



## Scientex Berhad

### Another Sterling Quarter

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**TP: RM15.32**

**Ex: RM7.66 (+18.4%)**

**Last Traded: RM12.94**

**BUY**

### Review

- Scientex Berhad's 1HFY16 core net profit improved by 89.2% YoY to RM125.5mn, underpinned by 1) stronger sales contribution from manufacturing and property divisions, 2) favourable forex impact, and 3) lower effective tax rate due to reinvestment allowances. The results came above ours (60%) and consensus estimates (59%). No dividend declared for the quarter under review.
- Revenue expanded by 22.6% YoY to RM1.1bn owing to both manufacturing (+22.7% YoY to RM794mn) and property (+22.5% YoY to RM302mn). The impressive results from manufacturing segment was attributable to higher contribution from both industrial and consumer packaging segments. The consumer packaging segment recorded 46.1% YoY jump in revenue to RM374.3mn, benefiting from 1) additional capacity from the newly-acquired SGW Ipoh, 2) expanded PE film capacity by 25% with additional 3 new lines, and 3) enlarged clients base. Industrial packaging's revenue improved by 7% YoY to RM419.7, thanks to stronger USD/MYR rate and slight growth in sales volume. Meanwhile, the growth in the property segment was largely driven by strong sale of from all its ongoing projects. Year-to-date, the group had launched 5 new projects worth RM300.5mn.
- Underpinned by the strong sales, the group's operating profit jumped significantly by 79.4% YoY to RM160.6mn. Growth was mainly driven by the manufacturing segment, which saw a stunning rise in operating profit to RM76.7mn (+138.6% YoY). This was due to 1) stronger economies of scale (lower conversion costs per unit), 2) favourable forex impact on sales, and better products mix. As a result, the EBIT margin improved by 4.7p.p. to 9.7p.p. Operating profit from the property segment also climbed by 16.1% YoY to RM83.9mn. However, EBIT margin contracted by 1.5p.p. due to higher promotions and advertising costs to support the slowdown in overall property market.

### Proposed Bonus Issues

- Separately, the group proposed to undertake a bonus issue of up to 230mn shares on the basis of one bonus share for every existing share held (1-for-1). We are positive on this proposal as it would increase the marketability and trading liquidity of the group's shares.

### Share Information

Bloomberg Code	SCI MK
Stock Code	4,731.0
Listing	Main Market
Share Cap (mn)	226.3
Market Cap (RMmn)	2,928.3
Par Value	0.5
52-wk Hi/Lo (RM)	12.56 / 6.58
12-mth Avg Daily Vol ('000 shrs)	191.1
Estimated Free Float (%)	49.5
Beta	0.5

### Major Shareholders (%)

Scientex Holdings Sdn Bhd	21.6
Scientex Leasing Sdn Bhd	10.2
Lim Teck Meng Sdn Bhd	8.2
Sim Swee Tin Sdn Bhd	5.3

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	21.9	31.2
Core Net Profit (RMm)	253.6	294.0
Consensus	215.7	271.5
TA's / Consensus (%)	117.6	108.3
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY16	FY17
Net debt/ equity (%)	36.4	27.5
ROE (%)	21.4	21.0
ROA (%)	11.9	11.9
NTA/Share (RM)	3.2	4.4
Price/NTA (x)	4.0	2.9

### Scorecard

	% of FY16	
vs TA	60	Above
vs Consensus	59	Above

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	16.8	2.8
3 mth	35.8	3.7
6 mth	83.5	6.9
12 mth	95.5	(4.0)

### (12-Mth) Share Price relative to the FBM KLCI



## Impact

- We revise our assumptions to 1) increase PE film capacity in tandem with the increased capacity for SGW Ipoh of 25% to 18k MT/year, 2) raise our average blended operating margin assumptions for the manufacturing segment by 1.3p.p./0.5p.p./1p.p. for FY16/FY17/FY18, 3) reduce our effective tax rate assumptions to take into account the reinvestment allowances, and 4) increase our FY16 new sales assumptions for the property segment from RM480 to RM600mn. As a result, FY16/FY17/FY18 earnings forecasts are upgraded by 21.9%/31.2%/24.8% to RM253.6mn/RM294mn/RM311.2mn.

## Outlook

- We remain bullish on the manufacturing business on the back of capacity expansion in the high-margin consumer packaging business. Furthermore, brand new BOPP film manufacturing plant is on track for commissioning and commercial operations by mid-2016 respectively.
- The group will also be focusing on improving efficiencies by reducing costs and wastage. This could be achieved through better planning and systematic execution of works, coupled with better cash flow management to lower financing costs.

## Valuation

- We upgrade our target price to RM15.32 (RM10.54 previously). The target price was derived based on Sum-of-Parts valuation methodology after assigning PER of 18x and 6x for the manufacturing and property segments respectively. The upgrade on target PER multiple from 17x to 18x for the manufacturing segment is justifiable after taking into consideration 1) the synergistic benefits from the latest acquisitions, 2) increase in liquidity of the shares after the proposed bonus issues, and 3) larger client base (Scientex is one of the top consumer packaging manufacturer in South East Asia).
- Since our last report in December, the share price had surged by more than 20%. With the strong earnings visibility and undemanding valuations (10x-9.4x forward PER), we reiterate our Buy recommendation on the stock. Key risks to our call/forecasts are 1) uncertainty and high volatility in the global marketplace, 2) rally in crude oil price, and 3) slower than expected demand for industrial packaging.

Sum-of-Parts	CY16	Target PER (x)	Segment Value (RM mn)	Comment
Manufacturing	137.6	18	2,503.9	30% premium to peer's average PER
Property	163.6	6	981.6	In-line with small-cap property players
	Sub-total		3,485.5	
	Holding co net debts		(17.7)	
	Total Equity value		3,467.8	
	Share cap (mn)		226.3	
	<b>Target Price (RM)</b>		<b>15.32</b>	
	<b>Target Price cum Ex Price (RM)</b>		<b>7.66</b>	
	<b>Implied CY16 PER</b>		<b>12.8</b>	

**2QFY16 Results Analysis (RM mn)**

FYE July	2QFY16	1QFY16	2QFY15	QoQ (%)	YoY (%)	1HFY16	1HFY15	YTD (%)
Revenue	545.4	550.6	462.9	(0.9)	17.8	1,096.0	893.9	22.6
Operating Profit / Core EBIT	78.6	82.1	48.0	(4.3)	63.5	160.6	89.5	79.4
Extra-ordinary items (EI)	0.0	0.0	0.0			0.0	0.0	
Interest expense	(2.6)	(3.1)	(1.9)	(15.7)	37.2	(5.7)	(3.8)	49.5
Interest income	3.9	1.8	1.2	>100	>100	5.7	1.8	>100
Reported profit before tax (PBT)	79.9	80.8	47.3	(1.1)	68.8	160.6	87.5	83.7
Taxation	(13.2)	(18.0)	(10.2)	(26.8)	29.6	(31.2)	(19.2)	63.0
Profit for the quarter (PAT)	66.7	62.8	37.1	6.2	79.6	129.4	68.3	89.5
Owners of the Company	64.6	60.9	36.1	6.2	79.2	125.5	66.3	89.2
Non-controlling interest (Minority Interest)	(2.0)	(1.9)	(1.1)	6.8	91.7	(3.9)	(2.0)	98.1
Core net profit for the quarter	64.6	60.9	36.1	6.2	79.2	125.5	66.3	89.2
EPS (sen)	28.6	26.9	16.0	6.1	78.8	55.5	29.7	87.1
DPS (sen)	0.0	0.0	0.0			0.0	0.0	
Core EBIT margin (%)	14.4	14.9	10.4			14.7	10.0	
PBT margin (%)	14.6	14.7	10.2			14.7	9.8	
Net margin (%)	11.8	11.1	7.8			11.4	7.4	
Tax rate (%)	16.5	22.3	21.5			19.4	21.9	

**Segmental Analysis (RM mn)**

Revenue (RM)	1HFY16	1HFY15	YoY (%)
Manufacturing	794.0	647.3	22.7
Property	302.0	246.6	22.5
Total	1,096.0	893.9	22.6
<i>Manufacturing Contribution (%)</i>	72.4	72.4	
<i>Property Contribution (%)</i>	27.6	27.6	
Operating Profit (RM)	1HFY16	1HFY15	YoY (%)
Manufacturing	76.7	32.1	138.6
Property	83.9	72.3	16.1
Total*	160.6	104.5	53.7
<i>Difference due to fx differences*</i>			
<i>Manufacturing Contribution (%)</i>	47.7	30.8	
<i>Property Contribution (%)</i>	52.3	69.2	
EBIT margin (%)			
Manufacturing	9.7	5.0	
Property	27.8	29.3	
Group	14.7	11.7	

**Earnings Summary (RM mn)**

FYE July	FY14	FY15	FY16E	FY17F	FY18F
Revenue	1,590.5	1,801.7	2,176.9	2,828.9	2,997.4
EBITDA	227.0	267.1	374.4	441.4	469.6
EBITDA margin (%)	14.3	14.8	17.2	15.6	15.7
Reported pretax profit	186.3	221.0	315.0	365.1	386.6
Reported net profit	151.5	162.1	261.5	303.1	320.9
Core net profit	145.7	157.6	253.6	294.0	311.2
Adj. EPS* (sen)	67.1	70.4	55.1	63.9	67.7
Core EPS (sen)	65.9	70.2	55.1	63.9	67.7
Adj. DPS* (sen)	21.0	22.0	17.0	19.0	20.0
Div yield (%)	1.6	1.7	1.3	1.5	1.5

\* EPS & DPS adjusted for the proposed 1-for-1 bonus issue

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