

Recommendation: **BUY**

Stock Code: 4731

Bloomberg: SCI MK

Price: MYR1.27

12-Month Target Price: MYR1.47

Date: June 27, 2008

Board: Main

Sector: Industrial Products

GICS: Materials/Commodity Chemicals

Market Value - Total: MYR290.0 mln

Summary: Scientex is principally engaged in property development as well as 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: Alexander Chia, ACA



Results Review & Earnings Outlook

- Scientex's 3QFY08 (Jul.) results were broadly within our expectations. Although 9MFY08 net profit of MYR26.1 mln accounted for 81% of our forecast of MYR32.1 mln, 4QFY08 results may be impacted by higher operating costs in view of the recent announcements on fuel and electricity tariff hikes.
- 9MFY08 revenue increased 5.2% YoY to MYR489.0 mln, followed by a corresponding 5.7% YoY improvement in pre-tax profit to MYR35.2 mln, mainly attributed to a 13% YoY sales increase from the manufacturing division
- The manufacturing division contributed 87% of revenue and 56% of operating profit year-to-date, while the property development activities made up the remainder. This translated into operating profit margins of 4.8% for the manufacturing business and 25.3% for the property development activities.
- Despite the current inflationary environment, 9MFY08 operating margins were consistent with that achieved in 9MFY07, and was attributed by management to ability to increase selling prices and production efficiency. We maintain our existing FY08 revenue and net profit projection of MYR646.8 mln and MYR32.1 mln respectively. We note that the privatization of Scientex Packaging was completed on May 27, 2008, and is now a wholly-owned subsidiary of Scientex. Hence, minority interest charges will be minimal going forward.
- An interim dividend of 3 sen was declared for the quarter under review.

Key Stock Statistics

FY Jul.	2007	2008E
Reported EPS (sen)	18.0	16.3
PER (x)	7.1	7.8
Dividend/Share (sen)	3.0	6.0
NTA/Share (MYR)	1.49	1.49
Book Value/Share (MYR)	1.50	1.50
No. of Outstanding Shares (mln)	228.3	
52-week Share Price Range (MYR)	1.14 - 1.56	
Major Shareholders:	%	
Scientex Holdings Sdn Bhd	19.2	
Scientex Leasing Sdn Bhd	11.3	
Lim Teck Meng Sdn Bhd	7.3	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We maintain our Buy recommendation on Scientex with a 12-month target price of MYR1.47 (unchanged).
- We derive our target price by pegging its FY09 EPS projection of 18.7 sen (unchanged) against a target PER multiple of 7.5x and adding in a projected dividend of 7 sen. The target multiple is a premium to the peers' average of 6.2x. We believe the premium is justified considering Scientex's ability to maintain profit margins under the current challenging inflationary environment. In addition, we also expect its new premium stretch films under the "Elite" brand, which are half as thick as conventional films but offer similar holding force, to draw interests from customers to sustain sales.
- On Jun. 24, 2008, Scientex entered into a joint-venture (JV) agreement with Tsukasa Chemical Industry Co., Ltd, Japan to expand Scientex's operations in Vietnam, which is parked under Woventex (Vietnam) Co., Ltd. (Woventex), a wholly-owned subsidiary of Scientex. Post-capital injection of USD1 mln by Tsukasa, the Japanese group will own a 25%-stake in Woventex, and Woventex will change its name to Scientex Tsukasa (Vietnam) Co., Ltd. Through the JV, Scientex will be able to tap into Tsukasa's distribution networks in Japan and technological know-how to expand its product range.
- Risks to our recommendation and target price include the group's inability to maintain cost pass-through to its customers for the manufacturing division and slower-than-expected sales for its property projects in Johor.

Per Share Data

FY Jul.	2005	2006	2007	2008E
Book Value (MYR)	1.31	1.41	1.50	1.50
Cash Flow (sen)	22.7	25.3	29.1	24.5
Reported Earnings (sen)	11.9	15.0	18.0	16.3
Dividend (sen)	6.0	8.7	3.0	6.0
Payout Ratio (%)	36.6	50.5	12.0	27.3
PER (x)	10.7	8.4	7.1	7.8
P/Cash Flow (x)	5.6	5.0	4.4	5.2
P/Book Value (x)	1.0	0.9	0.8	0.8
Dividend Yield (%)	4.7	6.8	2.4	4.7
ROE (%)	9.6	11.4	12.9	10.6
Net Gearing (%)	29.9	24.3	15.8	17.3

* For FY05 to FY07, figures adjusted for share split and bonus issue.

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Quarterly Performance

FY Jul. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	165.6	150.3	10.2
Reported Operating Profit	13.8	9.4	47.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.8	-1.2	-32.7
Reported Pre-tax Profit	13.2	8.5	55.8
Reported Net Profit	10.3	7.0	47.1
Reported Operating Margin (%)	8.4	6.2	-
Reported Pre-tax Margin (%)	8.0	5.6	-
Reported Net Margin (%)	6.2	4.7	-

Source: Company data

Profit & Loss

FY Jul. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	586.3	613.1	646.8	689.2
Reported Operating Profit	47.3	43.8	48.4	49.8
Depreciation & Amortization	-19.9	-20.1	-20.4	-20.7
Net Interest Income / (Expense)	-3.4	-4.3	-4.1	-3.0
Reported Pre-tax Profit	44.4	40.2	45.3	47.8
Effective Tax Rate (%)	16.5	NM	13.0	13.0
Reported Net Profit	28.2	35.2	32.1	40.1
Reported Operating Margin (%)	8.1	7.1	7.5	7.2
Reported Pre-tax Margin (%)	7.6	6.6	7.0	6.9
Reported Net Margin (%)	4.8	5.7	5.0	5.8

Source: Company data, S&P Equity Research

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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.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
16-May-08	Buy	1.47
30-Oct-07	Not Ranked	
25-Jul-07	Hold	1.53
26-Mar-07	Hold	1.54
20-Mar-07	Hold	1.44
09-Jan-07	Hold	1.20
02-Oct-06	Hold	1.08
03-Jul-06	Hold	1.04
20-Jan-06	Hold	0.99

