

**Briefing Note**

Wednesday, December 21<sup>st</sup>, 2011

**SCIENTEX BERHAD**

**BUY**

Current Price	2.49
Target Price	2.99
Upside To Target	20.1%

**Stock Codes**

Masa	SCIENTX/4731
Bloomberg	SCI MK

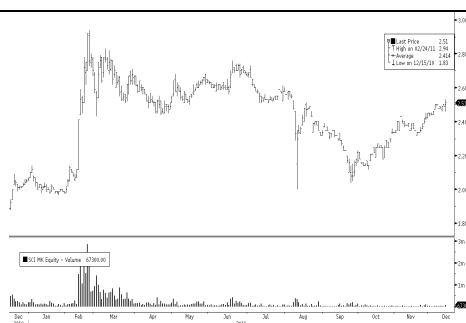
**Stock & Market Data**

FBMKLCI	1,465.17
Listing	Main Board
Sector	Industrial Product
Syariah Compliant	YES
Par Value (RM)	0.50
Issued Shares (m)	215.4
Market Capitalisation (m)	535.4
YTD Chg In Share Price	21.3%
52-week Hi/Lo	2.94/1.83
6M Average Volume	37,548
Estimated Free Float	42.5%
Majority Shareholders	Lim Family (57.2%)

**Key Indicators**

ROA	10.7%
ROE	16.5%
Net Debt/Equity	1.4%
Price/NTA	1.2x

**Share Price Performance Chart**



**Investment Highlights**

We recently attended Scientex Bhd's briefing to update the investment community on its results announcement and on company developments. Highlights are as follows:

**Top 5 stretch film players worldwide** With the completion of its expansion of ninth production line, Scientex is now equipped with total production capacity of 120,000MT per annum. The group is positioned as the top five largest stretch film producers in the world. With its new production line installed with new technology, the group is able to enjoy 5-10% lower cost of production. Scientex is currently drafting plans to build a new plant next to its existing stretch film plant at Pulau Indah. Initially, the plan is to install 1-2 production lines to add another 40,000-50,000MT of production capacity in 2012.

**Exports sales remain resilient** Scientex's 1QFY12 sales rose by 11.3%, largely due to a 17.5% increase in sales of stretch film. Our main concern was its exports sales would be derailed by weak economic growth in its export markets. Management advises that exports sales remain firm, and we are comfortable with the fact that about 80% of its export sales were generated from Asia Pacific region.

**EVA plant – on schedule** Scientex's 50% JV company, to manufacture ethylene-vinyl acetate (EVA) encapsulating sheets used in solar cells, is on schedule for plant completion by early 2012. Initial annual production capacity is 10,000MT and is expected to commence operations by August 2012. The project is a high-investment project that requires more cash to be pumped into, for purposes such as installing high-technology machineries. Scientex would eventually need to gear up to fund the operations. Nevertheless, we remain comfortable with the low group gearing ratio of 0.02x and a good track record in managing its cash flow.

**Target price of RM2.99** We are keeping our forecasts for Scientex with a fair value of **RM2.99** based on sum-of-parts valuation. We have introduced our FY2013 estimates and our projection has only includes minimal contribution from its new EVA business. The stock has dropped some 15% since its high of RM2.94/share. Recent price weakness provides opportunity to accumulate the stock.

YE 31 <sup>st</sup> Jul	2009	2010	2011	2012F	2013F
Net Profit (RM mn)	37.5	60.3	77.2	95.4	102.6
NI Growth (%)	-	61.0%	28.1%	23.5%	7.5%
EPS (sen)	17.4	28.0	35.9	44.3	47.6
DPS (sen)	5.0	9.0	12.0	15.0	15.0
NTA/Share (sen)	174.3	192.4	217.0	261.3	308.9
Net Cash/(Debt) per share	-0.10	-0.21	-0.03	-0.02	0.29
Net Debt/Equity (%)	5.60	10.82	1.40	0.79	net cash
PER (x)	6.9	5.5	7.2	5.6	5.2
Dividend Yield (%)	4.2	5.8	4.7	6.0	6.0
ROE (%)	10.0	14.6	16.5	17.0	15.4
ROA (%)	6.4	8.9	10.7	11.4	11.0
P/NTA (x)	0.7	0.8	1.2	1.0	0.8

# JUPITER SECURITIES RESEARCH

<b>Income Statement (RMm) YE 31<sup>st</sup> Jul</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012F</b>	<b>2013F</b>
Revenue	509.7	694.8	804.0	849.9	856.3
Cost of Sales	(428.6)	(571.8)	(644.7)	(688.4)	(689.3)
Gross Profit	81.2	123.0	159.3	161.5	167.0
Operating Profit (EBIT)	42.5	70.0	97.4	112.7	117.8
EBITDA	65.6	93.1	119.3	135.6	141.8
Depr & amort	(23.6)	(23.6)	(22.3)	(23.4)	(24.5)
Finance costs	(1.9)	(1.3)	(1.6)	(1.5)	(1.5)
Pre-Tax Profit	42.1	70.8	96.6	113.2	118.3
Taxation	(3.5)	(8.6)	(16.5)	(19.8)	(20.7)
Minority Interest	1.1	1.8	2.9	2.0	2.0
Net Profit / (Loss)	37.5	60.3	77.2	95.4	102.6
Gross Margin (%)	15.9	17.7	19.8	19.0	21.9
Operating margin (%)	8.3	10.1	12.1	13.3	13.8
EBITDA Margin (%)	12.9	13.4	14.8	16.0	16.6
Pretax Margin (%)	8.2	10.2	12.0	13.3	13.8
Net Margins (%)	7.3	8.7	9.6	11.2	12.0
Revenue Growth (%)	-22.4	36.3	15.7	5.7	0.8
EBITDA Growth (%)	-20.3	42.0	28.1	13.7	4.5
Pre-Tax Profit Growth (%)	-26.8	68.3	36.6	17.2	4.4
Net profit Growth (%)	-21.5	61.0	28.1	23.5	7.5

<b>Balance sheet as at 31<sup>st</sup> Jul</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012F</b>	<b>2013F</b>
Prop, Plant & equipment	203.40	205.08	192.95	216.11	237.72
Land held for prop dev	170.51	216.68	209.27	207.18	205.11
Other LT asset	12.24	13.92	41.84	109.70	109.80
<b>LT asset</b>	<b>386.15</b>	<b>435.68</b>	<b>444.07</b>	<b>532.99</b>	<b>552.63</b>
Property development costs	38.66	54.40	64.91	72.70	81.43
Inventories	61.68	63.38	67.76	65.20	68.04
Trade Receivables	79.64	95.75	105.50	111.77	117.30
Cash and bank balances	15.62	23.35	40.95	51.54	115.06
<b>Current asset</b>	<b>198.46</b>	<b>239.39</b>	<b>281.01</b>	<b>303.21</b>	<b>383.83</b>
Short-term borrowings	14.45	42.02	37.51	45.00	40.00
Trade payables	111.42	125.18	136.72	135.06	129.03
Other ST liabilities	1.66	3.94	7.94	8.74	8.94
<b>Current Liabilities</b>	<b>127.53</b>	<b>171.15</b>	<b>182.18</b>	<b>188.79</b>	<b>177.97</b>
Long term borrowings	22.16	26.17	10.00	11.00	12.00
Other LT liabilities	23.69	26.95	26.78	27.50	27.94
LT Liabilities	45.85	53.12	36.78	38.50	39.94
Share Capital	115.00	115.00	115.00	115.00	115.00
Reserves	260.09	299.35	352.34	447.76	550.32
<b>Shareholders Funds</b>	<b>375.09</b>	<b>414.35</b>	<b>467.34</b>	<b>562.76</b>	<b>665.32</b>
Minority interest	36.14	36.45	38.78	46.15	53.23

The opinion and information contained herein are based on available data believed to be reliable and this report is provided for information purposes only. It is not to be construed as an offer, invitation to buy or sell the securities mentioned herein. Jupiter Securities Sdn Bhd does not warrant the accuracy stated in any manner herein and no reliance upon such things by anyone should give rise to any claim whatsoever. The directors and staff of Jupiter Securities Sdn Bhd may have an interest in the securities mentioned.