

**SCIENTEX BERHAD****STRONG UPLINE AND BOTTOM LINE****Fair Value(Buy)  
RM 3.20 (+19%)****Stock Data**

Price (RM)	2.70
Stock code	8125
Bloomberg Ticker	SCI MK
Listing	Equity Main Market
Share Cap (RM mn)	115.00
Market Cap (RM mn)	618.70
Par value (RM)	0.50
52-wk high (RM)	2.94
52-wk low (RM)	1.44
Major shareholders:-	
Scientex Holdings Sdn Bhd	16.30%
Scientex Leasing Sdn Bhd	10.04%
TM Lim Sdn Bhd	8.23%
Scientex Bhd	6.35%
Sim Swee Tim Sdn Bhd	5.11%

**Financial Data**

Trailing PER (x)	7.7
BV per share (RM)	2.13
P/BV (x)	1.26
ROE (%)	15.28
Beta (x)	0.46
Altman Z Score	3.62
Dividend yield (%)	4.09

**Relative Performance (%)**

1-month	-0.25
3-month	-2.83
6-month	27.45
12-month	54.50
YTD	25.72

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**Investment Highlights**

**Financial Highlights.** Scientex's 3Q results were strong and surged as expected. 3Q revenue achieved 70%, than our full year estimates. Net profits achieved 93% of full year earnings forecast. Full year revenue grew 19% from a year ago while net profit increased 32%. We are expecting an even stronger year ahead on the back of promising property sector and result from JV with Japan company.

**Property division.** The better financial performance was driven by its property sector which saw 62% growth in revenue to RM 159 Mill for the ninth month period, against RM 98.1 Mill a year ago. Margin for property business soared by 7 b.p thanks to favorable product mix.

For the nine month FY 2011, all of Scientex's development projects in Pasir Gudang and its higher end property at Ayer Keroh and Skudai continue to recorded higher sales at RM 46.3 Mill or 29% of the segmental sales of RM 159 Mill.

**Update on property sector.** Its newly launched Taman Mutiara Mas, which still under construction is starting to contribute to cash flow with RM 151 Mill of sales and under pipeline of RM 603 Mill as affect of development in the Iskandar Region.

**Current Property Development**

	Total GDV	PipeLine	Unbilled Sales
	RM Mill	RM Mill	RM Mill
Taman Scientex Pasir Gudang	1500	660	47
Taman Scientex Kulai	400	264	27
Taman Muzaffar Heights Ayer Keroh	291	603	61
Taman Mutiara Mas Skudai	794	227	12
Total	2945	1754	147



**Manufacturing division.** Still the major revenue contributor for Scientex with 73% of revenue. Despite higher material cost and fluctuation of currency, packaging division recorded growth at 8.6% for the nine month period with revenue of RM439.9 Mill mainly driven by jump in sales tonnage.

**Update on manufacturing.** Recently Scientex has bought a 12.54 acres of land opposite of their existing stretch manufacturing facility at Pulau Indah amounted RM 12 Mill. The management is wishing to utilize the land for their further expansion plan in 3-5 years. The management also updated us with current situation of Pulau Indah Plant. By July this year, the plant will cater an additional 20% capacity and this will bring all together 120k MT capacity on 8 production lines.

**Weakening Dollar.** Note that 80% of Scientex's manufacturing revenues come from export and the Groups's overseas operation. The weakened of Dollar since early of this year has hurt their margins. This can further prove by contraction of EBITDA margins by 1.2 b.p. The management was upbeat that the further contraction of Dollar can be compensate by higher production capacity to enjoy economies of scale.

**Update on JV with Mitsui Chemicals (MCTI).** The management was buoyant that the factory located on Bukit Rambai would commence its operation by mid 2012. Once it completed, the plant will have 10k MT of annual capacity of ethylene-vinyl acetate (EVA). Note that Mitsui Chemicals Tochello Inc is top 3 solar film producers in the world. We believe the plant could boost 10% of revenue for the group.

**Dividend.** The Group has announced an interim single tier dividend of 10% or 5 sen per share in FY 2011. This can be translates into payout of RM 10.8 Mil payable on 21 July 2011.

**Recommendation.** We are positive about the Group's expansion plan in their manufacturing division. Their property division once again will drive the Group's revenue in the wake of currency uncertainty that may hurt their manufacturing division. We have a buy recommendation on Scientex with a new target price of RM 3.20. The new target price was derived from 2011F EPS of 34.4 sen and industry average at 9x.

<b>Cumulative Result Comparison</b>					
<b>FYE 31st Dec</b>		<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011F</b>
	<b>Unit</b>				
<b>Revenue</b>	<b>RM mn</b>	<b>656.6</b>	<b>509.7</b>	<b>694.8</b>	<b>859.3</b>
Cost of service	RM mn	-568.2	-428.6	-571.8	-710.4
<b>Gross Profit</b>	<b>RM mn</b>	<b>88.4</b>	<b>81.1</b>	<b>123.0</b>	<b>148.9</b>
Other Operating income	RM mn	35.8	11.6	12.5	15.0
Selling and distribution expenses	RM mn	-29.5	-23.9	-28.3	-33.5
Administrative expenses	RM mn	-35.5	-26.4	-37.1	-41.5
<b>Operating Profit</b>	<b>RM mn</b>	<b>59.2</b>	<b>42.4</b>	<b>70.1</b>	<b>88.9</b>
Finance Cost	RM mn	-3.3	-1.9	-1.3	-2.1
Gain/Loss of associate	RM mn	1.5	1.5	1.9	2.5
<b>PBT</b>	<b>RM mn</b>	<b>57.4</b>	<b>42.0</b>	<b>70.7</b>	<b>89.3</b>
Taxation	RM mn	-4.4	-3.5	-8.6	-10.1
<b>PAT</b>	<b>RM mn</b>	<b>53.0</b>	<b>38.5</b>	<b>62.1</b>	<b>79.2</b>
<b>EPS</b>	<b>sen</b>	<b>24.0</b>	<b>17.0</b>	<b>28.2</b>	<b>31.2</b>
<b>Margins %</b>					
Gross margin	%	13.46	15.91	17.70	17.33
PBT margin	%	8.74	8.24	10.18	10.39
Net margin	%	8.07	7.55	8.94	9.22

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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
<b>Operating Profit</b>	<b>RM mn</b>	<b>59.2</b>	<b>42.4</b>	<b>70.1</b>	<b>79.9</b>
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<b>Peers Comparison</b>					
<b>Description</b>	<b>Trailing PE</b>	<b>Forward PE</b>	<b>Mkt Cap RM mn</b>	<b>Net Asset RM (mn)</b>	<b>Last Price (RM)</b>
HPI Resources	7.83		207.19	144.25	4.28
Tomypak Holdings	6.59	3.88	107.57	88.70	0.99
Can One	7.8	6.56	152.40	194.72	1.03
GW Plastic	7.89	6.38	180.54	174.75	0.75
Daibochi	10.01	6.70	188.24	133.12	2.68
<b>Average</b>	<b>7.58</b>	<b>7.38</b>	<b>254.50</b>	<b>263.83</b>	<b>-</b>
<b>Scientex</b>	<b>7.76</b>	<b>7.57</b>	<b>581.90</b>	<b>450.8</b>	<b>2.1</b>

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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.