STANDARD & POOR'S

Scientex

Recommendation: **HOLD**

Stock Code: **4731** | Bloomberg: **SCI MK** | Price: **MYR1.02** | 12-Month Target Price: **MYR1.10** | Date: **December 18, 2008**

Board: Main

Sector: Industrial Products

GICS: Materials/Commodity Chemicals

Market Value - Total: MYR219.7 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 1QFY09 (Jul) results were below our expectations, with net profit of MYR7.6 mln reaching only 20% of our previous FY09 forecast of MYR37.5 mln.
- 1QFY09 revenue and pre-tax profit were relatively flat YoY at MYR153.5 mln and MYR8.8 mln respectively. However, lower effective tax rate during the quarter coupled with a smaller minority interest charge (after privatization of its formerly listed packaging division) pushed net profit 17% higher YoY.
- Profit contribution from both its manufacturing and property development divisions in 1QFY09 was flat YoY. Meanwhile, the group's balance sheet remains lean, with net gearing at 0.1x and NTA/share of MYR1.63 as at end-October 2008.
- With the recent worsening of the global macroeconomic environment, Scientex's manufacturing arm will be affected, in our opinion, considering the nature of its export-driven business. We anticipate reduced demand for its industrial packaging materials in tandem with the slowdown. Locally, its property development projects in Johor are likely to experience lower sales as well, as consumers tighten spending and hold back purchases of big-ticket items. In view of this, we trim our FY09 and FY10 net profit projections by 13% and 11% to MYR32.8 mln and MYR38.1 mln respectively.
- No dividend was declared during the quarter under review.

Recommendation & Investment Risks

- We are downgrading our recommendation to Hold (from Buy) with a revised 12-month target price of MYR1.10 (from MYR1.30).
- We derive our target price using relative PER valuation, by pegging its FY09 EPS against its peers' average PER of 6.5x (unchanged), including a projected dividend.
- In our opinion, while Scientex's long-term fundamentals are intact and backed by a healthy balance sheet, the outlook for the next 12 months is tempered by the slowdown in its export-driven manufacturing division and domestic property development activities. As such, we expect operating profit margin to come under pressure.
- On Dec. 9, 2008, Scientex announced it had extended the timeline for fulfillment of the conditions precedent to Jan. 8, 2009 (from December 2008) with respect to its proposed acquisition of Rising Heights Development Sdn. Bhd. (RHDSB). RHDSB is in the property development business with projects in Melaka. We do not expect any contribution from this proposed acquisition in FY09.
- Risks to our recommendation and target price include a prolonged downturn in both the global and domestic economy severely affecting its manufacturing and property development sales.

Key Stock Statistics

FY Jul.	2008	2009E
Reported EPS (sen)	24.2	15.2
PER (x)	4.2	6.7
Dividend/Share (sen)	8.0	8.0
NTA/Share (MYR)	1.60	1.68
Book Value/Share (MYR)	1.61	1.69
No. of Outstanding Shares (mln)	215.4	
52-week Share Price Range (MYR)	0.97 - 1.35	
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.

Per Share Data

FY Jul.	2006	2007	2008	2009E
Book Value (MYR)	1.41	1.50	1.61	1.69
Cash Flow (sen)	25.3	29.1	31.8	24.9
Reported Earnings (sen)	15.0	18.0	24.2	15.2
Dividend (sen)	8.7	3.0	8.0	8.0
Payout Ratio (%)	50.5	12.0	44.4	46.0
PER (x)	6.8	5.7	4.2	6.7
P/Cash Flow (x)	4.0	3.5	3.2	4.1
P/Book Value (x)	0.7	0.7	0.6	0.6
Dividend Yield (%)	8.5	2.9	7.8	7.8
ROE (%)	11.4	12.9	11.4	9.2
Net Gearing (%)	24.3	15.8	11.9	7.7

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

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Quarterly Performance

FY Jul. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	153.5	155.9	-1.6
Reported Operating Profit	9.2	9.7	-5.5
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.6	-1.0	-35.9
Reported Pre-tax Profit	8.8	9.0	-1.7
Reported Net Profit	7.6	6.5	17.0
Reported Operating Margin (%)	6.0	6.2	-
Reported Pre-tax Margin (%)	5.7	5.7	-
Reported Net Margin (%)	4.9	4.1	-

Source: Company data

Profit & Loss

FY Jul. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	613.1	656.6	653.9	670.4
Reported Operating Profit	43.8	59.3	42.7	46.8
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	38.9	45.8
Effective Tax Rate (%)	NM	7.6	12.0	15.0
Reported Net Profit	35.2	47.9	32.8	38.1
Reported Operating Margin (%)	7.1	9.0	6.5	7.0
Reported Pre-tax Margin (%)	6.6	8.8	6.0	6.8
Reported Net Margin (%)	5.7	7.3	5.0	5.7

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.
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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	1.10
25-Sep-08	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
9-Jan-07	Hold	1.20
2-Oct-06	Hold	1.08
3-Jul-06	Hold	1.04
20-Jan-06	Hold	0.99