

Briefing Note
Thursday, June 23rd, 2011

SCIENTEX BERHAD

HOLD

Current Price	2.70
Target Price	2.99
Upside To Target	10.9%

Stock Codes

Masa	SCIENTX/4731
Bloomberg	SCI MK

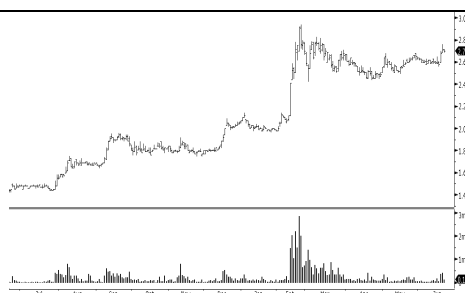
Stock & Market Data

FBMKLCI	1560.79
Listing	Main Board
Sector	Industrial Product
Syariah Compliant	YES
Par Value (RM)	0.50
Issued Shares (mn)	215.4
Market Capitalisation (mn)	621.0
YTD Chg In Share Price	30.4%
52-week Hi/Lo	2.94/1.43
6M Average Volume	172710
Estimated Free Float	50.5%
Majority Shareholders	Lim Family (57.2%)

Key Indicators

ROA	14.6%
ROE	8.9%
Net Debt/Equity	10.82%
Price/NTA	0.8x

Share Price Performance Chart



Highlights

9M FY11 result in line Scientex Bhd's (Scientex) 9MFY11 net profit of RM56.5m accounted for about 75.3% of full year estimate of RM66.6m, on higher revenue of RM598.8m (made up 82.6% of our estimated revenue of RM725.2m). The higher revenue was contributed by both manufacturing and property development divisions. Its bottomline's improvement of 33% YoY was boosted by higher contribution from its property development activities, in particular its Skudai project.

Property development division bottomline surged 166.3% YoY, but was tempered by manufacturing division which was 11.0% lower YoY. This was mainly due to weaker US Dollar, -9% YoY (3Q10: Average realised exchange rate was 3.40/USD; 3Q11: 3.10/USD), partially mitigated by an increase in sales tonnage (Local sales: +12.4% YoY; export sales: +7.6% YoY) on increased capacity.

3Q revenue was up 11.5% QoQ at RM217.3m. Net profit was a tad higher, up 6.9% to RM20.4m compared to RM19.1 a quarter ago. On a yearly basis, revenue up 21.1% from RM179.5m. EPS of 9.5sen was 10.8% higher than 6.0sen a year ago. Scientex has announced a dividend policy of not less than 30% of the group's net profit, effective from FY2011 onwards. The group also has proposed a single tier interim dividend of 5sen per share.

Aggressive in expansion Scientex has acquired a piece of land measuring 12.54acres in Klang for RM12.02m. The land is located opposite its existing stretch film plant at Pulau Indah Industrial Park, Klang. After the new installations in its existing stretch film plant to add two more production lines by end of 2011, the Pulau Indah plant will be fully utilised. Hence, the new acquisition will complement the existing plant to further expand its manufacturing facility and to further diversify into other range of products. Meanwhile, Scientex has quickened its PP strapping band's expansion. The group initially plans to increase the production capacity by 2013. Due to better demand, the group will install additional production lines to increase its production capacity from the existing capacity of 16,200MT to 24,000MT by end of 2011.

On its JV with Mitsui Chemicals Tohcello Inc. (MCTI) to manufacture ethylene-vinyl acetate (EVA) encapsulating sheets for solar cells, a 50:50 JV company – MCTI Scientex Solar Sdn Bhd has been set up. The construction of the production facility will begin in July and is expected to complete by the end of this year. Machine installation will be between Jan-Apr 2012, and test run is scheduled for May-Jul 2012. The plant will have an initial capacity of 10,000MT and is expected to commence in Aug 2012. We understand that MCTI Scientex will supply to the existing customers of MCTI within South East Asia countries that have been buying from Nagoya plant. Both new land acquisition and EVA plant would not have immediate impact on the group's FY11 & FY12 results. The PP strapping band expansion, which will come on stream by end of 2011, would contribute positively to its FY12 result.

Target price of RM2.99 In terms of capacity expansion, Scientex is probably is the most aggressive player compared with its peers in Malaysia. We have revised our estimation upward on manufacturing division by 4% and 6% in FY11 and FY12. We have also tweaked our PE valuation on its manufacturing division to 7.5x from 6.5x previously. This is a slight premium compared with the industry average PE of about 7x, and we find it justifiable due to its larger size and continuous expansion. In the meantime we are maintaining our valuation on its property development division, a 0.95x of its RNAV. We tag a fair value of **RM2.99** for Scientex based on sum-of-part valuation. Maintain **HOLD**.

JUPITER SECURITIES RESEARCH

YE 31 Jul	2008	2009	2010	2011F	2012F
Net Profit (RM mn)	47.7	37.5	60.3	66.6	74.0
NI Growth (%)		-21.5%	61.0%	10.4%	11.0%
EPS (sen)	22.2	17.4	28.0	30.9	34.3
DPS (sen)	8.0	5.0	9.0	10.2	11.3
NTA/Share (sen)	160.0	174.3	192.4	223.3	257.6
Net Cash/(Debt) per share	-0.19	-0.10	-0.21	0.00	0.29
Net Debt/Equity (%)	11.94	5.60	10.82	0.08	net cash
PER (x)	5.6	6.9	5.5	8.7	7.9
Dividend Yield (%)	6.4	4.2	5.8	3.8	4.2
ROE (%)	13.8	10.0	14.6	13.9	13.3
ROA (%)	7.7	6.4	8.9	9.2	9.1
P/NTA (x)	0.8	0.7	0.8	1.2	1.0

Table 1: Quarterly results

Qtr Result (RM mn)	3M ended	3M ended	3M ended	% chg	% chg	9M ended	9M ended	% chg
FYE 31 Jul	Apr-10	Jan-11	Apr-11	QoQ	YoY	Apr-10	Apr-11	YoY
Revenue	179.5	194.9	217.3	11.5%	21.1%	503.1	598.8	19.0%
Operating profit	19.4	23.9	26.1	9.3%	35.0%	48.2	71.1	47.4%
Finance costs	(0.5)	(0.3)	(0.4)	-23.5%	19.6%	(0.8)	(1.2)	46.8%
Investing results	0.4	0.2	0.1	-13.0%	-66.5%	1.6	0.8	-50.7%
Pretax profit	19.3	23.8	25.9	8.9%	34.2%	49.0	70.7	44.1%
Tax	(2.0)	(4.0)	(4.7)	-17.8%	-132.0%	(5.1)	(12.4)	141.3%
Minority interest	0.4	0.7	0.8	-13.6%	-78.1%	1.4	1.9	29.9%
Profit for the period	16.8	19.1	20.4	6.9%	21.2%	42.5	56.5	32.9%
Basic EPS (sen)	7.8	8.9	9.5	7.0%	21.4%	19.7	26.2	32.9%
Operating margin (%)	10.8%	12.3%	12.0%	-2.0%	11.5%	9.6%	11.9%	23.9%
Pretax margin (%)	10.7%	12.2%	11.9%	-2.3%	10.8%	9.7%	11.8%	21.1%
Profit margin (%)	9.4%	9.8%	9.4%	-4.2%	0.1%	8.4%	9.4%	11.7%

Table 2: Revenue and Segmental Result Breakdown

(RM mn)	Revenue		Change	Segmental results		Change
	9M 2011	9M 2010	%	9M 2011	9M 2010	%
Manufacturing	439.9	405.0	8.6%	23.2	26.1	-11.0%
Property	159.0	98.1	62.1%	47.8	22.1	116.3%
Total	598.8	503.1	19.0%	71.1	48.2	47.4%

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