

Scientex

Not Rated

Share Price: RM2.55
Fair Value: RM3.28

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Description: Scientex is a leading industrial packaging manufacturer and a reputable property developer in Johor and Malacca. It is the largest stretch film producer in Asia with an annual production capacity of 100,000 mt.

Information:

Ticker:	SCI MK
Shares Issued (m):	230.0
Market Cap (RM m):	586.5
3-mth Avg Daily Volume (m):	0.1
FBM KLCI:	1,545.10

Major Shareholders:

	%
Scientex Holdings	26.3
TM Lim Sdn Bhd	8.2

Price Performance:

52-week High/Low RM2.94 / RM1.57

1-mth	3-mth	6-mth	1-yr	YTD
-4.1	-2.3	42.5	63.5	23.2

Price Chart (RM2.55)



SCIENTEX is in triangular Wave 4 consolidation currently. Accumulate on weakness to its supports of RM2.43 and RM2.58, whilst its resistance areas of RM2.76 and RM2.94 may cap its rise. Stop-loss is at RM2.41.

Currently, its price action could be sluggish and in a consolidative mode. Its trend-following weekly indicators (like DMI and Oscillator) are positive.

Global packaging leader

Leading industrial packaging company in Asia. Scientex started as a manufacturer of PVC leather cloth and sheeting in 1968, and has since expanded and diversified into a multi-million ringgit corporation dealing with packaging solutions, polymer-based products for automotive and general use, adhesives for flexible food packaging, as well as property development. The group is now one of the largest industrial packaging companies in Asia and one of the largest producers of strapping bands in the world.

Reputable medium-sized property developer. The group also has a highly successful property arm with healthy margins due to its cost efficiency. It has 1,100 acres of land bank for future development with current gross development value (GDV) of RM426m and pipeline GDV of RM1.6b until 2019. Current unbilled sales amount to RM146m.

Capacity expansion to drive earnings. Scientex will invest RM26.6m in FY11 to expand its stretch film capacity by 20% to 120,000 mt per annum and its PP strapping band capacity from 16,200 mt to 24,000 mt per annum. It recently acquired 12.5 acres of land in Pulau Indah for RM12m to expand its packaging film segment to be amongst the top 5 global producers. Capacity expansion plans will drive earnings contribution from the packaging segment as margins improve from greater economies of scale and falling resin prices.

Lean balance sheet. Scientex has a lean balance sheet with low net gearing of less than 0.2x. This gives the group the financial flexibility to pursue M&A activities to expand its manufacturing business and to increase its property land bank.

More than 30% upside. Current valuations are attractive as it is trading at 7.2x FY11 PER and 6.2x FY12 PER based on our back of the envelope estimates. We have ascribed a fair value of RM3.28, derived by using a composite sum-of-parts (SOP) valuation based on a PER of 8x for its packaging business and 9x for its property development business, based on an average of its peers in similar industries.

Scientex – Summary Earnings Table

FYE July (RM m)	2007A	2008A	2009A	2010A	2011#
Revenue	613.1	656.6	509.7	694.8	598.8
Profit before tax	40.2	57.4	42.1	70.8	70.7
Net profit	35.2	47.7	37.5	60.3	56.5
Basic EPS (sen)*	18.3	24.1	17.4	28.0	26.2
EPS growth (%)	20.4	31.9	(27.8)	60.8	-
Net DPS (sen)	2.2	7.2	5.0	9.0	-
PER (x)	13.9	10.6	14.7	9.1	* 7.2
Div Yield (%)	0.9	2.8	2.0	3.5	-
P/BV (x)	2.1	1.7	1.6	1.4	-
Book Value (RM)	1.24	1.50	1.63	1.80	-
ROE (%)	12.4	13.8	10.0	14.6	-

9 months to April 2011, * Annualised

Source: Company

Corporate profile

Scientex started as a manufacturer of polyvinyl chloride (PVC) leather cloth and sheeting in 1968, and has since expanded and diversified into a multi-million ringgit corporation dealing with packaging solutions, polymer based products for automotive and general use, adhesives for flexible food packaging, as well as property development.

It was first listed on 2 February 1990 under the name of Scientex Industries. In 2004, one of its subsidiaries, Woventex Corporation Berhad (listed on the Second Board in 1996) acquired the packaging business of Scientex through a rationalisation exercise and changed its name to Scientex Packaging Berhad. Subsequently, in March 2008, Scientex acquired back all the packaging companies and Scientex Packaging Berhad was delisted in April 2008.

Organisational structure

Scientex's core businesses are segregated into 2 strategic business units, viz. manufacturing and property development for efficient management.



Source: Company

Manufacturing

Scientex has evolved into one of the largest industrial packaging companies in Asia and is amongst the top-10 stretch film producers in the world with a 3% market share. It is also one of the largest producers of strapping bands globally. The group also manufactures other industrial products such as automotive interiors, carton boxes, woven bags, raffia, rigid film, carpet mats and PU adhesives (used for lamination of plastic film, paper, aluminium foil). These niche market products have lower growth but higher margins and good cash flow.

Its manufacturing division comprises two business units namely packaging and polymer. The packaging unit manufactures various packaging products designed for outer, middle and inner packaging applications:

1. Outer packaging – Stretch Film, Stretch Hood, PP Strapping Band, HDPE and PP Tying Tape (Raffia);
2. Middle packaging – Woven Bags, Bulk Bags (FIBC) and Corrugated Carton Box;
3. Inner packaging – Adhesives, Lamination Film and PVC Rigid Film Packaging.

The group has manufacturing facilities in Malaysia and Vietnam as well as sales and marketing offices in Indonesia and Japan. More than 78% of its manufacturing products are exported to over 60 countries worldwide.

Elite Stretch Film



PP Strapping Band



Carton Box



Raffia



Lamination Film



PU Adhesives



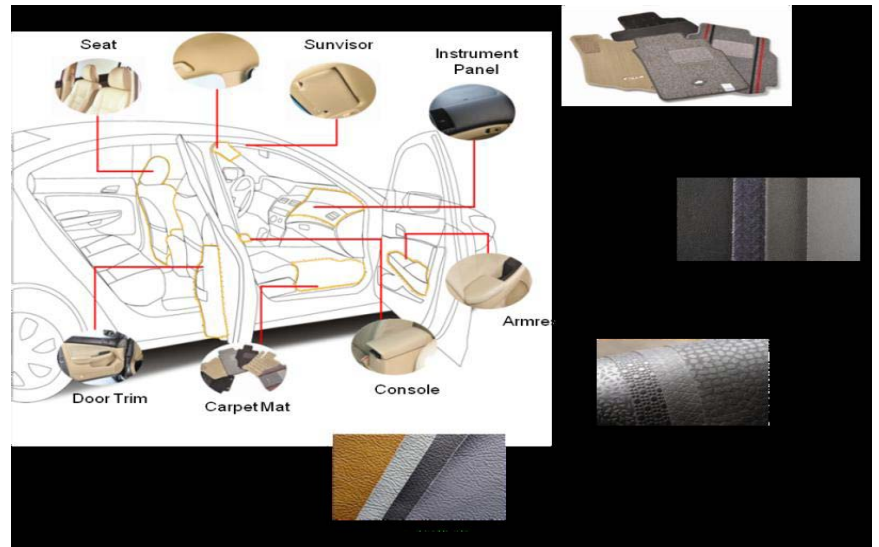
PVC Rigid Film



Stretch Hood Film

Source: Company

The polymer unit specialises in the manufacturing of PVC leather cloth, PVC/PP and PVC/PE foam, and TPO/PP foam sheets for automotive instrument panels, door trims, and roof lining for car manufacturers in the Asia Pacific region. In addition, it also supplies tufted carpet mats to automotive manufacturers in the Asia Pacific region.

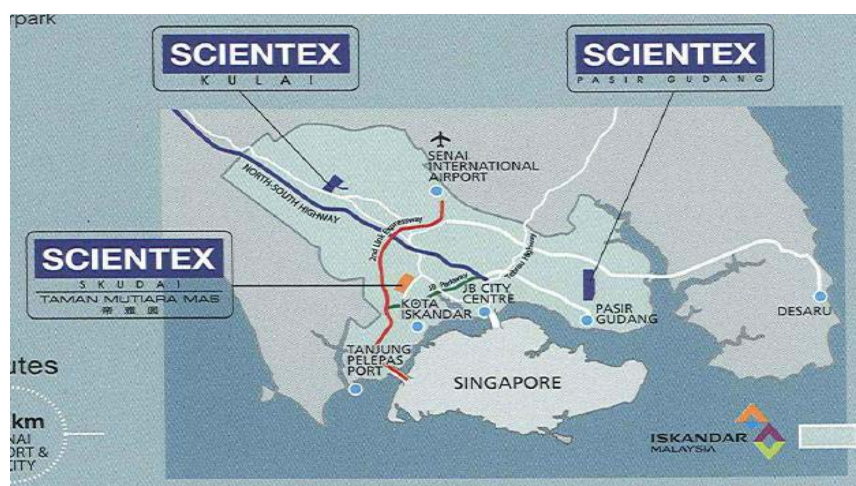


Source: Company

Property Development

Scientex ventured into property development in the mid-90s, starting with its flagship development in Taman Scientex Pasir Gudang (Johor) on about 1,000 acres. It has since acquired 637 acres of new land bank comprising 95 acres in Pasir Gudang in 2005, 250 acres in Kulai (Johor) in 2007, 136 acres in Ayer Keroh (Melaka) in 2009 and 156 acres in Skudai (Johor) in 2010. To-date, it has delivered 6,448 units of properties ranging from single and double-storey terrace houses to shop offices, cluster semi-detached units and 2½ storey terrace houses worth a total of RM744m.

The group has built a reputation as a leading property developer in Johor and Melaka, focusing on township development in Pasir Gudang and Kulai and higher-end niche projects in Skudai and Ayer Keroh. It enjoys healthy margins due to its cost efficiency. It has about 1,000 acres of land bank available for future development with current GDV of RM426m and pipeline GDV of RM1.6b lasting until 2019. Current unbilled sales of RM146m will boost property contribution to group profits from 53% in FY10 to 60% in FY11.



Scientex's ongoing property projects:

Taman Scientex Pasir Gudang

- Total GDV: RM1.5b on 1,100 acres
- Completed GDV: RM682m
- On-going projects: RM127m
 - 991 units of double-storey terrace houses & cluster semi-D; 76% sold
 - RM50.7m sales recognized and RM47.1m unbilled
- Pipeline projects: RM660m on remaining land bank of 540 acres

Taman Scientex Kulai

- Total GDV: RM400m on 250 acres
- Completed GDV: RM42m
- On-going projects: RM102m
 - 600 units of double-storey terrace houses; 94 units of Semi-D; 30 units of 2-storey shop lots; 72% sold
 - RM37.5m recognised and RM26.8m unbilled
- Pipeline projects: RM264m on remaining land bank of 220 acres

Taman Mutiara Mas (Skudai)

- Company (Scientex (Skudai) Sdn Bhd) with land acquired in January 2010
- Total GDV: RM753.9m on 145 acres
- On-going projects: RM151m
 - 70 units of 3-storey shop lots, non-Bumi units fully sold
 - 128 units of Semi-D; 74% sold
 - 76 units 2.5 storey terrace; 67% sold
 - RM49.9 million recognised and RM60.8m unbilled
- Pipeline projects: RM602.9m

Taman Muzaffar Heights (Ayer Keroh)

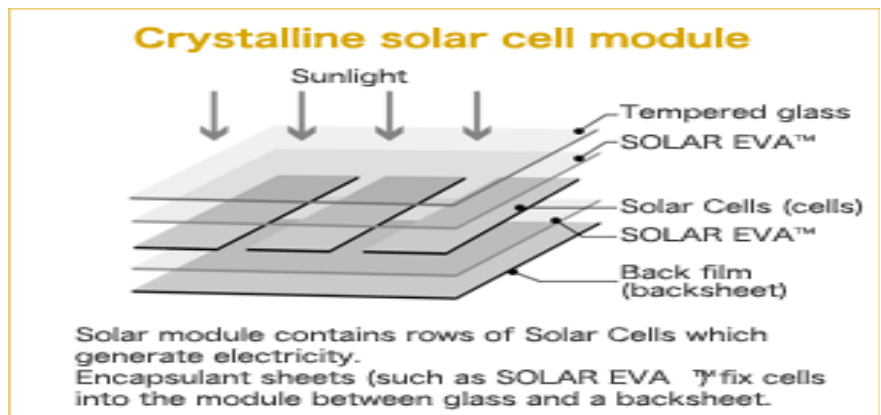
- Total GDV: RM290.5m on 137 acres
- Completed GDV: RM18.2m
- On-going projects: RM45.6m
 - 150 units double-storey terrace houses; 50 units of 2-storey shop lots; 98% sold
 - RM32.4m recognised and RM11.5m unbilled
- Pipeline projects: RM226.5m on remaining land bank of 120 acres.

Source: Company, Maybank IB

JV with Mitsui Chemicals Tohcello Inc. (MCTI)

Scientex recently entered into a 50:50 joint venture (JV) with MCTI (a wholly-owned subsidiary of Mitsui Chemicals Inc. of Japan) to manufacture and distribute encapsulating sheets for solar cells. MCTI is one of the top three producers of ethylene-vinyl acetate (EVA) encapsulating materials for solar films in the world, producing EVA sheets for solar cells at its existing factory in Nagoya.

The JV company, MCTI Scientex Solar Sdn Bhd, plans to build a state-of-the-art manufacturing plant for EVA sheets for solar cells in Bukit Rambai, Malacca. Commercial production is expected to begin in Aug 2012 with an initial production capacity of 10,000 MT per annum. The JV will have a paid-up capital of RM45m and Scientex plans to finance its investment of RM22.5m in the JV via internally-generated funds.



Source: Company

The JV represents a strategic opportunity for Scientex to participate in the exponential growth in global demand for renewable energy, specifically solar films. MCTI's current plant in Nagoya, with a capacity of 40,000 MT per annum, is only sufficient to meet the demand from Japan and China. The Malacca plant is expected to cater for demand from Malaysia, Singapore and Europe and will expand MCTI's global market share to 30% in 2013 from 20% currently.

Earnings outlook

Scientex is poised to deliver its best-ever year in terms of top and bottom line performance as both the manufacturing and property segments performed better. 9MFY11 revenue rose 19% YoY mainly due to higher contribution from property which accounted for 27% of sales and 53% of EBITDA (FY10: 22% of revenue, 36% of EBITDA). The higher contribution from property was due to higher margins compared with manufacturing which was affected by a weaker USD despite higher sales tonnage.

4QFY11 net profit is expected to be similar to 3QFY11's RM20m, giving a full-year FY11 net profit of about RM76m or 35.3 sen (+26% YoY). We expect FY12 net profit to grow by about 16% YoY, driven by its capacity expansion programme for its packaging business and unbilled sales of RM146m in its property development business. Packaging is envisaged to contribute 40% of net profit in FY11 and 45% in FY12, with property development contributing 60% in FY11 and 55% in FY12.

Quarterly revenue and profit

RM m	9M11	9M10	% chg YoY	3Q11	2Q11	% chg QoQ
Revenue	598.8	503.1	19.0	217.3	179.5	21.1
EBITDA	87.4	66.1	32.1	31.6	25.0	26.3
<i>EBITDA margin</i>	<i>14.6%</i>	<i>13.1%</i>	<i>1.5pt</i>	<i>14.5%</i>	<i>13.9%</i>	<i>0.6pt</i>
Pretax profit	70.7	49.0	44.1	25.9	19.3	34.2
<i>PBT margin</i>	<i>11.8%</i>	<i>9.7%</i>	<i>2.1pt</i>	<i>11.9%</i>	<i>10.7%</i>	<i>1.2pt</i>
PATMI	56.5	42.5	32.9	20.3	16.8	21.2
<i>Net margin</i>	<i>9.4</i>	<i>8.4</i>	<i>1.0pt</i>	<i>9.4</i>	<i>9.4</i>	<i>-</i>
EPS (sen)	26.3	19.7	32.9	9.5	7.8	21.4
<i>Eff. tax charge (%)</i>	<i>17.5</i>	<i>10.4</i>		<i>18.3</i>		

Source: Company, Maybank IB

Growth impetus for the packaging division will come from the group's continued capacity expansion to meet global demand. Its wholly-owned subsidiary, Scientex Packaging Film (SPF), raised its annual production capacity by 20% to 120,000 MT in July 2011, thus becoming the fifth largest stretch film producer in the world. Meanwhile, its 65% subsidiary, Pan Pacific Straptex, plans to raise its production capacity by 50% to 24,000 MT by end-2011, making it one of the world's largest producers of PP strapping bands. The group also added 2 lines to increase raffia capacity to 3,600 MT per annum. To facilitate the continuous expansion of its packaging film segment, SPF recently entered into a sales & purchase agreement to acquire 12.5 acres of land (opposite its existing factory) in Pulau Indah for RM12m.

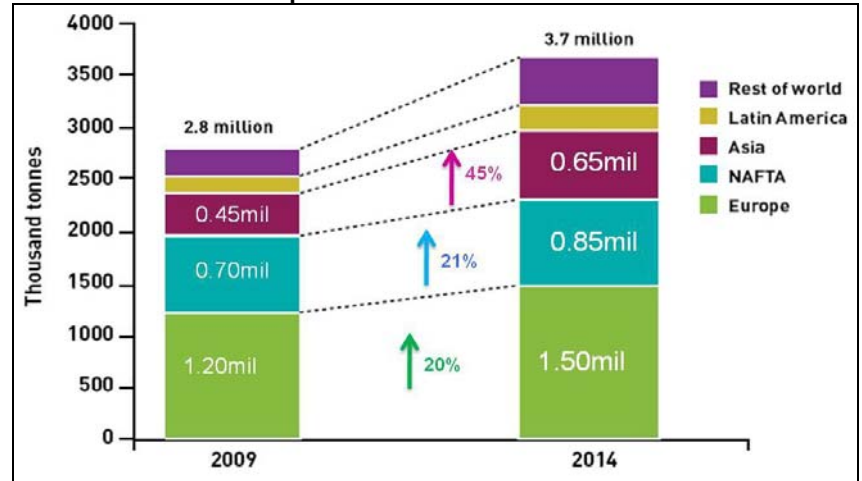
Manufacturing revenue breakdown

9MFY11	Revenue %	Revenue % change YoY	Sales Tonnage % change YoY
Stretch Film	55.4	7.8	14.9
PP strapping	11.3	19.1	13.0
Others	33.3	6.8	-

Source: Company, Maybank IB

The group's capacity expansion plans will drive earnings contribution from the packaging segment as margins improve from greater economies of scale and falling resin prices. Its diverse range of packaging solutions for numerous industries (e.g. food and beverage, electrical and electronics, pharmaceuticals and petrochemical) also helps mitigate cyclical business risks. Meanwhile, global demand for stretch film is projected to grow by 32% from 2009-14 according to studies done by AMI Consulting (see overleaf).

World Forecast Consumption Growth for Stretch Film



Source: AMI Consulting 2010

For the 9-months to April 2011, all of its 4 ongoing property development projects in Pasir Gudang, Kulai, Skudai and Malacca continued to book in higher sales. Its recently launched project - Taman Mutiara Mas, an upmarket development in Skudai recorded strong uptake due to rising demand for properties in the vicinity of the Iskandar region in Johor. The 145-acre mixed development project of high-end residential and commercial properties is now the second largest revenue contributor to the group's property development segment, contributing RM46.3m or 29% of segmental sales of RM159m.

Property sales breakdown (RM m)

Development	9MFY11	FY10
Taman Scientex Pasir Gudang	59.9	86.4
Taman Scientex Kulai	32.1	35.6
Skudai	46.3	3.6
Ayer Keroh	18.7	22.6
Others*	2.0	1.6
	159.0	149.8

* xx; Source: Company, Maybank IB

Financials

Scientex had net borrowings of RM28.1m (RM65.8m of debt less cash of RM37.7m) as at 30 Apr 2011. Net gearing currently stands at 6.1% but is projected to rise to about 20% by end-2011 due to its aggressive expansion plans and additional investments in its solar panel JV with Mitsui. Debt servicing currently takes up less than RM2m a year, and with cash generated from operations of about RM60m in FY11, the group can comfortably fund its recurring capex requirements of RM50-60m per annum.

Dividends should also grow in tandem with higher profits in the next few years. Scientex has committed to pay at least 30% of its net profit as dividends. It paid a total net dividend of 9 sen in FY10 and is expected to pay a net dividend of 11 sen in FY11, equivalent to a payout ratio of 33%. Total payout of 10 sen for FY11 translates into a net yield of 3.9% in FY11 and 4.7% in FY12 (assuming a net dividend payout of 12 sen).

Valuations

Potential upside of 31%. Our fair value of RM3.28 implies an 8x PER to its FY12 EPS of 41 sen, based on an estimated net profit of RM88.5m. This is derived by using a composite sum-of-parts (SOP) valuation based on an average PER of 8.0x for its packaging peers and 9.0x for its property development peers. Based on yesterday's closing price of RM2.55, this will result in a valuation gap of RM0.57 or 22.3%, which when added to its forward dividend yield of 3.9% gives a potential total return of 31.4%.

Nearest fit. Scientex's current valuation at 7.2x FY11 PER is attractive compared to Daibochi's (DPP MK; Not Rated) FY11 PER of 10.6x.

Sum-of-parts (SOP) Valuation

Sum of parts (RM m)	Net Profit (FY12E)	Valuation (FY12)	Basis
Manufacturing	35.0	280.0	Avg PE of peers: 8x
Property	53.5	481.5	Avg PE of peers: 9x
	88.5	761.5	
Less Net Debt		(45.0)	
SOP Valuation		716.5	
Fair Value		RM3.28	
Valuation Gap		0.70 (27.5%)	
Fwd Dividend Yield		3.9%	
Potential Total Return		31.4%	

Source: Maybank IB

Directors and Management

Name	Designation	Remarks
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim	Chairman	<ul style="list-style-type: none"> Independent non-executive director appointed to the Board in June 2003. Chairman of Audit, Nomination and Remuneration committees. Served as Secretary General of Treasury, Ministry of Finance (1991-94) and Managing Director of Khazanah (1994-2003). Former Chairman of Renong, former director of UEM and RHB Bank. Bachelor of Arts (Hons) – Economics, University of Malaya 1963.
Lim Teck Meng	Executive Deputy Chairman	<ul style="list-style-type: none"> Founder and major shareholder. Appointed to the Board as Managing Director from Sep 1969 - Nov 2001. Businessman with more than 40 years experience in the polymer industry, with vast experience in trading and property development. Father of Lim Peng Cheong and Lim Peng Jin who are also directors and major shareholders of the company.
Lim Peng Jin	Managing Director	<ul style="list-style-type: none"> Appointed to the Board as Group Executive Director in Jan 1995 before being re-designated as Managing Director in Nov 2001. Bachelor of Science (Hons) in Chemical Engineering from University of Tokyo in 1990. Completed Harvard Management Development Programme in 1998. Began career in the chemical industry in Japan. Has local and international working experience in the fields of polymer and chemicals and is very hands-on in the business of the Scientex group for the past 19 years. Son of Lim Teck Meng and brother of Lim Peng Cheong who are also directors and major shareholders of the company

Source: Company

INCOME STATEMENT (RM m)

FY Dec	2007A	2008A	2009A	2010A
Turnover	613.1	656.6	509.7	694.8
EBITDA	65.9	84.2	69.2	95.6
Depreciation & Amortisation	(20.7)	(23.5)	(23.6)	(23.6)
Operating Profit	43.8	59.3	42.5	70.0
Associates	(4.3)	(3.3)	(1.9)	(1.3)
Interest (Exp)/Inc	0.7	1.5	1.5	2.0
Exceptional Items	0.0	0.0	0.0	0.0
Pre-Tax Profit	40.2	57.4	42.1	70.8
Tax	1.2	(4.4)	(3.5)	(8.6)
Minority Interest	(6.3)	(5.3)	(1.1)	(1.8)
Net Profit	35.2	47.7	37.5	60.3
Recurring Net Profit	35.2	47.7	37.5	60.3
Revenue Growth %	4.6%	7.1%	(22.4%)	36.3%
EBITDA Growth (%)	(3.6%)	27.9%	(17.9%)	38.2%
EBIT Growth (%)	(8.0%)	35.5%	(28.3%)	64.9%
Net Profit Growth (%)	24.8%	35.6%	(21.5%)	61.0%
Recurring Net Profit Growth (%)	24.8%	35.6%	(21.5%)	61.0%
Tax Rate %	(3.1%)	7.6%	8.3%	12.2%

BALANCE SHEET (RM m)

FY Dec	2007A	2008A	2009A	2010A
Fixed Assets	342.2	354.8	373.9	421.8
Other LT Assets	19.5	18.4	12.2	13.9
Cash/ST Investments	29.4	29.5	15.6	23.4
Other Current Assets	199.7	218.7	182.8	216.0
Total Assets	590.7	621.4	584.6	675.1
ST Debt	60.1	38.6	14.5	42.0
Other Current Liabilities	109.1	145.2	113.1	129.1
LT Debt	14.2	32.2	22.2	26.2
Other LT Liabilities	20.6	24.4	23.7	27.0
Minority Interest	102.2	35.0	36.1	36.4
Shareholders' Equity	284.6	346.0	375.1	414.3
Total Liabilities-Capital	590.7	621.4	584.6	675.1
Share Capital (m)	100.0	115.2	115.0	115.0
Gross Debt/(Cash)	74.3	70.8	36.6	68.2
Net Debt/(Cash)	44.9	41.3	21.0	44.8
Working Capital	59.8	64.3	70.9	68.2

CASH FLOW (RM m)

FY Dec	2007A	2008A	2009A	2010A
Profit after taxation	40.2	57.4	42.1	70.8
Depreciation	(20.7)	(23.5)	(23.6)	(23.6)
Net interest receipts/(payments)	(4.3)	(3.3)	(1.9)	(1.3)
Working capital change	(0.2)	16.6	19.9	(4.2)
Cash tax paid	(3.3)	(6.6)	(4.1)	(7.9)
Others (incl'd exceptional items)	52.8	26.3	41.5	44.3
Cash flow from operations	64.6	66.9	73.9	78.1
Capex	(24.8)	(39.0)	(11.2)	(23.9)
Disposal/(purchase)	2.9	(4.2)	(15.2)	(66.8)
Others	0.6	0.7	1.0	0.7
Cash flow from investing	(21.3)	(42.4)	(25.3)	(90.0)
Debt raised/(repaid)	(14.0)	(1.6)	(42.1)	32.6
Equity raised/(repaid)	(6.4)	(10.9)	(0.0)	(0.0)
Dividends (paid)	(13.6)	(5.7)	(17.5)	(11.0)
Interest payments	(5.1)	(4.3)	(2.9)	(2.0)
Others	(0.2)	(1.1)	0.0	0.0
Cash flow from financing	(39.3)	(23.7)	(62.5)	19.6
Change in cash	3.9	0.8	(13.9)	7.7

RATES & RATIOS

FY Dec	2007A	2008A	2009A	2010A
EBITDA Margin %	10.7%	12.8%	13.6%	13.8%
Op. Profit Margin %	7.1%	9.0%	8.3%	10.1%
Net Profit Margin %	5.7%	7.3%	7.3%	8.7%
ROE %	7.5%	15.1%	10.4%	15.3%
ROA %	1.8%	7.9%	6.2%	9.6%
Net Margin Ex. EI %	5.7%	7.3%	7.3%	8.7%
Dividend Cover (x)	8.5	2.0	(1.3)	(3.5)
Interest Cover (x)	(10.2)	(17.8)	(22.3)	(55.6)
Asset Turnover (x)	1.0	1.1	0.9	1.0
Asset/Debt (x)	8.0	8.8	16.0	9.9
Debtors Turn (days)	58.5	54.6	59.1	51.6
Creditors Turn (days)	74.5	69.6	89.6	65.8
Inventory Turn (days)	37.7	35.2	45.4	33.3
Net Gearing (x)	0.2	0.1	0.1	0.1
Debt/ EBITDA (x)	1.1	0.8	0.5	0.7
Debt/ Market Cap (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	8.5	7.6	8.9	6.7

Sources: Company, Maybank-IB

Definition of Ratings

Maybank Investment Bank Research uses the following rating system:

- BUY** Total return is expected to be above 10% in the next 12 months
HOLD Total return is expected to be between -5% to 10% in the next 12 months
SELL Total return is expected to be below -5% in the next 12 months

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

Adex = Advertising Expenditure	FCF = Free Cashflow	PE = Price Earnings
BV = Book Value	FV = Fair Value	PEG = PE Ratio To Growth
CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
DPS = Dividend Per Share	NTA = Net Tangible Asset	ROSF = Return On Shareholders' Funds
EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
EBITDA = EBIT, Depreciation And Amortisation	P.A. = Per Annum	YoY = Year-On-Year
EPS = Earnings Per Share	PAT = Profit After Tax	YTD = Year-To-Date
EV = Enterprise Value	PBT = Profit Before Tax	

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