

23 March 2016

Scientex Bhd

1H16 Exceeded Expectations

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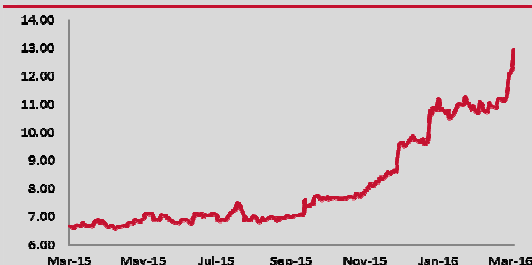
MARKET PERFORM ↔

Cum-Price/Ex-Price: **RM12.94/RM6.47**

Cum-TP/Ex-TP: **RM13.25/RM6.63** ↑

- Period** ■ 2Q16/1H16
- Actual vs. Expectation** ■ 1H16 Core Net Profit (CNP*) of RM131.4m exceeded consensus (full-year forecast of RM231.5m) and our forecast (full-year estimate at RM224.9m) at 57% and 58%, respectively. This was due to better-than-expected margins from the manufacturing division following the its new Ipoh acquisition, increased efficiency, higher export sales and lower effective tax rates.
- Dividends** ■ No dividend was declared, as expected.
- Key highlights** ■ **YoY-Ytd**, CNP jumped 98% driven by manufacturing margins which doubled to 10%, resulting in manufacturing EBIT surging 139%. This was largely due to higher proportion of consumer packaging mix (+36%) as well as lower resin cost (c.USD1,100-1200/MT or -20-27%). Property EBIT improved 16%, on higher recognitions. Additionally, effective tax rate was lower at 19% (vs. 22%) from recognition of Reinvestment Allowance in 2Q16.
- **QoQ**, CNP only increased by 4% as topline was dragged down by the property segment on weaker EBIT margins (25% vs. 30%) and lower recognition during the period, while manufacturing EBIT saw minimal growth (+2%) and flattish margins. However, the saving grace was lower finance cost (-16%) and effective tax rate (17% vs. 22%).
- Outlook** ■ For the manufacturing segment, we understand that SCIENTEX intends to add another 3.6m MT of PE film capacity in Rawang and Ipoh in addition to its existing expansion plans. The new capacity is expected to contribute to 2H17 earnings.
- For the property segment, we expect the on-going sector slowdown to persist in 2016 due to tighter lending policies and poor market sentiment. However, SCIENTEX is targeting to launch more affordable houses (c.90% of total launches) in the next two years which should provide some earnings resiliency.
- Change to Forecasts** ■ We raise FY16-17E CNP by 12-20% to RM252-292m to account for higher margins in the consumer packaging sub-segment as well the new expansion plan for its Ipoh facilities.
- Rating** **Maintain MARKET PERFORM**
- Although we are positive on the manufacturing segment's earnings growth potential, we remain cautious on the property segment due to its Johor market focus. Nevertheless, the excitement from the recent bonus issue announcement may provide a short-term boost to the share price.
- Valuation** ■ We increase our TP to RM13.25 (ex-bonus TP: RM6.63) from RM9.49 based on Sum-of-Parts as we upgrade our earnings and roll forward our base year to CY17, in line with the sector.
- For the manufacturing segment, we use an applied PER of 14.0x, which reflects higher future contribution from consumer packaging products. Post-expansion, the consumer packaging capacity is expected to make up c.50% of total capacity, from 36% currently. Our applied PER reflects a 10% discount to pure consumer packaging players' applied PER of 15.5x.
- As for the property segment, we use a target PER of 5.0x as we think that PER is more appropriate for small-mid cap property players in a slower market environment. Our target PER is in line with the peers' average.
- Risks** ■ Lower-than-expected crude oil prices.
- Better-than-expected property sales forecast and/or margins.

Share Price Performance



KLCI	1,724.75
YTD KLCI chg	1.9%
YTD stock price chg	32.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	2,969.5
Issued shares	229.5
52-week range (H)	12.98
52-week range (L)	6.58
3-mth avg daily vol:	307,746
Free Float	60%
Beta	0.5

Major Shareholders

SCIENTEX HOLDINGS SD	21.5%
SCIENTEX LEASING SDN	10.3%
LIM TECK MENG SDN BH	8.3%

Summary Earnings Table

FY July (RM'm)	2015A	2016E	2017E
Turnover	1801.7	2448.3	2945.4
EBIT	225.0	335.4	373.9
PBT	221.0	325.2	374.6
Net Profit (NP)	158.2	253.0	292.0
Core Net Profit	149.2	253.0	292.0
Consensus (NP)	n.a.	231.5	271.5
Earnings revision	n.a.	12%	20%
Core EPS (sen)	70.4	112.6	130.0
EPS growth (%)	0.5	69.6	15.4
Net DPS (sen)	22.0	33.8	39.0
BV/Share (RM)	4.19	4.71	5.62
NTA/share (RM)	4.19	4.71	5.62
PER (x)	18.4	11.5	10.0
PBV (x)	3.1	2.7	2.3
P/NTA (x)	3.1	2.7	2.3
Net gearing (x)	0.1	0.3	N.Cash
Div. Yield (%)	1.7	2.6	3.0

* CNP excludes net forex loss (RM2.4m).

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Result Highlights

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover	545.4	550.6	-1%	462.9	18%	1096.0	893.9	23%
EBIT	78.6	82.1	-4%	48.0	64%	160.6	89.5	79%
Interest income	3.9	1.8	N.M.	1.2	N.M.	5.7	1.8	N.M.
Finance costs	(2.6)	(3.1)	-16%	(1.9)	39%	(5.7)	(3.8)	50%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	79.9	80.8	-1%	47.3	69%	160.6	87.5	84%
Taxation	(13.2)	(18.0)	-27%	(10.2)	30%	(31.2)	(19.2)	63%
Profit after tax	66.7	62.8	6%	37.1	80%	129.4	68.3	89%
Minority interest	(2.0)	(1.9)	7%	(1.1)	92%	(3.9)	(2.0)	98%
Net profit	64.6	60.9	6%	36.1	79%	125.5	66.3	89%
Core net profit	67.0	64.3	4%	36.1	86%	131.4	66.3	98%
Core EPS (sen)	29.7	28.5	4%	16.0	86%	58.1	29.4	98%
NDPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
NTA/share (RM)	4.6	4.5	4%	3.6	29%	4.62	3.58	29%
EBIT margin	14%	15%		10%		15%	10%	
Pretax margin	15%	15%		10%		15%	10%	
Core net profit margin	12%	12%		8%		12%	7%	
Effective tax rate	17%	22%		22%		19%	22%	

Source: Company, Kenanga Research

Segmental Results

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM'm)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
Turnover								
Manufacturing	402.0	392.0	3%	327.0	23%	794.0	647.3	23%
Property	143.4	158.6	-10%	135.9	6%	302.0	246.6	22%
Group Turnover	545.4	550.6	-1%	462.9	18%	1096.0	893.9	23%
Segment Results								
Manufacturing	38.7	38.0	2%	17.4	122%	76.7	32.1	139%
Property	36.4	47.5	-23%	40.3	-10%	83.9	72.3	16%
Foreign exchange differences	(2.4)	(3.5)	N.M.	(9.7)	N.M.	(5.9)	(15.0)	N.M.
Group EBIT	72.7	82.1	-11%	48.0	51%	154.7	89.5	73%
EBIT Margin								
Manufacturing	10%	10%		5%		10%	5%	
Property	25%	30%		30%		28%	29%	
Group PBT Margin	13%	15%		10%		14%	10%	

Source: Company, Kenanga Research

Sum-of-Parts

Segment	Justification for Valuation	Fair Value (RM'm)	PER (x) / Discount (%)	Net Income/RNAV (RM'm)
Property	In line with small-mid cap property stocks' average PER.	756.6	5.0	151.3
Manufacturing	14.0x PER @ 10% discount to consumer packaging applied PER (15.5x).	2236.0	14.0	159.7
Sum-of-Parts (RM'm)		2992.6		
No. of Shares ('m)		225.9		
Target Price (RM)		13.25		

Source: Kenanga Research

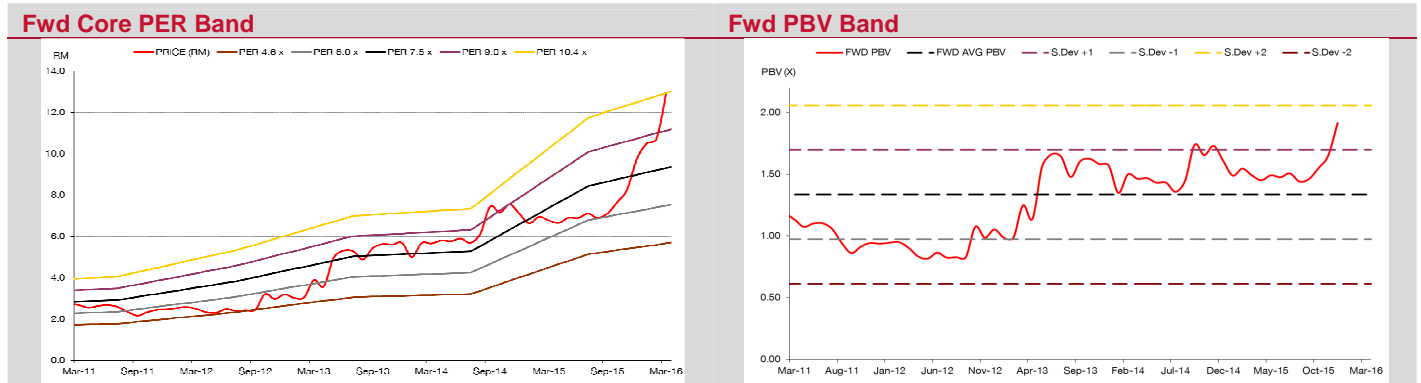
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Income Statement						Financial Data & Ratios					
FY Jul (RM m)	2013A	2014A	2015A	2016E	2017E	FY Jul (RM m)	2013A	2014A	2015A	2016E	2017E
Turnover	1229.0	1590.5	1801.7	2448.3	2945.4	Growth					
EBITDA	177.6	229.5	268.8	410.3	457.8	Turnover (%)	39.5	29.4	13.3	35.9	20.3
Depreciation	-31.5	-39.9	-43.8	-74.9	-83.9	EBITDA (%)	36.0	29.2	17.1	52.6	11.6
Operating Profit	146.1	189.6	225.0	335.4	373.9	Operating Profit (%)	35.8	29.8	18.6	49.1	11.5
Interest Expense	-4.5	-7.1	-8.3	-14.5	-11.0	PBT (%)	33.4	30.3	18.6	47.2	15.2
Associate	1.3	3.8	4.2	4.2	11.7	Core Net Profit (%)	31.4	34.6	6.6	59.9	15.4
Exceptional Items	0.0	0.0	9.0	0.0	0.0	Profitability (%)					
PBT	143.0	186.3	221.0	325.2	374.6	EBITDA	14.5	14.4	14.9	16.8	15.5
Taxation	-30.5	-34.8	-58.9	-65.9	-75.3	Operating Profit	11.9	11.9	12.5	13.7	12.7
Minority Interest	-2.2	-3.1	-3.9	-6.2	-7.2	PBT	11.6	11.7	12.3	13.3	12.7
Net Profit	110.3	148.5	158.2	253.0	292.0	Net Profit	9.0	9.3	8.8	10.3	9.9
Core Net Profit	110.3	148.5	149.2	253.0	292.0	Core Net Profit	9.0	9.3	8.3	10.3	9.9
						Effective Tax Rate	21.3	18.7	26.6	20.3	20.1
						ROA	10.5	11.1	10.4	11.8	10.2
						ROE	19.1	22.1	19.1	25.3	25.1
						DuPont Analysis					
						Net Margin (%)	9.0	9.3	8.3	10.3	9.9
						Assets Turnover (x)	1.0	1.1	1.1	0.9	1.0
						Leverage Factor (x)	2.2	2.1	2.0	2.7	2.6
						ROE (%)	19.1	22.1	18.0	25.3	25.1
						Leverage					
						Debt/Asset (x)	0.3	0.2	0.1	0.3	0.2
						Debt/Equity (x)	0.5	0.5	0.2	0.7	0.4
						Net Cash/(Debt)	-183.3	-256.7	-134.8	-285.2	55.9
						Net Debt/Equity (x)	0.3	0.4	0.1	0.3	N.Cash
						Valuations					
						Core EPS (sen)	51.0	67.1	70.4	112.6	130.0
						NDPS (sen)	26.0	21.0	22.0	33.8	39.0
						BV/Share (RM)	2.91	3.22	4.19	4.71	5.62
						NTA/Share (RM)	2.91	3.22	4.19	4.71	5.62
						Core PER (x)	25.3	19.3	18.4	11.5	10.0
						Net Div. Yield (%)	2.0	1.6	1.7	2.6	3.0
						P/BV (x)	4.4	4.0	3.1	2.7	2.3
						P/NTA (x)	4.4	4.0	3.1	2.7	2.3
						EV/EBITDA (x)	9.5	13.6	11.3	7.8	6.4

Balance Sheet					
FY Jul (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	491.3	551.8	642.8	982.9	1079.0
Prepaid leases	0.0	0.0	0.0	0.0	0.0
Other inv.	9.6	9.6	24.1	24.1	24.1
Other F. Assets	288.6	297.9	310.1	520.9	520.9
Inventories	80.7	109.0	112.0	167.5	204.5
Receivables	192.0	243.5	321.7	416.3	500.8
Other Cur. Assets	72.0	104.6	136.5	151.1	150.1
Cash	152.2	83.8	90.6	403.1	579.9
Total Assets	1286.4	1400.1	1637.8	2665.9	3059.3
Payables	258.4	272.1	328.6	461.0	560.0
ST Borrowings	167.6	262.9	149.9	380.7	430.2
Other ST Liability	10.8	11.5	21.6	29.4	35.4
LT Borrowings	167.8	77.5	75.5	307.6	93.8
Other LT Liability	33.0	40.9	57.4	70.8	81.5
Minority Interest	20.0	22.7	62.8	85.3	102.6
Net Assets	628.7	712.4	942.0	1058.9	1263.3
Share Capital	115.0	115.0	115.0	115.0	115.0
Reserves	513.7	597.7	827.0	943.9	1148.3
S'holders' Fund	628.7	712.7	942.0	1058.9	1263.3

Cashflow Statement					
FY Jul (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	213.1	153.8	303.3	652.0	619.8
Investing CF	-348.5	-149.5	-170.0	-712.1	-180.0
Financing CF	251.2	-72.7	-132.9	372.6	-262.9
Change In Cash	115.8	-68.4	0.4	312.5	176.8
Free CF	-135.4	4.3	133.3	-60.1	439.8

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

Company	Price (RM)	Mkt Cap (RM'm)	PER			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target	Rating
			CY15	CY16	CY17				CY16	CY17		
Core Coverage												
Scientex	12.94	2,969.5	15.4	11.0	9.5	2.6	19.4	3.0	39.9	16.6	13.25	MARKET PERFORM
SLP	2.24	554.0	21.3	18.6	15.3	2.1	22.8	4.9	14.5	21.5	2.26	MARKET PERFORM
Thong Guan	3.13	329.5	9.5	10.0	9.0	2.7	8.9	0.8	-4.6	11.5	3.40	OUTPERFORM
Simple Average			15.4	13.2	11.3							
Weighted Average			15.8	12.0	10.3							
Non-Core Coverage												
Daibochi	2.18	595.7	22.2	17.3	14.4	6.2	14.8	3.3	28.1	20.8	NOT RATED	NOT RATED
SCGM	3.04	401.3	29.9	27.3	23.4	3.3	15.6	16.3	9.5	16.7	NOT RATED	NOT RATED
Simple Average			26.0	22.3	18.9							
Weighted Average			25.3	21.3	18.0							

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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