our valuation method, which comprises a sum-of-parts (SOP) valuation and includes the estimated net dividend per share (DPS), remains unchanged. We have raised our SOP value to MYR3.51/share from MYR3.16/share after: 1) raising our fair value estimate to MYR2.15/share (from MYR1.95/share) for Scientex's stake in SciPack; 2) rolling forward valuations to CY07 earnings (from FY07 earnings previously) for Scientex's other divisions; and 3) updating Scientex's share capital base for the subsequent conversion of warrants, which expired on Dec. 4, 2006, and treasury shares. Our 12-month target price also includes the estimated FY07 net DPS of 16 sen (fully diluted FY06 net DPS of 14 sen previously).

- Risks to our recommendation and target price include increased resin price uncertainty with the oil price volatility, delays in new property launches and relatively low share trading liquidity.

Key Stock Statistics

| FY Jul. | 2006 | 2007E |
|---|---|---|
| Reported EPS (sen) | 45.1 | 49.9 |
| PER (x) | 7.8 | 7.0 |
| Dividend/Share (sen) | 26.0 | 22.0 |
| NTA/Share (MYR) | 4.09 | 4.46 |
| Book Value/Share (MYR) | 4.12 | 4.49 |
| No. of Outstanding Shares (mln) | 67.9 | |
| 52-week Share Price Range (MYR) | 2.62 - 3.52 | |
| Major Shareholders: | % | |
| Scientex Holdings Sdn Berhad | 17.8 | |
| Scientex Leasing Sdn Bhd | 8.8 | |
| Lim Teck Meng Sdn Bhd | 6.6 | |

Per Share Data

| FY Jul. | 2004 | 2005 | 2006 | 2007E |
|---|---|---|---|---|
| Book Value (MYR) | 3.69 | 3.80 | 4.12 | 4.49 |
| Cash Flow (sen) | 53.5 | 68.3 | 78.0 | 86.8 |
| Reported Earnings (sen) | 27.0 | 35.7 | 45.1 | 49.9 |
| Dividend (sen) | 10.0 | 18.0 | 26.0 | 22.0 |
| Payout Ratio (%) | 26.7 | 36.6 | 33.8 | 32.3 |
| PER (x) | 13.0 | 9.8 | 7.8 | 7.0 |
| P/Cash Flow (x) | 6.6 | 5.2 | 4.5 | 4.1 |
| P/Book Value (x) | 1.0 | 0.9 | 0.9 | 0.8 |
| Dividend Yield (%) | 2.8 | 5.1 | 7.4 | 6.3 |
| ROE (%) | 6.8 | 9.6 | 11.4 | 11.8 |
| Net Gearing (%) | 31.4 | 29.9 | 24.3 | 17.8 |

**All required disclosures appear on the last two pages of this report. Additional information is available upon request.**

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## Quarterly Performance

| FY Jul. / MYR mln | 1Q07 | 1Q06 | % Change |
|---|---|---|---|
| Reported Revenue | 156.5 | 145.2 | 7.7 |
| Reported Operating Profit | 13.4 | 11.6 | 15.5 |
| Depreciation & Amortization | NA | NA | NA |
| Net Interest Income / (Expense) | NA | NA | NA |
| Reported Pre-tax Profit | 12.3 | 11.0 | 12.4 |
| Reported Net Profit | 8.2 | 6.8 | 20.0 |
| Reported Operating Margin (%) | 8.6 | 8.0 | - |
| Reported Pre-tax Margin (%) | 7.9 | 7.6 | - |
| Reported Net Margin (%) | 5.2 | 4.7 | - |

Source: Company data

## Profit & Loss

| FY Jul. / MYR mln | 2005 | 2006 | 2007E | 2008E |
|---|---|---|---|---|
| Reported Revenue | 507.6 | 586.3 | 735.5 | 797.3 |
| Reported Operating Profit | 38.0 | 47.6 | 56.8 | 63.9 |
| Depreciation & Amortization | -20.1 | -20.5 | -24.5 | -27.1 |
| Net Interest Income / (Expense) | -3.3 | -3.4 | -5.0 | -3.4 |
| Reported Pre-tax Profit | 36.0 | 44.4 | 52.2 | 60.8 |
| Effective Tax Rate (%) | 13.8 | 16.5 | 17.0 | 17.0 |
| Reported Net Profit | 22.1 | 28.2 | 33.2 | 38.6 |
| Reported Operating Margin (%) | 7.5 | 8.1 | 7.7 | 8.0 |
| Reported Pre-tax Margin (%) | 7.1 | 7.6 | 7.1 | 7.6 |
| Reported Net Margin (%) | 4.4 | 4.8 | 4.5 | 4.8 |

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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Recommendation and Target Price History

| Date | Recommendation | Target Price |
|---|---|---|
| New | Hold | 3.67 |
| 2-Oct-06 | Hold | 3.30 |
| 3-Jul-06 | Hold | 3.18 |
| 20-Jan-06 | Hold | 3.03 |