

**SCIENTEX BERHAD**

JV WITH JAPAN GIANT

Fair Value(Hold)
RM 2.80 (+16%)
Stock Data

Price (RM)	2.68
Stock code	8125
Bloomberg Ticker	SCI MK Equity
Listing	Main Market
Share Cap (RM mn)	115.00
Market Cap (RM mn)	581.90
Par value (RM)	0.50
52-wk high (RM)	2.94
52-wk low (RM)	1.34
Major shareholders:-	
Scientex Holdings Sdn Bhd	16.06%
Scientex Leasing Sdn Bhd	10.04%
TM Lim Sdn Bhd	8.23%
Lim Teck Men	7.31%

Financial Data

Trailing PER (x)	7.70
BV per share (RM)	2.03
P/BV (x)	1.24
ROE (%)	15.28
Beta (x)	0.67
Altman Z Score	3.33
Dividend yield (%)	3.56

Relative Performance (%)

1-month	-9.79
3-month	25.68
6-month	26.98
12-month	56.31
YTD	22.63

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Investment Highlights

Financial Highlights. Scientex released its 2Q FY 11. Revenue continues to grow at 4.4% Q-O-Q from RM186.62 to RM 194.9 Mill. PAT grew 45.9% Q-O-Q from RM 13.5 Mill to RM 19.7 Mill. EPS improved strongly to 8.9 sen from 7.8 sen in the 1Q 11.

PAT enhanced. PAT improved 13.1% Q-O-Q from RM 17.45 Mill to RM 19.7 Mill. The better performance recorded was contributed by property division and packaging division. Its newly launched property continues to received a warm welcome from the prospective buyer

Stretch film. Its plant in Pulau Indah currently operates on 8 production lines at 85% utilization rate to cater to the rising demand for this product. It is noted that the stretch film accounts for 55% of the group's manufacturing revenue for FY10. Moving forward we anticipate that stretch film will remain as the primary contributor to revenue this year as the group had installed 2 additional lines in September 2010 while orders remain strong.

My 1st home scheme. The group is expecting the newly launched scheme for houses pricing in between RM90k – RM220k which will contribute towards revenue as Scientex's Pasir Gudang and Kulai property is targeted at mid income people with price range RM 110k – RM 130k. Although the scheme is a lauded move, it is difficult to acquire a property of such price in Klang Valley. Thus the scheme would prove to be a windfall for property developer outside Klang Valley such as Melaka and Johor where properties are of the schemes price range. The management expects that their properties will be a hot picks for those interested to buy a house under the scheme.



Taman Scientex Pasir Gudang

- Total GDV : RM 1.5 Bil on 1100 acres
- Completed GDV : RM 665 Mil
- On-going projects : RM 144 Mil
 - i. 1156 units of double storey terrace house & cluster semi D : 65% sold
 - ii. RM 41.1 Mil sales recognized and RM 51.8 Mill unbilled



Taman Scientex Kulai

- Total GDV : RM 400 Mil on 250 acres
- Completed GDV : RM 42 Mill
- On-going projects : RM 70.5 Mil
 - i. 456 units of double storey terrace house: 58 units of Semi D, 30 units of 2-storey shophots : 83% sold
 - ii. RM 16 Mil recognized and RM 38 Mil unbilled

Scientex Bhd is investing RM22.5 million for a 50% stake in a joint venture (JV) to manufacture and distribute encapsulating sheets for solar cells with Tokyo based MCTI a wholly owned subsidiary of Mitsui Chemicals. MCTI is top three producers of ethylene-vinyl acetate (EVA) encapsulating materials for solar films in the world. The JV is to build a building factory at Bukit Rambai Industrial Estate Malacca and is expected to start operation by mid 2012. The plant will have annual capacity of 10 K MT during its first phase and the plant is projected to serve demand in Malaysia, Singapore and Europe. Currently MCTI has plant in Nagoya Japan with capacity 40 K MT per year and the plant only catered the demand from Japan and China.



(From left) Scientex executive director Gan Kok Khye, Lim, Scientex chairman Tan Sri Mohd Sheriff Mohd Kassim, Mitsui Chemicals executive officer Tetsuo Masuda, Kamio and Scientex executive deputy chairman Lim Teck Meng at the signing ceremony yesterday



Scientex's Export markets

Risks to Scientex's business include:

- i. Fluctuation of Forex
- ii. Sharp spike in raw materials prices

Recommendation. With the progress made in the company, we are optimistic Scientex will grow further even with Japan unstable situation. The property division again will drive the group's revenue for this year and the JV with the Japan giant was the right timing to raise their key customer's confidence. Meanwhile we note that their PE ratio is fairly valued at 7.7x compared to industry PE ratio at 9x. We have hold a recommendation on Scientex with new target price RM2.80. The new fair value was derived from 2011F EPS of 30.3 sen and industry average PER of 9x

Results comparison						
FYE 31st Dec		2Q FY10	1Q FY11	2Q FY11	Q-o-Q	Y-o-Y
	Unit				%	%
Revenue	RM mn	158.7	186.62	194.9	4.4	22.8
Operating Expenses	RM mn	-143.8	-165.64	-171.0	3.2	18.9
Profit From Operations	RM mn	14.9	20.98	23.9	14.0	60.8
Interest expense	RM mn	-0.2	-0.45	-0.3	-28.9	60.0
Investing result	RM mn	0.4	0.50	0.2	-68.0	-59.0
Profit Before Tax	RM mn	15.1	21.03	23.8	13.0	57.7
Taxation	RM mn	-1.6	-3.58	-4.0	12.3	151.3
Minority Interest	RM mn	-0.5	-0.45	-0.7	46.7	32.0
PAT Attributable to equity holders	RM mn	13.0	17.00	19.1	12.2	47.1
EPS	sen	6.0	7.89	8.9	12.3	47.4
Margins %						
Operating margin	%	9.4	11.2	12.3	9.2	30.9
PBT margin	%	9.5	11.3	12.2	8.2	28.4
Net margin	%	8.2	9.1	9.8	7.5	19.8



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	28.2	31.2
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	7.83		207.19	144.25	3.55
Tomypak Holdings	6.59	3.88	107.57	88.70	1.04
Can One	7.8	6.56	152.40	194.72	1.1
GW Plastic	7.89	6.38	180.54	174.75	0.77
Daibochoi	10.01	6.70	188.24	133.12	2.45
Average	7.58	7.38	254.50	263.83	-
Scientex	7.76	7.57	581.90	450.8	2.1



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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.

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