

Recommendation: **BUY**

Stock Code: 4731

Bloomberg: SCIMK

Price: MYR1.51

12-Month Target Price: MYR1.80

Date: March 29, 2010

Board: Main

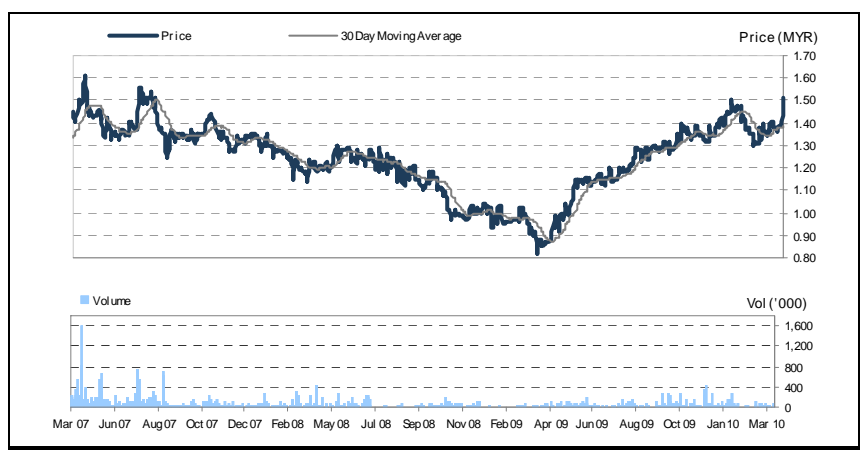
Sector: Industrial Products

GICS: Materials/Commodity Chemicals

Market Value - Total: MYR325.3 mln

Summary: Scientex is principally engaged in property development as well as manufacturing of industrial packaging products such as stretch films, strapping bands and raffia tapes.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- Scientex's 1HFY10 (Jul) results were broadly within our expectations with net profit of MYR25.7 mln reaching 53% of our FY10 projections.
- 1HFY10 revenue grew 24% YoY to MYR323.6 mln on increased contributions from both manufacturing and property development divisions. Meanwhile, net profit rose by a substantial 96% YoY due to greater economies of scale and higher profit margins for its residential houses. Consequently, 1HFY10 net profit margin rose to 7.9% from 5.0% in the previous corresponding period.
- For the manufacturing division, management continues to experience pickup in demand for its industrial packaging products. Moreover, the inclusion of a new production line, which was commissioned in January 2010, added approximately another 1,500 mt/month in capacity and lowered overall production fixed costs.
- As for the property segment, the group's focus on building affordable houses remains successful with 1HFY10 turnover rising 45% YoY to MYR60.1 mln despite the generally soft property market in Johor. Scientex's property projects are located in Pasir Gudang and Kulai.
- We retain our FY10 and FY11 net profit forecasts of MYR48.4 mln and MYR53.5 mln, respectively.

Recommendation & Investment Risks

- We maintain our Buy recommendation on Scientex with a higher 12-month target price of MYR1.80 (from MYR1.70).
- We derive our target price by ascribing a target PER multiple of 7x (unchanged) against its FY11 earnings (rollover from CY10), inclusive of a projected dividend. The target PER multiple is benchmarked against its manufacturing peers and is also within the 5x-8x PER valuation range for property companies under our coverage.
- We remain positive on Scientex's prospects, underpinned by the rising demand for its industrial packaging products and residential developments. We believe the group is well-poised to benefit from the ongoing recovery from the global financial crisis. Its earnings delivery has been resilient despite the recent economic downturn. Operations are also backed by a solid balance sheet, with NTA/share of MYR1.80 and net gearing of 0.1x as at January 2010. Considering the group's expected healthy earnings growth and strong fundamentals, its prospective 6.1x FY11 PER remains undemanding, in our opinion.
- 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	22.5
PER (x)	8.7	6.7
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	1.74	1.91
Book Value/Share (MYR)	1.74	1.91
No. of Outstanding Shares (mln)	215.4	
52-week Share Price Range (MYR)	0.87 - 1.51	
Major Shareholders:	%	
Scientex Holdings Sdn Bhd	17.2	
Scientex Leasing Sdn Bhd	10.7	
Lim Teck Meng Sdn Bhd	7.8	

*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	1.91
Cash Flow (sen)	29.4	32.9	26.9	32.1
Reported Earnings (sen)	18.0	24.2	17.4	22.5
Dividend (sen)	3.0	8.0	5.0	5.0
Payout Ratio (%)	12.0	44.7	28.8	22.3
PER (x)	8.4	6.2	8.7	6.7
P/Cash Flow (x)	5.1	4.6	5.6	4.7
P/Book Value (x)	1.0	0.9	0.9	0.8
Dividend Yield (%)	2.0	5.3	3.3	3.3
ROE (%)	12.9	11.4	10.4	12.3
Net Gearing (%)	15.8	11.9	5.6	9.7

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

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Quarterly Performance

FY Jul. / MYR mln	2Q10	2Q09	% Change
Reported Revenue	158.7	107.8	47.2
Reported Operating Profit	14.9	6.7	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.2	-0.5	-60.6
Reported Pre-tax Profit	15.1	6.3	>100
Reported Net Profit	12.9	5.5	>100
Reported Operating Margin (%)	9.4	6.2	-
Reported Pre-tax Margin (%)	9.5	5.8	-
Reported Net Margin (%)	8.2	5.1	-

Source: Company data

Profit & Loss

FY Jul. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	656.6	509.7	620.8	733.1
Reported Operating Profit	59.3	42.5	57.4	69.2
Depreciation & Amortization	-23.5	-20.7	-20.9	-21.2
Net Interest Income / (Expense)	-3.3	-1.9	-2.0	-1.2
Reported Pre-tax Profit	57.4	42.1	56.3	68.9
Effective Tax Rate (%)	7.6	8.3	12.0	20.0
Reported Net Profit	47.7	37.5	48.4	53.5
Reported Operating Margin (%)	9.0	8.3	9.2	9.4
Reported Pre-tax Margin (%)	8.7	8.2	9.1	9.4
Reported Net Margin (%)	7.3	7.3	7.8	7.3

Source: Company data, S&P Equity Research

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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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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	1.80
22-Dec-09	Buy	1.70
1-Oct-09	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

