

Recommendation: **BUY**

Stock Code: 4731

Bloomberg: SCI MK

Price: MYR1.13

12-Month Target Price: MYR1.30

Date: September 25, 2008

Board: Main

Sector: Industrial Products

GICS: Materials/Commodity Chemicals

Market Value - Total: MYR243.4 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 reported revenue and net profit of MYR656.6 mln (+7% YoY) and MYR47.9 mln (+35% YoY) respectively for FY08 (Jul.). Included in the net profit was a one-off negative goodwill of MYR11.8 mln which resulted from the privatization of Scientex Packaging Bhd. Excluding the negative goodwill, Scientex's net profit of approximately MYR36 mln was above our expectations when compared with our original projection of MYR32.1 mln.
- Ex-EI, FY08 operating profit rose 8% YoY to MYR47.5 mln on the back of the 7% YoY increase in revenue. Management attributed the improved performance to higher selling prices and better product mix in the manufacturing division. We understand management is able to continue passing on cost increases to its customers. The group also benefits from the recent strengthening of USD against MYR as 70% of its manufacturing revenue is export sales denominated in USD. Meanwhile, despite the slowdown in the property market, the property division posted a 3% YoY increase in revenue, though operating profit was 10% lower YoY largely due to the rising cost environment.
- Amid the global and domestic slowdown, we trim our FY09 revenue and net profit projection by 2% and 6% to MYR682.7 mln and MYR37.5 mln respectively. We also introduce our FY10 net profit forecast of MYR42.8 mln (+14% YoY) assuming moderate improvement in business outlook by then.
- Scientex has proposed a single-tier final dividend of 5 sen.

### Key Stock Statistics

| FY Jul.                         | 2008        | 2009E |
|---------------------------------|-------------|-------|
| Reported EPS (sen)              | 24.2        | 18.7  |
| PER (x)                         | 4.7         | 6.0   |
| Dividend/Share (sen)            | 8.0         | 8.0   |
| NTA/Share (MYR)                 | 1.60        | 1.71  |
| Book Value/Share (MYR)          | 1.61        | 1.72  |
| No. of Outstanding Shares (mln) | 215.4       |       |
| 52-week Share Price Range (MYR) | 1.10 - 1.44 |       |
| 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 a Buy recommendation on Scientex but lower our 12-month target price to MYR1.30 (from MYR1.47) due to earnings revision and a lower target PER multiple.
- We derive our target price by pegging the revised FY09 EPS against its peers' average PER multiple of 6.5x (from 7.5x), and includes an 8 sen projected dividend. The lower target PER multiple is due to the removal of the 15% premium accorded earlier in view of the current weak equity market. While Scientex's fundamentals remain intact, the global inflationary environment and slowdown in local property sector may dampen the outlook in the near term.
- On Sep. 8, 2008, Scientex announced the acquisition of a 52.8%-stake in Rising Heights Development Sdn. Bhd. (RHSB) for a cash consideration of MYR9.3 mln. Combined with the group's existing 33.5%-interest in RHSB, the latter will be a subsidiary of Scientex upon completion of the acquisition. RHSB is currently developing a 186-acre mixed development named Taman Muzaffar Heights in Malacca. The acquisition, expected to contribute to Scientex's FY10 earnings, will expand Scientex's property development activities beyond Johor to Malacca. Meanwhile, its near-term property earnings are supported by its unbilled sales of MYR45 mln from the existing projects in Johor.
- 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.                 | 2006 | 2007 | 2008 | 2009E |
|-------------------------|------|------|------|-------|
| Book Value (MYR)        | 1.41 | 1.50 | 1.61 | 1.72  |
| Cash Flow (sen)         | 25.3 | 29.1 | 31.8 | 27.1  |
| Reported Earnings (sen) | 15.0 | 18.0 | 24.2 | 18.7  |
| Dividend (sen)          | 8.7  | 3.0  | 8.0  | 8.0   |
| Payout Ratio (%)        | 50.5 | 12.0 | 44.4 | 37.4  |
| PER (x)                 | 7.5  | 6.3  | 4.7  | 6.0   |
| P/Cash Flow (x)         | 4.5  | 3.9  | 3.6  | 4.2   |
| P/Book Value (x)        | 0.8  | 0.8  | 0.7  | 0.7   |
| Dividend Yield (%)      | 7.7  | 2.7  | 7.1  | 7.1   |
| ROE (%)                 | 11.4 | 12.9 | 11.4 | 10.5  |
| Net Gearing (%)         | 24.3 | 15.8 | 11.9 | 7.6   |

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

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| FY Jul. / MYR mln               | 4Q08  | 4Q07  | % Change |
|---------------------------------|-------|-------|----------|
| Reported Revenue                | 167.6 | 148.4 | 12.9     |
| Reported Operating Profit       | 22.3  | 7.9   | >100     |
| Depreciation & Amortization     | NA    | NA    | NA       |
| Net Interest Income / (Expense) | -0.7  | -0.9  | -21.6    |
| Reported Pre-tax Profit         | 22.4  | 7.1   | >100     |
| Reported Net Profit             | 21.8  | 9.4   | >100     |
| Reported Operating Margin (%)   | 13.3  | 5.3   | -        |
| Reported Pre-tax Margin (%)     | 13.4  | 4.8   | -        |
| Reported Net Margin (%)         | 13.0  | 6.3   | -        |

Source: Company data

**Profit & Loss**

| FY Jul. / MYR mln               | 2007  | 2008  | 2009E | 2010E |
|---------------------------------|-------|-------|-------|-------|
| Reported Revenue                | 613.1 | 656.6 | 682.7 | 730.8 |
| Reported Operating Profit       | 43.8  | 59.3  | 47.0  | 55.8  |
| Depreciation & Amortization     | -20.1 | NA    | -20.7 | -20.9 |
| Net Interest Income / (Expense) | -4.3  | -3.3  | -3.7  | -2.0  |
| Reported Pre-tax Profit         | 40.2  | 57.6  | 44.3  | 54.8  |
| Effective Tax Rate (%)          | NM    | 7.6   | 12.0  | 20.0  |
| Reported Net Profit             | 35.2  | 47.9  | 37.5  | 42.8  |
| Reported Operating Margin (%)   | 7.1   | 9.0   | 6.9   | 7.6   |
| Reported Pre-tax Margin (%)     | 6.6   | 8.8   | 6.5   | 7.5   |
| Reported Net Margin (%)         | 5.7   | 7.3   | 5.5   | 5.9   |

Source: Company data, S&amp;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.

**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.

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**Required Disclosures**

**Recommendation and Target Price History**

| Date      | Recommendation | Target Price |
|-----------|----------------|--------------|
| New       | Buy            | 1.30         |
| 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         |

