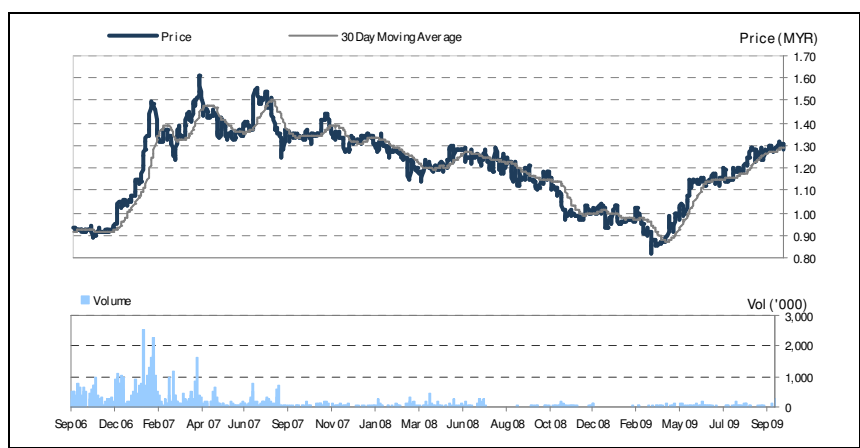


Recommendation: **BUY**Stock Code: **4731**Bloomberg: **SCI MK**Price: **MYR1.28**12-Month Target Price: **MYR1.50**Date: **October 1, 2009****Board:** Main**Sector:** Industrial Products**GICS:** Materials/Commodity Chemicals**Market Value - Total:** MYR275.7 mln

**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 FY09 (Jul) results exceeded our expectations by 10% with net profit reaching MYR37.5 mln. The deviation was due to stronger-than-expected 4QFY09 earnings from both the manufacturing and property divisions, which pushed net profit up 44% YoY (after excluding the negative goodwill of MYR11.8 mln in 4QFY08).
- FY09 revenue fell 22% YoY to MYR509.7 mln mainly on lower contributions from the manufacturing and property divisions, especially during 1HFY09. Pretax profit too, showed a decline of 27% YoY. However, after excluding the negative goodwill, pretax profit declined only 8% YoY, lifted by better net profit margins in 2HFY09 as demand gradually recovered.
- The QoQ comparison reflects a more noticeable upturn in the group's operating environment, with revenue and net profit rising 19% and 44% to MYR134.8 mln and MYR14.4 mln respectively. The property division performed particularly well, operating profit surging twofold on the back of a 33% increase in sales. Meanwhile, the manufacturing business recorded a more moderate growth of 16% and 1% in revenue and operating profit respectively.
- With the improving outlook, as evident in the robust 2HFY09 results, we raise our FY10 net profit estimate by 10% to MYR41.8 mln after factoring in stronger sales from both the manufacturing and property divisions. We also introduce our FY11 projections.

**Recommendation & Investment Risks**

- We maintain our Buy recommendation on Scientex with a higher 12-month target price of MYR1.50 (from MYR1.30).
- Our target price is derived by ascribing a target PER multiple of 7x (unchanged) against its CY10 earnings, inclusive of a projected dividend. The target PER multiple is benchmarked against its manufacturing peers, and is also within the PER valuation range of 5x-8x for property companies under our coverage.
- The improvement in 2HFY09's performance confirmed our earlier expectation for a recovery in demand for Scientex's packaging products and properties. We understand management is focusing on organic growth, and is expanding its manufacturing capacity by adding another production line in early 2010. Meanwhile, its property division is also planning for more launches at its Taman Scientex-Pasir Gudang and Taman Scientex-Kulai projects. Its strategy in building smaller but affordable houses in Johor, targeting young families, has worked very well with sales averaging above 100 units per month.
- Given the earnings growth catalysts, backed by a solid balance sheet with NTA/share of MYR1.74 and net gearing of 0.1x at end-July 2009, we remain positive on Scientex's prospects. At 6x CY10 PER, valuations are also undemanding, in our opinion, compared to its peers' 7x average PER and the FBMKLCI's 16x 2010 PER.
- Risks to our recommendation and target price include a reversal in the demand uptrend for its manufacturing division and softer-than-expected take-up rates for its property launches.

**Key Stock Statistics**

FY Jul.	2009	2010E
Reported EPS (sen)	17.4	19.4
PER (x)	7.4	6.6
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	1.74	1.85
Book Value/Share (MYR)	1.74	1.85
No. of Outstanding Shares (mln)	215.4	
52-week Share Price Range (MYR)	0.82 - 1.32	
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.	2007	2008	2009	2010E
Book Value (MYR)	1.50	1.61	1.74	1.85
Cash Flow (sen)	29.4	32.9	26.9	29.1
Reported Earnings (sen)	18.0	24.2	17.4	19.4
Dividend (sen)	3.0	8.0	5.0	5.0
Payout Ratio (%)	12.0	44.7	28.8	41.3
PER (x)	7.1	5.3	7.4	6.6
P/Cash Flow (x)	4.3	3.9	4.8	4.4
P/Book Value (x)	0.9	0.8	0.7	0.7
Dividend Yield (%)	2.3	6.3	3.9	3.9
ROE (%)	12.9	11.4	10.4	10.8
Net Gearing (%)	15.8	11.9	5.6	10.0

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

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Recommendation: **BUY**Stock Code: **4731**Bloomberg: **SCI MK**Price: **MYR1.28**12-Month Target Price: **MYR1.50**Date: **October 1, 2009****Quarterly Performance**

FY Jul. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	134.8	167.6	-19.6
Reported Operating Profit	15.6	22.3	-30.2
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.4	-0.7	-37.4
Reported Pre-tax Profit	15.8	22.4	-29.5
Reported Net Profit	14.4	21.8	-34.1
Reported Operating Margin (%)	11.6	13.3	-
Reported Pre-tax Margin (%)	11.7	13.4	-
Reported Net Margin (%)	10.7	13.0	-

Note: 4Q08 figures include a negative goodwill of MYR11.8 mln.

Source: Company data

**Profit & Loss**

FY Jul. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	656.6	509.7	551.5	692.1
Reported Operating Profit	59.3	42.5	51.1	66.7
Depreciation & Amortization	-23.5	-20.7	-20.9	-21.2
Net Interest Income / (Expense)	-3.3	-1.9	-1.7	-1.2
Reported Pre-tax Profit	57.4	42.1	50.5	66.5
Effective Tax Rate (%)	7.6	8.3	15.0	25.0
Reported Net Profit	47.7	37.5	41.8	48.5
Reported Operating Margin (%)	9.0	8.3	9.3	9.6
Reported Pre-tax Margin (%)	8.7	8.2	9.1	9.6
Reported Net Margin (%)	7.3	7.3	7.6	7.0

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

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**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.

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**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Buy	1.50
19-Jun-09	Buy	1.30
27-Mar-09	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

