



Scientex Bhd

RM2.04 BUY

Stock Code
SCIENTX / 4731

Bloomberg Ticker
SCI MK

Fair Value
RM2.44

Dividend
- 2011F : 10 sen
- Yield : 4.9%

Listing
Main Market

Financial Year End 31 July

Number of Shares 230m

Market Cap RM469.2m

Major Shareholders

Lim Teck Meng's family
..... 57.16%

52WK High 12/20/10 RM2.09
52Wk Low 02/09/10 RM1.26



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Financial Highlights

RM m	2006	2007	2008	2009	2010	2011F
Revenue	586.3	613.1	656.6	509.7	694.8	868.5
Gross Profit	97.9	80.0	88.4	81.2	123.0	156.3
PBT	44.0	40.2	57.4	42.1	70.8	87.1
Net Profit	28.5	35.2	47.7	37.5	60.3	70.2
EPS (sen)	12.4	15.3	20.7	16.3	26.2	30.5
Growth (%)						
Revenue	15.5	4.6	7.1	(22.4)	36.3	25.0
Gross Profit	16.5	(18.2)	10.4	(8.2)	51.6	27.1
PBT	22.4	(8.7)	42.8	(26.8)	68.3	23.1
Net Profit	28.7	23.6	35.6	(21.5)	61.0	16.4
Margin (%)						
Gross Profit	16.7	13.1	13.5	15.9	17.7	18.0
PBT	7.5	6.6	8.7	8.2	10.2	10.0
Net Profit	4.9	5.7	7.3	7.3	8.7	8.1

Background

Scientex started as a PVC leather cloth & sheeting manufacturer and later ventured into the industrial packaging manufacturing segment. Apart from that, Scientex also diversified its business operation to include property development which started with its flagship project in Taman Scientex, Pasir Gudang.

In 1996, Scientex spun off its industrial packaging business by the listing of Woventex (which later changed its name to Scientex Packaging Bhd). However, this entity was taken private by Scientex in 2008 through a VGO and became a wholly-owned subsidiary of Scientex. Throughout the years, Scientex has gone through internal reorganisation in order to streamline the business operations for greater efficiencies by segregating its business operations to two strategic business units - (i) manufacturing & (ii) property development.

With more than 40 years track record, Scientex has established its reputation in the stretch film division in which it is among the world top 10 players. In addition, Scientex is also the largest stretch film producer in Asia with annual capacity of 100k MT. Meanwhile, it has also built its reputation as a leading property developer in Southern Malaysia.

Core Businesses

As at FY10, manufacturing remained Scientex's largest revenue contributor with 78.4% of FY10 revenue. Meanwhile, the rest were generated from the property development segment.

i. Manufacturing

Scientex's product offerings include stretch film, PP strapping band, raffia, woven bags, carton boxes and automotive interiors & carpet mats.

For stretch film, Scientex is running 8 production lines with annual capacity of 100k MT. In FY10, its stretch film production was operating at utilisation level of 85% and contributed 55% to the Group's manufacturing revenue.

Meanwhile, Scientex is currently running on 10 production lines for the PP strapping band. The annual capacity is approximately 16.2k MT and operation is at utilisation level of 85%. For FY10, the division contributed approximately 10% of the Group's manufacturing revenue. PP strapping band is widely used for unitisation and bundling of goods in various industries, i.e. electrical & electronics, paper & paper mill, F&B, etc. Most of the products are exported to Japan and Scientex has successfully captured the largest market share in Japan.

Scientex also offers other packaging products such as woven bags, raffia, rigid film and carton boxes. All the products are widely used in various industries and applications. For example, raffia is used in bundling of paper products, D.I.Y & household products, etc. while woven bags is extensively used in the packing of commodities in which Scientex's woven bags are mainly sold to petrochemical and oleo chemical companies.

For automotive interiors & carpet mats division, Scientex is the leader in the South East Asia region in the supplying of automotive interior products and also the pioneer in the manufacturing of PVC leather cloth in Malaysia. The products are highly demanded with the increasing demand from the automotive industry in which Scientex's seat materials are used by many world-renowned vehicle manufacturers like Toyota, Subaru, Honda, Nissan as well as local manufacturers like Perodua and Proton.

Scientex's Products



ii. Property Development

Scientex has four property development projects in hand namely Taman Scientex Pasir Gudang, Taman Scientex Kulai, Taman Mutiara Mas Skudai and Taman Muzaffar Height Ayer Keroh. The total GDV for these projects are estimated at approximately RM3b with on-going projects estimated at around RM420m. As at October 2010, a total of RM96m sales have been recognised with unbilled sales of RM158m. For its property development segment, Scientex is enjoying a decent gross profit margin with its effective cost control and high-density projects with gross profit margin of between 35-50%. The property development projects in Johor and Melaka are expected to last for 10 years with the remaining landbank of approximately 1,000 acres.

Dividend Track Record

Financial Year	Dividend	Nett Dividend (sen)	Price (RM)	Nett Yield (%)
2010	Single Tier Final Dividend of 6 sen	6.00	1.55	5.8
	Single Tier Interim Dividend of 3 sen	3.00		
2009	Single Tier First & Final Dividend of 5 sen	5.00	1.2	4.2
2008	Single Tier Final Dividend of 5 sen	5.00	1.25	8.8
	Single Tier Interim Dividend of 6 sen	6.00		
	Share Dividend of 1 share for every existing 50 shares			
2007	Gross First and Final Dividend of 3 sen	2.22	1.54	1.4
	Bonus Share - 1 for every existing 2 shares			
2006	Tax Exempt Final Dividend of 6 sen	6.00	2.62	8.3
	Gross Interim Dividend of 5 sen & Special Dividend of 10 sen	10.80		
	Tax Exempt Interim Dividend of 5 sen	5.00		
2005	Gross Final Dividend of 11 sen	7.92	2.73	4.7
	Gross Interim Dividend of 7 sen	5.04		

* price as at 31st July for each financial year

Scientex do not set any dividend policy. However, Scientex will generally pay out one third of the net profit to reward its shareholders. As such, we estimated the dividend payout for FY11 be approximately 10 sen per share which translates to a potential yield of 4.9%. Scientex will be trading ex-dividend for its FY10 final dividend of 6 sen on 5th January 2011.

Going Forward

Scientex is targeting to be among the top 5 stretch film producers in the world. As such, Scientex plans to increase its stretch film production capacity from current annual capacity of 100k MT to 120k MT in FY11. Meanwhile, it also plans to expand its PP strapping band production capacity from 16.2k MT per annum to 24k MT per annum by FY13. Scientex has allocated RM18m for FY11's CAPEX in which RM15m will be utilized by the stretch film division while the rest will go to the PP strapping band division.

Valuation and Recommendation

Scientex, a reputed property developer in Southern Malaysia and also the largest industrial packaging company in Asia, is poised for further growth as it has various property development projects on-going together with its capacities expansion plans. Scientex is financially strong, sitting on a cash pile of RM29m with debt to equity ratio of 0.13x. We value Scientex at RM2.44 based on a forward PE of 8x. With a potential upside of 19.6%, we recommend a **BUY** on the stock.

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