

PP14767/04/2012(029)

Thursday, June 02, 2016

Scientex Berhad

“Recession-Proof with Bright Prospects”

Results Review

- Actual vs. expectations.** Scientex Berhad (Scientex) continued its growth trajectory after posting 9M16 revenue of RM1.6 billion (+22% y-o-y) in 3Q16, registering straight 34th quarter year-on-year growth since 2008. 9M16 net profit came in above our expectations at RM192 million (+71% y-o-y), making up 83% of our FY16 full year earnings forecast. This was due to stronger-than-expected earnings contribution from consumer packaging division which obviously had improved by leaps and bounds over the quarters post-acquisitions.
- Dividend.** The Board announced its first dividend payout for FY16 of 12 sen during the quarter. The company paid a total of 34 sen dividend for FY15, translating into yield of 3.3% based on the average prices in the financial year. Note that Scientex is committed to dish out a minimum 30% of its annual net profit as dividend.
- Another outstanding growth in Q3 FY16.** Scientex continued its growth trajectory after registering 3Q16 revenue of RM544 million (+19% y-o-y) and almost doubling the bottom-line to RM63 million (+43% y-o-y) due to stronger USD/Ringgit rate, bigger customer coverage in the Asia Pacific Region, as well as higher progress billings in the property segment. EBITDA grew 32% y-o-y to RM91 million with a margin of 17%, thanks to higher margin products sold in consumer packaging division.

BUY (TP: RM16.66)

Current Price (RM)	RM13.60
New Target Price (RM)	RM16.66
Previous Target Price (RM)	RM7.50
Previous Recommendation	HOLD
Upside/(Downside) To Target	23%
Dividend Yield	2%

Stock Code

Bloomberg	SCI MK
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Stock Information

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	230.5
Market Cap (RM mn)	3,005.4
YTD Chg in Share Price	33.7%
Beta (x)	0.57
52-week Hi/Lo (RM)	13.60 6.70
6M Average Volume (shrs)	0.27mn
Estimated Free Float	29 %

Major Shareholders

Scientex Holdings SdnBhd	21%
Scientex Leasing SdnBhd	10%
Lim Teck MengSdnBhd	8%

- **Booming consumer packaging.** Of the RM89 million increment in 3Q16 revenue versus 3Q15, 64% or RM57 million were contributed by consumer packaging division owing to new earnings contribution from SGW Ipoh (formerly known as Mondi Ipoh) which was acquired by the group in August 2015 and larger orders from existing business. For 9M16, consumer packaging division improved by a whopping 46% y-o-y from RM383 million to RM558 million versus merely 6% y-o-y growth seen in the industrial packaging. We expect consumer packaging to contribute more than RM1 billion in revenue by FY17 post-expansion, surpassing that of the industrial packaging division.
- **Favourable raw material prices.** As resin is one of the derivatives of crude oil, the free-fall seen in crude oil prices since 2H14 has been sending the linear low-density polyethylene (LLDPE) prices to 5 years' low. This has largely benefited Scientex as a packaging manufacturer which should experience cheaper raw material costs environment and subsequently obtain better operating margins (see Fig.6).
- **Unperturbed by higher gearing.** The group's gearing inflated from 0.24x to 0.48x in 2Q16 due to higher capex spent for both the green-field and brown field expansions as well as land bank acquisition. However, debt gearing has decreased to 0.40x in 3Q16 thanks to strong earnings intensity. We expect Scientex to pare down its debt to 0.3x in FY17 after booking in new contribution from its newly set-up manufacturing facilities for PE, BOPP, CPP film production.
- **Outlook.** We expect Scientex to continue embarking on growth trajectory with some exciting earnings drivers in the pipeline. These include a RM30 million capex for SGW Ipoh to grow its PE film production capacity by 30% from 60,000 MT p.a to 78,000 MT p.a and the new world-class BOPP film manufacturing plant slated for commercial run in 2H16 which will see BOPP production to expand by 10-fold from 6,000 MT p.a to 60,000 MT p.a. We hence, expect consumer packaging division alone would contribute more than RM1 billion revenue in FY17 compared to RM558 million as at 9M16.

On the other hand, we believe revenue generated from property arm will remain steady and progressive, bolstered by a hefty RM652 million unbilled sales to be recognized over the next 2-3 years. Despite the slowdown in property market, Scientex will be focussing on affordable housing launches like many other renowned property developers do.

- **Change to forecast.** We introduce our new FY16-18 earnings forecast after factoring stronger-than-expected demand in consumer packaging segment as well as the expended PE film and BOPP film capacity by 4Q16 and 2Q17, respectively. Hence we've raised our FY16/17/18 net profit forecast to RM232 million / RM361 million / RM378 million translating into EPS of 49sen / 78 sen / 81 sen, respectively.

- Valuation & recommendation.** We value Scientex using SOTP valuation, assigning 14.6x P/E for the manufacturing segment, which is the average P/E of selected industry peers shown in Fig 2. On the property segment, we pegged the group's earnings to 5.0x P/E which is in line with small-cap property stocks listed on Bursa. We expect net debt to be slashed to at least RM344 million in FY17 or 0.3x gearing largely supported by strong cash flows in FY16 and beyond. Therefore, we arrive at a new target price of RM16.65 (or RM8.33 post bonus issue), revising our call on Scientex from **HOLD** to **BUY** with an upside of 23% from the last closing price.

Fig 1: SOTP valuation

SOTP Valuation	FY17 Net Profit (RM'm)	PE (x)	Fair Value (RM'm)
Manufacturing segment	242.8	14.6	3,545
Property segment	125.7	5.0	629
SOP value	-		4,174
Net debt	-		(344)
Equity value	-		3,830
Outstanding share (million)	-		460
Target price after bonus issue (RM)	-		8.33
Target price before bonus issue (RM)	-		16.66

Source: M&A Securities

Fig 2: Peers comparison

Company	FYE	Price (RM)	EPS (sen)		P/E (x)		P/B (x)		ROE (%)	DY (%)	TP (RM)	Call
			FY14	FY15	FY14	FY15	FY14	FY15				
SCIENTEX	JUL	13.04	67	70	8	10	2	2	19	3		
DAIBOCHI	DEC	2.07	9	10	20	23	3	3	15	2	NA	NA
TOMYPAK	DEC	1.86	6	17	17	13	1	2	20	4	NA	NA
THONG GUAN	DEC	3.40	17	37	11	9	1	1	11	3	NA	NA
BP PLASTICS	DEC	1.53	6	12	14	15	1	2	14	3	NA	NA
SLP RESOURCES	DEC	2.50	5	11	12	17	2	4	26	2	NA	NA
Average			18	26	14	14	1	2	17	3		

Source: Bloomberg, M&A Securities

Fig 3: Financial Forecast

FYE JULY (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	1,590	1,802	2,316	3,255	3,430
EBITDA	229	269	375	541	572
EBIT	190	225	314	479	508
Interest expense	(7)	(8)	(19)	(17)	(15)
PBT	186	221	299	466	497
Tax	(35)	(59)	(68)	(106)	(119)
PAT	152	162	232	361	378
MI	(3)	(4)	(4)	(4)	(4)
PATMI	148	158	228	357	374
EPS	67	70	49	78	81
EBITDA margin	14%	15%	16%	17%	17%
EBIT margin	12%	12%	14%	15%	15%
PBT margin	12%	12%	13%	14%	15%
Net profit margin	10%	9%	10%	11%	11%

Source: M&A Securities

Fig 4: Results Analysis

FYE JULY (RM million)	3Q16	2Q16	3Q15	Q-o-Q	Y-o-Y	9M16	9M15	Y-o-Y
Revenue	544	545	455	0%	19%	1,640	1,349	22%
EBITDA	91	92	69	-1%	32%	279	180	55%
D&A	13	13	11	0%	22%	40	32	25%
EBIT	78	79	58	-1%	33%	238	148	61%
Interest expense	(3)	(3)	(2)	18%	42%	(9)	(6)	47%
PBT	76	80	57	-5%	34%	236	144	64%
Tax	(13)	(13)	(13)	0%	5%	(44)	(32)	40%
PAT	63	67	44	-6%	43%	192	112	71%
MI	(1)	(2)	(1)	-32%	39%	(5)	(3)	78%
PATMI	61	65	43	-5%	43%	187	109	71%
EPS	27	29	19	-6%	41%	82	49	69%
EBITDA margin	17%	17%	15%	0%	2%	17%	13%	4%
EBIT margin	14%	14%	13%	0%	1%	15%	11%	4%
PBT margin	14%	15%	12%	-1%	2%	14%	11%	4%
Net profit margin	12%	12%	10%	-1%	2%	12%	8%	3%

Source: M&A Securities

Fig 5: Segmental Results

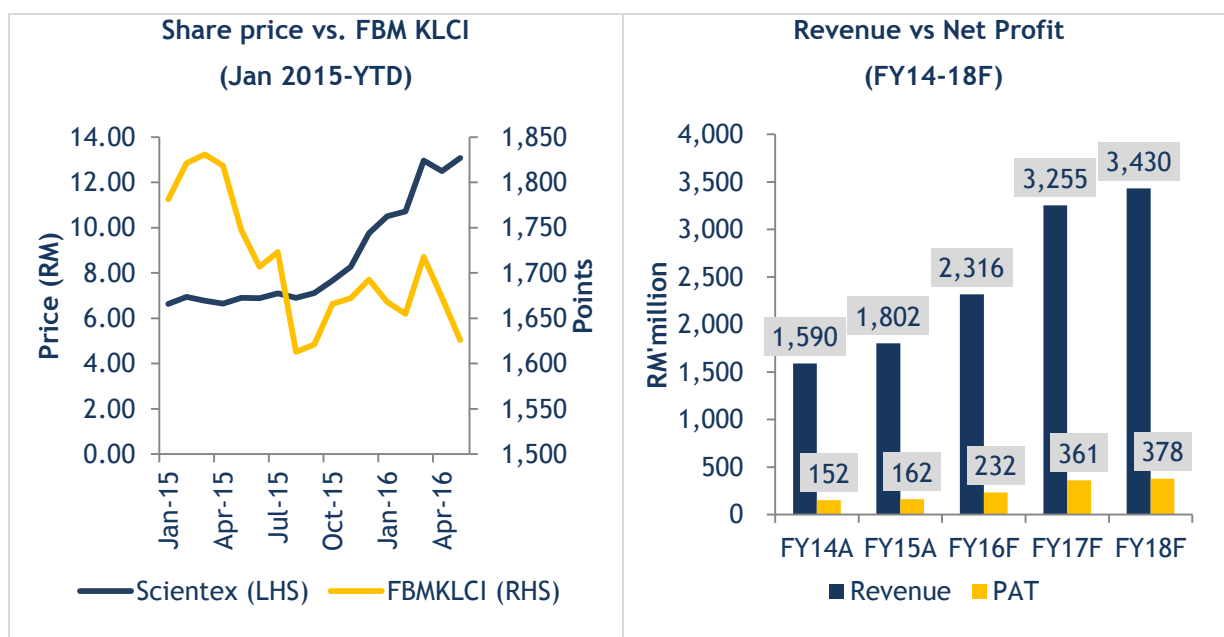
	9M16	9M15	Y-o-Y
Revenue			
Manufacturing	1177	966	22%
Property	463	383	21%
EBITDA			
Manufacturing	148	65	128%
Property	131	115	14%

Source: Bloomberg, M&A Securities

Figure 6: LLDPE resin prices (RHS) vs crude oil price (LHS)



Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +15\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -15\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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