



SCIENTEX BERHAD

Fair Value(Buy)
RM 2.42 (+15.2%)

PROPERTY SECTOR TO GROW FURTHER

Stock Data

Price (RM)	2.11
Stock code	8125
Bloomberg Ticker	SCI MK Equity
Listing	Main Market
Share Cap (RM mn)	115.00
Market Cap (RM mn)	485.30
Par value (RM)	0.50
52-wk high (RM)	2.13
52-wk low (RM)	1.26
Major shareholders:-	
Scientex Holdings Sdn Bhd	16.06%
Scientex Leasing Sdn Bhd	10.04%
TM Lim Sdn Bhd	8.23%
Teck Meng Lim	7.31%

Financial Data

Trailing PER (x)	7.04
BV per share (RM)	2.01
P/BV (x)	1.05
ROE (%)	15.28
Beta (x)	0.82
Altman Z Score	3.29
Dividend yield (%)	4.27

Relative Performance (%)

1-month	13.99
3-month	9.23
6-month	20.76
12-month	20.27
YTD	0.31

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Investment Highlights

Financial Highlights. Scientex recorded an improvement in revenue and PAT for 1Q FY 2011. Revenue grew 13.2% Q-O-Q from RM164 Mill to RM186 Mill and PAT grew 32.2% Q-O-Q from RM20 Mill to RM26 Mill.

EBITDA enhanced. Scientex's EBITDA improved 2.1pt Q-O-Q from 12.1% to 14.2%. The better performance was contributed by sales mix of more contribution from property division especially from Skudai area.

PAT increased. Even though revenue and PBT improved, PAT growth is not in tandem with the growth in PBT and revenue. This was caused by higher effective tax rate for property market for 1Q FY2011

Property division. Currently Scientex is focusing in the Southern Region of Malaysia and this includes Ayer Keroh, Pasir Gudang and Skudai. For Pasir Gudang, the group is focusing on middle income house and for Skudai and Ayer Keroh projects, the group is focusing on higher income house. Total GDV for its projects in both state amounts to RM1.9 Bill on 1350 acres of land. This division contributed 21.6% of revenue in FY 2010. Furthermore, its properties are becoming customer's choices because of its ability to build it cost effective. As at 31 October 2010, Scientex has an unbilled sale of RM 158 Mill.

Packaging division. Scientex is one of the top 10 largest producers of stretch film in the world with manufacturing facilities in Malaysia and Vietnam with an annual capacity production of 100k MT. The main products of this division are stretch film, PP strapping band and its latest is PVC leather cloth. This division contributed 78.4% of revenue in FY 2010. According to reports, stretch film consumption is expected to increase to 400k Mill MT in 2014 lead by European countries due to urbanization and changing consumer habits. We are optimistic that the group will perform better and meet the forecast.



Scientex's main product is stretch film and the group currently operates at a high utilization rate of 85% on 8 lines production lines and this product contributed 55% of manufacturing revenue in FY 2010. Annual capacity production is at 100k MT and Scientex is planning to increase their capacity to 120k MT in FY 2011.

Strapping band. Scientex is the world largest producer for this product with annual capacity of approximately 16.2k MT and operates on 10 production lines. Most of the products are exported to Japan and the group announced that they have successfully captured the largest market share in Japan. This product contributed 10% of manufacturing revenue in FY 2010.

Other packaging products. Scientex also produces packaging products for various industries include raffia, rigid film, woven bags and carton boxes. The latest product innovation by the group is PVC leather cloth. This product is widely used in skin materials for car interiors such as Subaru, Nissan, Toyota, Proton, Perodua, Honda, Suzuki and Yamaha.

Dividend policy. Scientex has announced an encouraging final dividend for the FY 2010. The group rewarded interim dividend of 3 sen /share and final dividend 6 sen/share. This translates 9 sen/share for FY 2010 or 32.1% payout ratio.

Going forward. Scientex is hoping to become top 5 stretch film producers in the world by increase its capacity production from 100k MT to 120k MT and also increase its CAPEX from RM15 Mill in FY 2010 to RM18 Mill in FY 2011.

Risks to Scientex's business include:

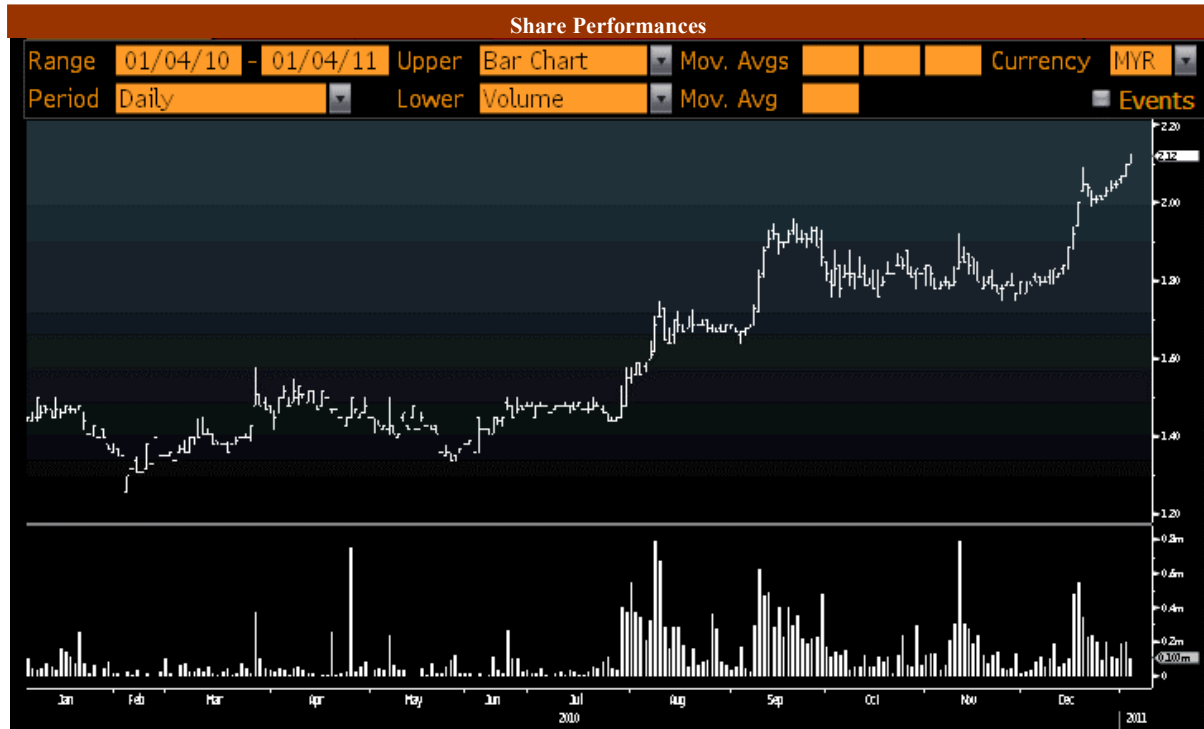
- i. Fluctuation of Foreign exchange currencies
- ii. Sharp spike in raw materials prices

Results comparison						
FYE 31st Dec		1Q FY11	4Q FY10	1Q FY10	Q-o-Q	Y-o-Y
	Unit				%	%
Revenue	RM mn	186.6	191.7	164.9	-14.0	-11.6
Operating Expenses	RM mn	-165.6	-169.9	-150.9	-11.2	-8.9
Profit From Operations	RM mn	21.0	21.8	14.0	-35.8	-33.4
Interest expense	RM mn	-0.5	-0.1	-0.1	0.0	-80.0
Investing result	RM mn	0.5	0.1	0.8	700.0	60.0
Profit Before Tax	RM mn	21.0	21.8	14.7	-32.6	-30.1
Taxation	RM mn	-3.6	-3.6	-2	-58.3	0.0
PATMI	RM mn	17.4	18.2	13.2	-27.5	-24.3
EPS	sen	7.9	8.3	6	-28.6	-25.1
Margins %						
Operating margin	%	11.3	11.4	8.5	-25.3	-24.7
PBT margin	%	11.3	11.4	8.9	-21.6	-20.9
Net margin	%	9.3	9.5	8.0	-15.7	-14.3



Cumulative Result Comparison					
FYE 31st Dec		2008	2009	2010	2011F
	Unit				
Revenue	RM mn	656.6	509.7	694.8	855.3
Cost of service	RM mn	-568.2	-428.6	-571.8	-712.4
Gross Profit	RM mn	88.4	81.1	123.0	142.9
Other Operating income	RM mn	35.8	11.6	12.5	14.0
Selling and distribution expenses	RM mn	-29.5	-23.9	-28.3	-33.5
Administrative expenses	RM mn	-35.5	-26.4	-37.1	-43.5
Operating Profit	RM mn	59.2	42.4	70.1	79.9
Finance Cost	RM mn	-3.3	-1.9	-1.3	-2.1
Gain/Loss of associate	RM mn	1.5	1.5	1.9	2.1
PBT	RM mn	57.4	42.0	70.7	79.9
Taxation	RM mn	-4.4	-3.5	-8.6	-10.1
PAT	RM mn	53.0	38.5	62.1	69.8
EPS	sen	24.0	17.0	26.2	30.3
Margins %					
Gross margin	%	13.46	15.91	17.70	16.71
PBT margin	%	8.74	8.24	10.18	9.34
Net margin	%	8.07	7.55	8.94	8.16

Peers Comparison					
Description	Trailing PE	Forward PE	Mkt Cap RM mn	Net Asset RM (mn)	Last Price (RM)
HPI Resources	4.8	4.5	122.68	144.25	2.18
Tompok Holdings	6.2	6.2	114.03	77.17	1.04
Kian Joo	8.6	7.4	737.32	884.36	1.66
Can One	7.0	8.5	167.64	178.36	1.1
GW Plastic	9.1	8.5	188.00	174.15	0.77
Daibochi	9.8	9.3	197.34	124.70	2.61
Average	7.58	7.38	254.50	263.83	-
Scientex	7.0	7.57	487.60	450.8	2.1



Recommendation. We have buy recommendation on Scientex with new target price RM 2.42 based on FY 2011 EPS of 30.3 sen and industry average PER of 8 times.



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Stock rating definitions

Buy – The stock is expected to perform positively. Expected return including both capital appreciation and dividends is expected to exceed 15% over 12 months.

Hold – The stock is expected to stay sidelined. Expected return including both capital appreciation and dividends is expected to range between negative 5% to positive 15% over 12 months.

Sell – The stock is expected to perform negatively. Expected return including both capital appreciation and dividends is expected to be negative 5% or lower over 12 months.

Not Rated – The stock is not under research coverage and the reports serves for purely informational purposes only.

Trading Buy – The stock is expected to be volatile while providing for near term positive trading opportunities. This is under the high risk category with near term catalysts.