Scientex Berhad

OVERWEIGHT

Fair Value

RM1.86 (+50.0%)

3Q FY08: In-line with expectations

Stock Data	
Price (RM)	1.24
Stock code	0118
Bloomberg Ticker	SCI MK
Listing	Main Board
Share Cap (RM mn)	114.2
Market Cap (RM mn)	285.75
Par value (RM)	1.00
52-wk high (RM)	1.60
52-wk low (RM)	1.02
Major shareholders:-	
Scientex Holdings	(18.5%)
Scientex Leasing	(10.9%)
TM Lim	(9.5%)

Financial Data	
12 month trailing PER (x)	7.3
BV per share (RM)	3.3
P/BV (x)	0.4
ROE (%)	12.9
Beta (x)	0.8
Altman Z Score	2.1
Dividend yield (%)	2.4

Relative Performance (%)	
1-month	2.9
3-month	5.2
6-month	9.5
12-month	3.3
YTD	11.2

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Investment Highlights

Scientex released its 3Q FY08 results. The results came in-line with expectations. Scientex has achieved 74.8% and 75.4% of 2008 revenue and PATMI estimates.

Strong Y-o-Y. Revenue increased by 10.2% to RM165.6mn while PATMI surged by 47.1% to RM10.3mn from the corresponding period last year. This is attributed by stronger revenue and results from both key segments including manufacturing and property development.

Improved Q-o-Q. Revenue declined marginally by 1.1% while PATMI increased by 10.6% from the corresponding quarter. The increase was attributed by better margins on both manufacturing and property development segments.

Segment performance. The property segment saw stronger sales attributed by Scientex's flagship project, Taman Scientex in Johor. The performance of the manufacturing segment was attributed to higher selling prices and overall improvement in operational efficiency in the manufacturing division. The improved performance reflects on the successful execution of the group's strategy to focus on enhancing competitiveness in each core business.

Proposed Vietnam JV with Tsukasa Chemical. Scientex announced that SciPack has entered into a jv with Tsukasa Chemical Industry Co. Ltd to further expand its operations in Vietnam. Both parties would inject US$1mn capital each into Scientex Tsukasa. Scientex Tsukasa is currently involved in the manufacturing of packaging products including PP, polyethylene woven bags, fabrics and flexible intermediate bulk containers. The production would be expanded to include HDPE, tying flat tape & twine, raffia tape, PP rope & cord and PP binder. The existing interest of Scipack would be reduced to 75% from the current 100% while Tsukasa Chemical will hold 25%. The JV is not expected to have an immediate impact on earnings but will contribute in the longer term.

Dividend announcement. Scientex has declared an interim dividend of 3 sen per share. The ex-date is on 28/7/08 while the entitlement date is on 30/07/08.

Completion of take-over exercise. On 27/5/08, Scientex announced that is has completed the voluntary take-over exercise of remaining share in Scientex Packaging Bhd (SciPack). It is now a wholly owned subsidiary and has been delisted.

Recommendation. We maintain our overweight recommendation on Scientex with a fair value of RM1.86. We believe that the completion of the take-over exercise of Scipack would realize cost savings and operational efficiencies for the group. Moreover, the sales and performance from the property segment has been promising while the proposed Vietnam JV offers further growth potential in future.

Results comparison						
FYE 31 July		**3Q FY07**	**2Q FY08**	**3Q FY08**	**Q-o-Q**	**Y-o-Y**
	Units				**%**	**%**
Revenue	**RM mn**	**150.3**	**167.5**	**165.6**	**(1.1)**	**10.2**
Operating profit	RM mn	9.4	13.4	13.8	3.0	47.4
Finance cost	RM mn	(1.2)	(0.8)	(0.8)	(3.2)	(32.7)
Investing results	RM mn	0.3	0.4	0.2	(52.5)	(35.0)
Profit before Tax	**RM mn**	**8.5**	**13.0**	**13.2**	**1.7**	**55.8**
Taxation	RM mn	(0.4)	(1.6)	(1.3)	18.9	221.8
Minority interest	RM mn	(1.1)	(2.1)	(1.6)	(22.4)	50.1
PATMI	**RM mn**	**7.0**	**9.3**	**10.3**	**10.6**	**47.1**
EPS	sen	3.7	5.0	5.2	5.2	42.6
Margins %						
Operating margin	%	6.2	8.0	8.4	4.2	33.7
PBT margin	%	5.6	7.8	8.0	2.9	41.4
Net margin	%	4.7	5.6	6.2	11.9	33.5

Cummulative Results comparison				
FYE 31 July		**3Q FY07**	**3Q FY08**	**Y-o-Y**
	Units			**%**
Revenue	**RM mn**	**464.6**	**489.0**	**5.2**
Operating profit	RM mn	36.0	37.0	2.6
Finance cost	RM mn	(3.4)	(2.7)	(22.3)
Investing results	RM mn	0.7	0.9	30.0
Profit before Tax	**RM mn**	**33.3**	**35.2**	**5.7**
Taxation	RM mn	(1.6)	(4.1)	153.8
Minority interest	RM mn	(5.7)	(5.0)	(12.2)
PATMI	**RM mn**	**26.0**	**26.1**	**0.4**
EPS (sen)	sen	13.5	13.6	1.1
Margins %				
Operating margin	%	7.8	7.6	(2.5)
PBT margin	%	7.2	7.2	0.4
Net margin	%	5.6	5.3	(4.6)

P&L Analysis					
		2006	2007	2008E	2009E
FYE 31st July	Units				
Revenue	RM mn	586.3	613.1	653.8	689
Gross profit	RM mn	97.9	80	84.3	86.8
Gross margin	%	*16.7*	*13.1*	*12.9*	*12.6*
Other income	RM mn	16.4	15	17	18
EBIT	RM mn	47.5	43.8	50.3	54.8
EBIT margin	%	*8.1*	*7.1*	*7.7*	*8*
Finance cost	RM mn	-3.7	-4.3	-3.4	-2.5
Share of profit of associates	RM mn	0.3	0.7	0.5	0.5
PBT	RM mn	44	40.2	47.5	52.9
PBT margin	%	*7.5*	*6.6*	*7.3*	*7.7*
Tax	RM mn	-6.6	1.2	-5.7	-6.9
MI	RM mn	9	6.3	7.2	1.3
PATMI	RM mn	28.5	35.2	34.6	44.7
Net margin	%	*4.9*	*5.7*	*5.3*	*6.5*
Revenue Growth	%	15.5	4.6	6.6	5.4
GP Growth	%	16.5	-18.2	5.4	2.9
PBT Growth	%	22.4	-8.7	18	11.4
Net Growth	%	28.7	23.6	-1.8	29.4

Per Share Data					
		2006	2007	2008E	2009E
	Units				
Book Value (RM)	RM	1.43	1.51	1.64	1.77
Cash Flow (RM)	RM	0.52	0.36	0.29	0.18
Earnings	sen	15.1	18.7	18.4	20.7
Dividend (RM)	RM	0.09	0.03	0.06	0.07
Payout ratio	%	57.2	16	33.3	33.3
PER (x)	X	5.7	8.1	6.8	6
P/Cash Flow (x)	X	1.6	4.2	4.3	6.9
P/Book Value (x)	X	0.6	1	0.8	0.7
Dividend yield	%	10.1	2	4.9	5.5
ROE (%)	%	10.6	12.4	11.2	11.3
Net Gearing (%)	%	23.6	15.8	13.9	5.9

Source: Bloomberg