

# Scientex Bhd

## 9M16 Well Within Expectations

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9M16 core earnings of RM191.4m came in well within both our (76%) and consensus (75%) expectations. An interim dividend of 12.0 sen was declared, which made up 39% of our FY16E NDPS of 33.8 sen. SCIENTX intends to add another 3.6m MT of PE film capacity in its Rawang and Ipoh plants which is expected to start contributions in 2H17. We make no changes to FY16-17E earnings of RM253-292m. Maintain TP at RM13.25 (ex-bonus RM6.63) and our MARKET PERFORM call.

9M16 core net profit (CNP\*) of RM191.4m came in well within both our and consensus expectations at 76% and 75%, respectively. As expected, an interim dividend of 12.0 sen was declared, which made up 39% of our FY16E NDPS of 33.8 sen. Management has a 30% dividend payout policy which will mostly be paid out in 4Q16.

**Results Highlights.** SCIENTX saw strong Ytd-YoY growth (+75% CNP) mainly driven by strong topline growth from both segments, and on lower effective tax rates of 19% (vs. 22% in 9M15) on tax incentives from reinvestment allowances. The growth in the Manufacturing segment came from better sales and margin improvement (+4ppt) resulting from better product mix and higher export sales, as well as contributions from SGW Ipoh, while growth in the Property segment was driven by new projects launched in Kulai 2, Senai and Pasir Gudang. QoQ earnings were unexciting (-10% CNP) as topline was flattish, while bottomline was dragged down by higher finance cost (18%) and lower interest income (-74%).

**Outlook.** For the manufacturing segment, SCIENTX 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 which we have already accounted for. 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, SCIENTX is targeting to launch more affordable houses (c.90% of total launches) in the next two years which should provide some earnings resiliency. Additionally, SCIENTX has obtained the approvals for the 1-for-1 bonus issue, which is targeted for completion in 3Q16. **We make no changes to our FY16-17E CNP of RM253-292m.**

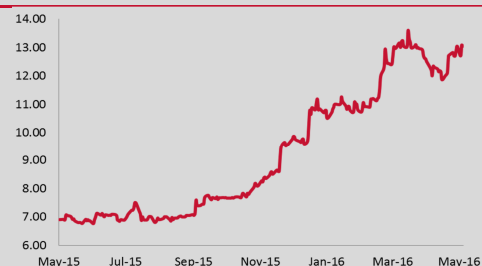
**We maintain our TP at RM13.25 (ex-bonus RM6.63) and maintain our MARKET PERFORM call** based on Sum-of-Parts (SoP) methodology for CY17, in line with the sector. For the manufacturing segment, we use an applied PER of 14.0x, which reflects higher future contribution from consumer packaging products. Post-expansion, the consumer packaging capacity is expected to make up c.50% of total capacity, from 38% 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. Downside risks to our call include: (i) lower-than-expected crude oil prices, (ii) better-than-expected property sales forecast or margins.

# MARKET PERFORM ↔

Cum-Price/Ex-Price: **RM13.04/RM6.52**

Cum-TP/Ex-TP: **RM13.25/RM6.63** ↔

### Share Price Performance



KLCI	1,626.50
YTD KLCI chg	-3.9%
YTD stock price chg	33.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,005.4
Issued shares	230.5
52-week range (H)	13.60
52-week range (L)	6.70
3-mth avg daily vol:	280,270
Free Float	60%
Beta	0.6

### Major Shareholders

Scientex Holdings Sd	21.5%
Scientex Leasing Sdn	10.1%
Lim Teck Meng Sdn Bhd	8.2%

### Summary Earnings Table

FYE 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
<b>Net Profit (NP)</b>	<b>158.2</b>	<b>253.0</b>	<b>292.0</b>
<b>Core NP</b>	<b>149.2</b>	<b>253.0</b>	<b>292.0</b>
Consensus (NP)	n.a.	254.5	310.3
Earnings Revision	n.a.	n.a.	n.a.
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 (RM)	4.19	5.07	6.17
NTA/share (RM)	4.19	5.07	6.17
PER (x)	18.5	11.6	10.0
PBV (x)	3.1	2.6	2.1
P/NTA (x)	3.1	2.6	2.1
Net gearing (%)	0.1	0.4	0.2
Div. Yield (%)	1.7	2.6	3.0

02 June 2016

**Result Highlights**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Ytd-YoY
Y/E : July (RM mn)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Turnover</b>	<b>543.9</b>	<b>545.4</b>	<b>0%</b>	<b>455.3</b>	<b>19%</b>	<b>1639.9</b>	<b>1349.2</b>	<b>22%</b>
EBIT	77.8	78.6	-1%	58.4	33%	238.5	147.9	61%
Interest income	1.0	3.9	-74%	0.3	220%	6.7	2.1	225%
Finance costs	(3.1)	(2.6)	18%	(2.2)	42%	(8.8)	(6.0)	47%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	75.8	79.9	-5%	56.5	34%	236.4	144.0	64%
Taxation	(13.2)	(13.2)	0%	(12.6)	5%	(44.4)	(31.7)	40%
Profit after tax	62.6	66.7	-6%	44.0	43%	192.0	112.3	71%
Minority interest	(1.4)	(2.0)	-32%	(1.0)	39%	(5.3)	(3.0)	78%
Net profit	61.3	64.6	-5%	43.0	43%	186.7	109.3	71%
<b>Core net profit</b>	<b>60.1</b>	<b>67.0</b>	<b>-10%</b>	<b>43.0</b>	<b>40%</b>	<b>191.4</b>	<b>109.3</b>	<b>75%</b>
Core EPS (sen)	26.3	29.7	-11%	19.0	39%	84.5	48.4	75%
NDPS (sen)	12.0	0.0	n.m.	9.0	33%	12.0	9.0	33%
NTA/share (RM)	5.0	4.6	9%	4.0	27%	5.03	3.96	27%
EBIT margin	14%	14%		13%		15%	11%	
Pretax margin	14%	15%		12%		14%	11%	
Core net profit margin	11%	12%		9%		12%	8%	
Effective tax rate	17%	17%		22%		19%	22%	

Source: Company, Kenanga Research

**Segmental Breakdown/Trends**

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Ytd-YoY
Y/E : July (RM mn)	FY16	FY16	Chg	FY15	Chg	FY16	FY15	Chg
<b>Turnover</b>								
Manufacturing	382.8	402.0	-5%	318.8	20%	1176.8	966.1	22%
Property	161.1	143.4	12%	136.5	18%	463.1	383.1	21%
<b>Group Turnover</b>	<b>543.9</b>	<b>545.4</b>	<b>0%</b>	<b>455.3</b>	<b>19%</b>	<b>1639.9</b>	<b>1349.2</b>	<b>22%</b>
<b>Segment Results</b>								
Manufacturing	32.1	38.7	-17%	20.0	61%	108.8	52.1	109%
Property	45.7	36.4	26%	41.5	10%	129.7	113.8	14%
Foreign exchange differences	1.1	(2.4)	N.M.	(3.1)	N.M.	(4.8)	(18.0)	N.M.
<b>Group EBIT</b>	<b>78.9</b>	<b>72.7</b>	<b>9%</b>	<b>58.4</b>	<b>35%</b>	<b>233.7</b>	<b>147.9</b>	<b>58%</b>
<b>EBIT Margin</b>								
Manufacturing	8%	10%		6%		9%	5%	
Property	28%	25%		30%		28%	30%	
<b>Group PBT Margin</b>	<b>15%</b>	<b>13%</b>		<b>13%</b>		<b>14%</b>	<b>11%</b>	

Source: Company, Kenanga Research



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		
<b>Core Coverage</b>												
Scientex	13.04	3,005.4	15.6	11.2	9.6	2.6	18.8	2.9	39.9	16.6	13.25	MARKET PERFORM
SLP	2.50	618.3	23.8	21.0	17.3	1.9	22.8	5.4	13.2	21.5	2.24	UNDER REVIEW
Thong Guan	3.40	357.9	10.4	8.7	7.9	3.1	8.9	0.9	19.6	10.2	4.19	OUTPERFORM
<b>Simple Average</b>			<b>16.6</b>	<b>13.6</b>	<b>11.6</b>							
<b>Weighted Average</b>			<b>16.4</b>	<b>12.5</b>	<b>10.6</b>							
<b>Non-Core Coverage</b>												
Daibochi	2.07	563.7	21.0	16.4	13.6	6.5	14.8	3.1	28.1	20.8	NOT RATED	NOT RATED
SCGM	3.07	405.2	30.1	27.5	80.2	3.3	15.6	5.5	9.5	-65.7	NOT RATED	NOT RATED
<b>Simple Average</b>			<b>25.6</b>	<b>22.0</b>	<b>46.9</b>							
<b>Weighted Average</b>			<b>24.8</b>	<b>21.1</b>	<b>41.4</b>							

Source: Kenanga Research

02 June 2016

**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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