



Scientex Berhad

Another Record Year

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TP: RM16.93 (+29.8%)

Ex Price: RM8.47

Last Traded: 13.04

BUY

TA Research Team Coverage

Tel : +603-2072 1277

ahmadfaris@ta.com.my

www.taonline.com.my

Review

- Scientex Berhad's 9MFY16 core profit expanded by 71% YoY to RM186.7mn, underpinned by 1) stronger sales contribution from its manufacturing and property divisions, and 2) lower effective tax rate due to reinvestment allowances. The results came within ours (74%) and consensus (73%) estimates. The boards declared an interim dividend of 12 sen / share, 3 sen /share higher compare to a year ago.
- 9MFY16 revenue improved by 21.5% YoY to RM1.6bn owing to both manufacturing (+21.8% YoY to RM1.2bn) and property (+20.9% YoY to RM463.1mn). The outstanding results from manufacturing segment was driven by higher contribution from consumer packaging segment. Meanwhile, the growth in the property segment was mainly attributable to steady construction progress from all the on-going projects in Pasir Gudang, Kulai, Senai, Skudai and Melaka. Note that, during the quarter, the group has also completed and delivered 2 phases in Pasir Gudang and 1 phase in Senai.
- Supported by outstanding sales growth, the group's operating profit jumped significantly by 61.3% YoY to RM238.5mn. The growth was driven by its manufacturing segment, which saw a stunning rise in its operating profit to RM108.8mn (+108% YoY). This was due to 1) stronger economies of scale (lower conversion costs per unit), 2) better products mix, and 3) larger clientele base. As a results, the EBIT margin improved by 3.9p.p. YoY to 9.2%.
- Similarly, the group's property segment registered a double digit growth (+14% YoY) to RM129.7mn, thanks to steady take-up rates for properties in Melaka as well as Pasir Gudang, Skudai, Kulai and Senai in Johor. Note that, the group's unbilled sales increased to RM652.7mn from RM630.2mn in last quarter and will be recognised over the next 2 years. However, EBIT margin contracted by 1.7 percentage points due to higher promotions and advertising costs to support sales against the slowdown in overall property market.

Impact

- No changes to our earnings forecasts.

Outlook

- The on-going capacity expansions in Rawang and Ipoh plants are expected to be fully completed and operational by the second half of the year. This will boost Scientex total capacity for its PE film to 78k mt /year to meet increasing demand for such products globally.

Share Information

Bloomberg Code	SCI MK
Stock Code	4,731
Listing	Main Market
Share Cap (mn)	226.3
Market Cap (RMmn)	3,005.7
Par Value	0.5
52-wk Hi/Lo (RM)	13.60 / 6.70
12-mth Avg Daily Vol ('000 shrs)	204.8
Estimated Free Float (%)	49.7
Beta	0.6

Major Shareholders (%)

Scientex Holdings Sdn Bhd	21.5
Scientex Leasing Sdn Bhd	10.1
Lim Teck Meng Sdn Bhd	8.2
Sim Swee Tin Sdn Bhd	5.3

Forecast Revision

	FY16	FY17
Forecast Revision (%)	0.0	0.0
Core Net Profit (RMmn)	254.2	306.0
Consensus	215.7	271.5
TA's / Consensus (%)	117.8	112.7
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY16	FY17
Net debt/ equity (%)	36.1	27.2
ROE (%)	21.3	21.6
ROA (%)	11.8	12.2
NTA/Share (RM)	3.2	4.4
Price/NTA (x)	4.1	3.0

Scorecard

	% of FY16	
vs TA	74	Within
vs Consensus	73	Within

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	4.3	(2.8)
3 mth	17.9	(3.8)
6 mth	55.8	(3.0)
12 mth	89.0	(6.6)

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



Source: Bloomberg

- Besides that, the state-of-the-art biaxially oriented polypropylene (BOPP) plant, which is near completion at Pulau Indah is scheduled for commercial operations in the second half of the year (November 2016).
- 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

- Target price maintained at RM16.93, derived based on Sum-of-Parts valuation methodology and assigning target PER of 18x and 6x for the manufacturing and property segment, respectively. Maintain the stock as **Buy**, underpinned by earnings growth regaining momentum in FY16/17.

Sum-of-Parts	FY17	Target PER (x)	Segment Value (RM mn)	Comment
Manufacturing	151.7	18	2,760.9	30% premium to peer's average PER
Property	181.4	6	1,088.3	In-line with small-cap property players
	Sub-total		3,849.2	
	Holding co net debts		(17.7)	
	Total Equity value		3,831.5	
	Share cap (mn)		226.3	
	Target Price (RM)		16.93	
	Target Price cum Ex Price (RM)		8.47	
	Implied CY17 PER		11.7	

9MFY16 Results Analysis (RMmn)

FYE July (RM'mn)	3QFY15	2QFY16	3QFY16	QoQ (%)	YoY (%)	9MFY15	9MFY16	YoY (%)
Revenue	455.3	545.4	543.9	(0.3)	19.5	1,349.2	1,639.9	21.5
~ Manufacturing	318.8	402.0	382.8	(4.8)	20.1	966.1	1,176.8	21.8
~ Property	136.5	143.4	161.1	12.3	18.0	383.1	463.1	20.9
Operating Profit	58.4	78.6	77.8	(0.9)	33.4	147.9	238.5	61.3
~ Manufacturing*	20.0	38.7	32.1	(17.0)	60.9	52.1	108.8	108.8
~ Property*	41.5	36.4	45.7	25.6	10.2	113.8	129.7	13.9
Interest expense	(2.2)	(2.6)	(3.1)	18.1	41.6	(6.0)	(8.8)	46.7
Interest income	0.3	3.9	1.0	(73.9)	220.1	2.1	6.7	225.0
Extra-ordinary items (EI)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
PBT	56.5	79.9	75.8	(5.1)	34.1	144.0	236.4	64.2
Adj. PBT	56.5	79.9	75.8	(5.1)	34.1	144.0	236.4	64.2
Taxation	(12.6)	(13.2)	(13.2)	(0.3)	4.8	(31.7)	(44.4)	40.0
MI	(1.0)	(2.0)	(1.4)	(32.2)	38.7	(3.0)	(5.3)	78.3
Report profit	43.0	64.6	61.3	(5.2)	42.6	109.3	186.7	70.9
Core profit	43.0	64.6	61.3	(5.2)	42.6	109.3	186.7	70.9
EPS (sen)	19.0	28.6	26.9	(6.0)	41.2	48.7	82.4	69.2
Adj EPS (sen)	19.0	28.6	26.9	(6.0)	41.2	48.7	82.4	69.2
DPS (sen)	9.0	0.0	12.0	nm	33.3	9.0	12.0	33.3
				%-pts	%-pts			%-pts
EBIT margin (%)	12.8	14.4	14.3	(0.6)	11.7	11.0	14.5	3.6
--> Manufacturing	6.3	9.6	8.4	(12.8)	34.0	5.4	9.2	3.9
--> Property	30.4	25.4	28.4	11.8	(6.6)	29.7	28.0	(1.7)
Adj PBT margin (%)	12.4	14.6	13.9	(4.8)	12.3	10.7	14.4	3.7
Core profit margin (%)	9.4	11.8	11.3	(4.9)	19.4	75.9	79.0	3.1
Effective Tax rate (%)	22.2	16.5	17.4	5.0	(21.9)	22.0	18.8	(3.3)

* Differences due to fx translation

Earnings Summary (RMmn)

FYE July	FY14	FY15	FY16E	FY17F	FY18F
Revenue	1,589.7	1,801.7	2,187.5	3,019.8	3,441.9
EBITDA	227.0	267.1	375.4	456.7	544.9
EBITDA margin	14.3	14.8	17.2	15.1	15.8
Reported pre-tax profit	186.3	221.0	315.7	380.1	460.8
Reported net profit	151.5	162.1	262.0	315.5	382.5
Core net profit	145.7	157.6	254.2	306.0	371.0
EPS (sen)	67.1	70.4	55.3	66.5	80.6
Core EPS (sen) *	32.9	35.1	55.3	66.5	80.6
PE (x)	19.3	18.4	15.3	12.7	10.5
Adj. DPS (sen)*	10.5	11.0	16.0	19.0	24.0
Div. yield (%)	1.6	1.7	1.9	2.2	2.8

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 (A Participating Organisation of Bursa Malaysia Securities Berhad)
 Kaladher Govindan – Head of Research