

Recommendation: **HOLD**

Stock Code: 4731

Bloomberg: SCI MK

Price: MYR0.87

12-Month Target Price: MYR0.90

Date: March 27, 2009

Board: Main**Sector:** Industrial Products**GICS:** Materials/Commodity Chemicals**Market Value - Total:** MYR187.4 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 another weak quarter with 2QFY09 (Jul) net profit of MYR5.5 mln (-41% YoY). 1HFY09 net profit of MYR13.1 mln was below expectations, reaching only 40% of our previous FY09 projections.
- 2QFY09 revenue and net profit were lower (revenue down 36% YoY at MYR107.8 mln) mainly due to reduced contributions from both manufacturing and property development divisions. Consequently, 1HFY09 revenue and net profit too, declined 19% YoY and 17% YoY to MYR261.3 and MYR13.1 mln respectively.
- Management attributed the weak performance to lower export demand for its industrial packaging products, in tandem with the slump in global manufacturing and trading activities. Meanwhile, we note that its property sales were affected after consumers held back purchases and banks tightened credit.
- With the challenging operating environment expected to prevail in the next few quarters, we are slashing our FY09 and FY10 earnings projections for Scientex by 14% and 16% to MYR28.1 mln and MYR32.0 mln respectively. In addition, we also trim our projected FY09 dividend to 5 sen from 8 sen in tandem with the lower earnings estimates.
- No dividend was declared during the quarter under review.

Key Stock Statistics

FY Jul.	2008	2009E
Reported EPS (sen)	24.2	13.1
PER (x)	3.6	6.7
Dividend/Share (sen)	8.0	5.0
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)	0.82 - 1.30	
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 Hold recommendation on Scientex but lower our 12-month target price to 90 sen (from MYR1.10).
- We continue to derive our target price using relative PER valuation, by pegging its FY09 EPS against peer average PER of 6.5x (unchanged), including a projected dividend.
- Scientex's outlook in the short term remains tempered by the slowdown in its export-driven manufacturing division and domestic property development activities. However, with the concerted efforts of governments worldwide, including ours, to stimulate the global economy, we anticipate a gradual revival in the next 12 months. Meanwhile, the group's lean balance sheet, supported by NTA/share of MYR1.62 and low net gearing of 0.1x (as at end-January 2009) will help it weather the current economic situation.
- 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.

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	22.7
Reported Earnings (sen)	15.0	18.0	24.2	13.1
Dividend (sen)	8.7	3.0	8.0	5.0
Payout Ratio (%)	50.5	12.0	44.4	38.3
PER (x)	5.8	4.8	3.6	6.7
P/Cash Flow (x)	3.4	3.0	2.7	3.8
P/Book Value (x)	0.6	0.6	0.5	0.5
Dividend Yield (%)	10.0	3.4	9.2	5.7
ROE (%)	11.4	12.9	11.4	7.9
Net Gearing (%)	24.3	15.8	11.9	7.7

* For FY06 to FY07, figures adjusted for share split and bonus issue.

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FY Jul. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	107.8	167.5	-35.6
Reported Operating Profit	6.7	13.4	-50.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.5	-0.8	-37.6
Reported Pre-tax Profit	6.3	13.0	-51.5
Reported Net Profit	5.5	9.3	-40.5
Reported Operating Margin (%)	6.2	8.0	-
Reported Pre-tax Margin (%)	5.8	7.8	-
Reported Net Margin (%)	5.1	5.6	-

Source: Company data

Profit & Loss

FY Jul. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	613.1	656.6	571.9	586.9
Reported Operating Profit	43.8	59.3	36.0	38.2
Depreciation & Amortization	-20.1	NA	-20.7	-20.9
Net Interest Income / (Expense)	-4.3	-3.3	-2.3	-1.1
Reported Pre-tax Profit	40.2	57.6	33.7	38.2
Effective Tax Rate (%)	NM	7.6	12.0	15.0
Reported Net Profit	35.2	47.9	28.1	32.0
Reported Operating Margin (%)	7.1	9.0	6.3	6.5
Reported Pre-tax Margin (%)	6.6	8.8	5.9	6.5
Reported Net Margin (%)	5.7	7.3	4.9	5.5

Source: Company data, S&P Equity Research

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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	0.90
18-Dec-08	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

