

COMPANY RESULTS

Scientex (SCI MK)

2QFY16: Earnings Above Expectations; Proposes Bonus Issue

Scientex's 2QFY15 results were above expectations. 2QFY16 core net profit rose 46.4% yoy driven by its manufacturing segment which saw a huge EBIT margin expansion of 5.8ppt, and a lower effective tax rate of 16.5% (2QFY15: 21.5%). We note that the huge margin expansion achieved since 1QFY16 may contract slightly from the recent ringgit strengthening. Scientex has also proposed a 1-for-1 bonus issue. Maintain BUY on weakness with a higher SOTP-based target price of RM14.40.

2QFY16 RESULTS

Year to 31 Jul (RMm)	2Q16	qoq % chg	yoy % chg	1H16	yoy % chg
Turnover	545.4	(0.9)	17.8	1,096.0	22.6
-Manufacturing	402.0	2.5	22.9	794.0	22.7
-Property	143.4	(9.5)	5.6	302.0	22.5
EBIT	78.6	(4.3)	63.6	160.6	79.5
-Manufacturing	44.6	17.3	155.5	82.6	156.9
-Property	36.4	(23.4)	(9.7)	83.9	16.1
Forex loss/gain	(2.4)	(30.1)	(75.1)	(5.9)	(60.7)
Finance costs	(2.6)	(15.7)	39.0	(5.7)	50.5
PBT	79.9	(1.1)	68.8	160.6	83.7
Core net profit	67.0	4.2	46.4	131.4	61.6
Margins (%)		+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	14.4	(0.5)	4.0	14.7	4.6
-Manufacturing	11.1	1.4	5.8	10.4	5.4
-Property	25.4	(4.6)	(4.3)	27.8	(1.5)
PBT	14.6	(0.0)	4.4	14.7	4.9
Core net profit	12.3	0.6	2.4	12.0	2.9

Source: Scientex, UOB Kay Hian

RESULTS

• **Scientex's 2QFY16 results were above our and consensus' expectations**, with core 1HFY16 net profit of RM131.4m (after stripping off RM5.9m forex loss from paring down its US dollar-denominated loans) representing 53% and 57% of the respective forecasts. Scientex's net profit in 1H is seasonally weaker, and historically accounts for 44-46% of full-year net profit. 2QFY16 core net profit rose 46.4% qoq due to its manufacturing segment which registered a big EBIT jump of 155.5% yoy despite a 22.9% yoy increase in sales, driven by a significant 5.8ppt EBIT margin expansion to 11.1%, as well as a lower effective tax rate of 16.5% (2QFY15: 21.5%) due to utilisation of reinvestment allowance.

KEY FINANCIALS

Year to 31 Jul (RMm)	2014	2015	2016F	2017F	2018F
Net turnover	1,590	1,802	2,356	3,081	3,798
EBITDA	229	269	397	473	543
Operating profit	190	225	345	418	485
Net profit (rep./act.)	148	158	261	315	367
Net profit (adj.)	146	173	267	315	367
EPS (sen)	63.4	75.1	116.2	136.9	159.4
PE (x)	20.4	17.2	11.1	9.5	8.1
P/B (x)	4.2	3.2	2.7	2.2	1.9
EV/EBITDA (x)	13.7	11.7	7.9	6.7	5.8
Dividend yield (%)	1.6	1.7	2.6	3.1	3.6
Net margin (%)	9.3	8.8	11.1	10.2	9.7
Net debt/(cash) to equity (%)	36.0	14.3	9.9	(0.9)	(11.1)
Interest cover (x)	32.1	32.6	65.7	70.9	104.6
ROE (%)	22.1	19.1	25.4	25.7	25.1
Consensus net profit	-	-	232	272	325
UOBKH/Consensus (x)	-	-	1.15	1.16	1.13

Source: Scientex, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM12.94
Target Price	RM14.40
Upside	+11.3%
(Previous TP)	RM12.50

COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	229.5
Market cap (RMm):	2,969.5
Market cap (US\$m):	740.6
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

52-week high/low RM12.94/RM6.58

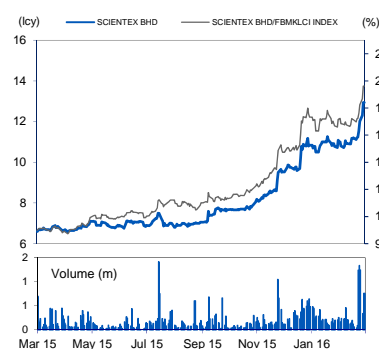
1mth	3mth	6mth	1yr	YTD
20.7	36.1	83.5	94.3	32.7

Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.6
Scientex Leasing Sdn Bhd	10.2
Lim Teck Meng Sdn Bhd	8.2

FY16 NAV/Share (RM)	4.86
FY16 Net Debt/Share (RM)	0.48

PRICE CHART



Source: Bloomberg

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- Proposes a 1-for-1 bonus issue.** Scientex has announced a 1-for-1 bonus issue which is slated for completion by 3Q16. We are positive on the news as it would help improve liquidity of Scientex's shares.
- All eyes on the manufacturing segment.** Although 2QFY16 sales grew 22.9% yoy, its EBIT recorded a huge jump of 155.5% yoy driven by significant margin expansion of 5.8ppt. This was achieved on the back of: a) higher consumer packaging sales mix which yielded better margins than that of industrial packaging, b) stronger US\$/RM, and c) operating efficiency and better economies of scale. In 2QFY16, the consumer packaging: industrial packaging sales mix stood at 47%:53% (2QFY15: 40%:60%)
- Property segment continues to be resilient in a weak property market.** In 2QFY16, EBIT was down by 9.7% yoy despite a marginal increase in sales. This was due to a 4.3ppt contraction in EBIT margin attributed to the higher proportion mix of high-rise properties which yielded lower margins in 2QFY16. As at end-Jan 16, unbilled sales amounted to RM630.2m (end-Jul 15: RM584.9m) and is set to be recognised over the next two to three years. We also understand from management that the take-up rate for its property launches in the first six months of FY16 had remained healthy at 80-85%.

STOCK IMPACT

- More production to come on stream from manufacturing segment in 2H16...** Scientex has begun to ramp up of utilisation at its new cast polypropylene (CPP) film plant in Malacca with a production capacity of 12,000 MT p.a. The biaxially-oriented polypropylene (BOPP) plant in Pulau Indah will kick off by mid-16. This will raise BOPP production capacity to 60,000 MT p.a. from 6,000 MT p.a. currently. Scientex will also invest RM21m to install three more polyethylene (PE) film production lines at its Rawang plant by mid-16, which will raise total capacity to 74,400 MT p.a. from 62,400 MT p.a.
- ...with further expansion in the pipeline.** Scientex has earmarked RM30m capex to expand production capacity by 50% at its recently-acquired Scientex Great Wall Ipoh (SGWI) by end-16/early-17. SGWI is principally involved in the manufacturing of downstream specialty consumer packaging films and film-based components including form-fill-seal (FFS) bags. The acquisition has enabled Scientex to leverage on SGWI's major existing clientele such as Procter & Gamble to penetrate export markets like Japan, Indonesia, the Philippines, Thailand and India.
- More plans in the pipeline for property segment too.** In Jan 16, Scientex completed the acquisition of a 326-acre land in Pulau for RM219m (at approximately RM15.40 psf), which will increase its landbank to 1,200 acres (from 870 acres currently). Management has planned a mixed development project with an estimated GDV of RM3b to be launched over a period of 10 years. Meanwhile, management will be launching the first phase of the development consisting of double-storey terrace houses priced at RM300,000-400,000 in Jul 16.

EARNINGS REVISION/RISK

- In view of the stronger-than-expected earnings, we raise our earnings forecasts by 6.4-7.8% for FY16-18F after updating our sales and margin assumptions. As at end-Jan 16, US dollar borrowings stood at RM125.5m (21.6% of total borrowings).

VALUATION/RECOMMENDATION

- Maintain BUY with a higher SOTP-based target price of RM14.40**, based on a 13x (from 12x) 2017F EPS for the manufacturing segment and an unchanged 6x 2017F EPS for the property segment. A 13x PE for its manufacturing segment is conservatively lower as compared with listed consumer packaging companies such as Daibochi and Tomypak which are trading at 2017F PE 13-17x. Our target price implies a 9.9x FY17F PE.

SOTP VALUATION

	2017 Net Profit (RMm)	PE (x)	Fair Value (RMm)
Manufacturing	183.9	13	2,390.6
Property	152.5	6	914.9
Total	336.4		3,305.5
Current Outstanding No. of Shares (m)			230.0
Target Price (RM)			14.40

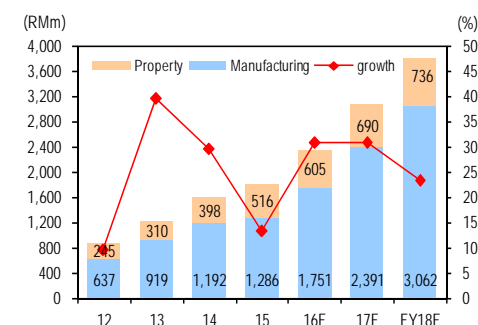
Source: UOB Kay Hian

EARNINGS REVISION

Year to 31 Jul	EPS (sen)	yoy % chg
2016F	116.2	54.6
2017F	136.9	17.8
2018F	159.4	16.4

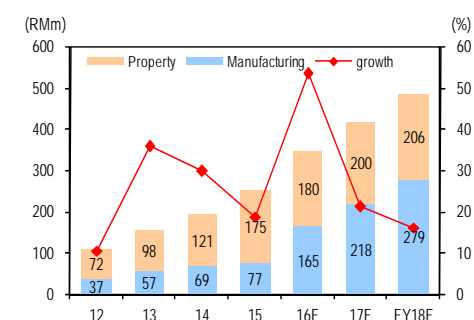
Source: UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

KEY ASSUMPTIONS

	FY16F	FY17F	FY18F
Sales	2,356.4	3,080.8	3,798.3
Manufacturing	1,751.4	2,390.9	3,062.0
Property	605.0	689.9	736.3
EBIT margin (%)			
Manufacturing	9.4	9.1	9.1
Property	29.8	29.0	28.0

Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2015	2016F	2017F	2018F
Net turnover	1,802	2,356	3,081	3,798
EBITDA	269	397	473	543
Deprec. & amort.	44	52	55	58
EBIT	225	345	418	485
Associate contributions	4	4	5	5
Net interest income/(expense)	(8)	(6)	(7)	(5)
Pre-tax profit	221	343	416	485
Tax	(59)	(76)	(94)	(109)
Minorities	(4)	(7)	(7)	(9)
Net profit	158	261	315	367
Net profit (adj.)	173	267	315	367

BALANCE SHEET

Year to 31 Jul (RMm)	2015	2016F	2017F	2018F
Fixed assets	643	713	758	800
Other LT assets	334	334	334	334
Cash/ST investment	91	235	297	381
Other current assets	570	713	880	1,043
Total assets	1,638	1,995	2,269	2,559
ST debt	150	270	210	130
Other current liabilities	350	404	516	626
LT debt	76	76	76	76
Other LT liabilities	57	57	57	57
Shareholders' equity	942	1,119	1,334	1,584
Minority interest	63	69	77	86
Total liabilities & equity	1,638	1,995	2,269	2,559

CASH FLOW

Year to 31 Jul (RMm)	2015	2016F	2017F	2018F
Operating	190	257	319	376
Pre-tax profit	221	343	416	485
Tax	(44)	(76)	(94)	(109)
Deprec. & amort.	44	52	55	58
Working capital changes	(34)	(63)	(58)	(57)
Other operating cashflows	3	0	0	0
Investing	(37)	(150)	(100)	(100)
Capex (growth)	(107)	(150)	(100)	(100)
Investments	(24)	0	0	0
Proceeds from sale of assets	13	0	0	0
Others	81	0	0	0
Financing	(146)	37	(157)	(192)
Dividend payments	(48)	(78)	(92)	(107)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	180	0	0
Loan repayment	(121)	(60)	(60)	(80)
Others/interest paid	23	(4)	(5)	(5)
Net cash inflow (outflow)	7	144	62	84
Beginning cash & cash equivalent	84	91	235	297
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	91	235	297	381

KEY METRICS

Year to 31 Jul (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	14.9	16.8	15.3	14.3
Pre-tax margin	12.3	14.6	13.5	12.8
Net margin	8.8	11.1	10.2	9.7
ROA	10.4	14.4	14.8	15.2
ROE	19.1	25.4	25.7	25.1
Growth				
Turnover	13.3	30.8	30.7	23.3
EBITDA	17.3	47.5	19.2	14.9
Pre-tax profit	18.6	55.4	21.1	16.6
Net profit	6.6	65.2	20.5	16.4
Net profit (adj.)	18.5	54.6	17.8	16.4
EPS	18.5	54.6	17.8	16.4
Leverage				
Debt to total capital	18.3	22.5	16.8	11.0
Debt to equity	23.9	30.9	21.4	13.0
Net debt/(cash) to equity	14.3	9.9	(0.9)	(11.1)
Interest cover (x)	32.6	65.7	70.9	104.6

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