

### COMPANY RESULTS

#### Scientex (SCI MK)

3QFY16: On Track For A Record Year

Scientex's 3QFY16 results were within expectations. Core net profit rose 30.7% yoy, driven by its manufacturing arm and a lower effective tax rate of 17.4% (3QFY15: 22.2%). The qoq margin compression in its manufacturing arm during the quarter was due to a weaker US\$/RM. However, margin may improve qoq in 4QFY16 on the recent weakness in the ringgit against the greenback. Maintain BUY and target price of RM14.40, implying 9.8x 2017F PE.

#### 3QFY16 Results

Year to 31 Jul (RMm)	3Q16	qoq % chg	yoy % chg	9M16	yoy % chg
Turnover	543.9	(0.3)	19.5	1,639.9	21.5
-Manufacturing	382.8	(4.8)	20.1	1,176.8	21.8
-Property	161.1	12.3	18.0	463.1	20.9
EBIT	77.8	(0.9)	33.4	238.5	61.3
-Manufacturing	31.0	(30.4)	55.4	113.6	118.0
-Property	45.7	25.6	10.2	129.7	13.9
Others	1.1	(145.3)	(135.7)	(4.8)	(73.5)
Finance costs	(3.1)	18.1	41.6	(8.8)	47.3
PBT	75.8	(5.1)	34.1	236.4	64.2
Core net profit	60.2	(10.3)	30.7	191.5	50.4
Margins (%)		+/- ppt	+/- ppt		+/- ppt
EBIT	14.3	(0.1)	1.5	14.5	3.6
-Manufacturing	8.1	(3.0)	1.8	9.7	4.3
-Property	28.4	3.0	(2.0)	28.0	(1.7)
PBT	13.9	(0.7)	1.5	14.4	3.7
Core net profit	11.1	(1.2)	0.9	11.7	2.2

Source: Scientex, UOB Kay Hian

### RESULTS

• **Scientex's 3QFY16 results were within our and consensus expectations**, with 9MFY16 core net profit of RM191.5m (after stripping off RM4.8m forex loss on its US dollar loans) representing 72% and 75% of our and consensus full-year forecasts respectively. 3QFY16 core net profit rose 30.7% yoy, driven by: a) its manufacturing arm which registered a 55.4% yoy EBIT growth despite a 20.1% yoy increase in sales as EBIT margin expanded 1.8ppts to 8.1%, and b) a lower effective tax rate of 17.4% (3QFY15: 22.2%) due to utilisation of reinvestment allowance. An interim DPS of 12 sen was declared (3QFY15: 9 sen).

### 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	394	470	537
Operating profit	190	225	345	418	485
Net profit (rep./act.)	148	158	261	315	367
Net profit (adj.)	146	173	266	315	367
EPS (sen)	63.4	75.1	115.7	136.9	159.4
PE (x)	20.6	17.4	11.3	9.5	8.2
P/B (x)	4.2	3.2	2.7	2.2	1.9
EV/EBITDA (x)	15.2	13.0	8.9	7.4	6.5
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	37.5	17.0	(0.3)
Interest cover (x)	32.1	32.6	30.2	35.6	43.9
ROE (%)	22.1	19.1	25.4	25.7	25.1
Consensus net profit	-	-	255	310	380
UOBKH/Consensus (x)	-	-	1.05	1.01	0.97

Source: Scientex, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM13.04
Target Price	RM14.40
Upside	+10.4%

### 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):	230.5
Market cap (RMm):	3,005.4
Market cap (US\$m):	724.5
3-mth avg daily t'over (US\$m):	0.8

### Price Performance (%)

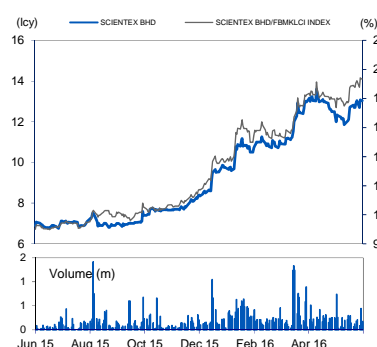
52-week high/low	RM13.60/RM6.76			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
4.3	20.7	58.4	88.7	33.7

### Major Shareholders

	%
Scientex Holdings Sdn Bhd	21.9
Scientex Leasing Sdn Bhd	10.2
Lim Teck Meng Sdn Bhd	8.2

FY16 NAV/Share (RM)	4.86
FY16 Net Debt/Share (RM)	1.83

### PRICE CHART



Source: Bloomberg

### ANALYST

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- **Qoq margin compression in manufacturing arm.** Notably, manufacturing arm's EBIT shrank 3ppt qoq, which we believe was attributed to the strengthening of the ringgit against the greenback during the quarter to RM4.05 (2QFY16: RM4.31). Nonetheless, margin may improve qoq in 4QFY16 as the ringgit weakens to RM4.15/US\$ currently. In 3QFY16, the consumer packaging to industrial packaging sales mix stood at 48%:52% (3QFY15: 40%:60%) and exports made up 52% of consumer packaging sales (3QFY15: 46%).

- **Property arm remains resilient in current subdued environment.** 3QFY16 property sales rose 18% yoy with EBIT up 10.2% yoy, driven by steady construction progress from all ongoing projects in Pasir Gudang, Kulai, Senai, Skudai and Melaka. As at end-Apr 16, unbilled sales amounted to RM652.6m (end-Jan 16: RM630.2m) to be recognised over the next two to three years. In addition, we understand from management that the take-up rates for its property launches remain healthy at 80-85%.

- **1-for-1 bonus issue to be completed in 3Q16.** On 1 Jun 16, shareholders' approval was obtained for its bonus issue which is targeted for completion in 3Q16.

### STOCK IMPACT

- **More manufacturing capacities to come on-stream in 2H16.** Scientex has begun to ramp up its new cast polypropylene (CPP) film plant in Malacca of 12,000MT p.a. production capacity since Jan 16 (minimal contribution to earnings in 1H16 and expected to contribute more significantly in 2H16). Commercial run of the biaxially-oriented polypropylene (BOPP) plant in Pulau Indah will kick off in mid-16. The new plant will raise its BOPP production capacity to 60,000 MT p.a. from 6,000 MT p.a. currently. Scientex will also install additional production lines to its plants in Rawang and Ipoh (Scientex Great Wall Ipoh), which will increase overall polyethylene (PE) production output to 78,000 MT p.a. from 60,000 MT p.a. Management has guided capex of RM260m in FY16 and RM30m-40m in FY17 for its manufacturing arm.

- **Maiden launch of Pulau development as early as Jul 16.** In Jan 16, Scientex completed the acquisition of a 326-acre land in Pulau for RM219m (at about RM15.40psf), increasing its landbank to 1,200 acres (from 870 acres). Management has planned a mixed development project with an estimated GDV of RM3b to be launched over 10 years. Meanwhile, it will launch the first phase of the development consisting of double-storey terrace houses (priced at RM300,000-400,000) as early as Jul 16.

### EARNINGS REVISION/RISK

- No change to our earnings forecasts.

### VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM14.40**, based on 13x 2017F PE for the manufacturing segment and an unchanged 6x 2017F PE for the property segment. A 13x PE for its manufacturing segment is conservative as compared with listed consumer packaging companies such as Daibochi and Tomypak which are trading at 2017F PE of 14-17x. Our target price implies 9.8x 2017F 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
<b>Total</b>	<b>336.4</b>		<b>3,305.5</b>
No. of Shares (m)			230.0
<b>Target Price (RM)</b>			<b>14.40</b>

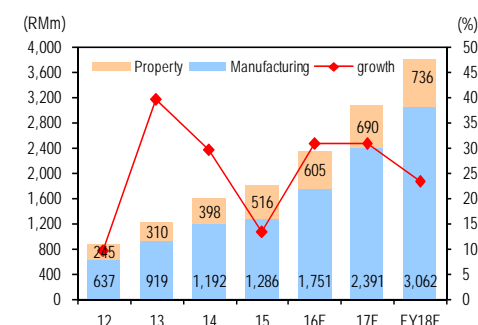
Source: UOB Kay Hian

### EARNINGS REVISION

Year to 31 Jul	EPS (sen)	yoy % chg
2016F	115.7	54.0
2017F	136.9	17.8
2018F	159.4	16.4

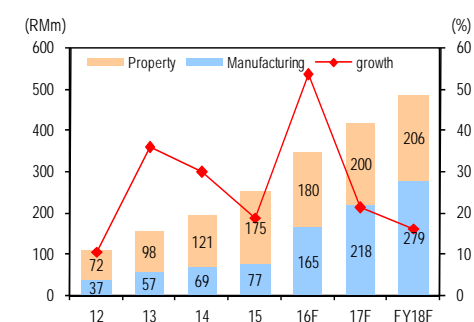
Source: UOB Kay Hian

### SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

### EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

### KEY ASSUMPTIONS

	FY16F	FY17F	FY18F
<b>Sales (RMm)</b>	<b>2,356.4</b>	<b>3,080.8</b>	<b>3,798.3</b>
Manufacturing	1,751.4	2,390.9	3,062.0
Property	605.0	689.9	736.3
<b>EBIT margin (%)</b>			
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
<b>Net turnover</b>	<b>1,802</b>	<b>2,356</b>	<b>3,081</b>	<b>3,798</b>
EBITDA	269	394	470	537
Deprec. & amort.	44	49	53	52
EBIT	225	345	418	485
Associate contributions	4	7	9	9
Net interest income/(expense)	(8)	(13)	(13)	(12)
<b>Pre-tax profit</b>	<b>221</b>	<b>339</b>	<b>413</b>	<b>482</b>
Tax	(59)	(71)	(91)	(106)
Minorities	(4)	(7)	(7)	(9)
<b>Net profit</b>	<b>158</b>	<b>261</b>	<b>315</b>	<b>367</b>
Net profit (adj.)	173	266	315	367

### CASH FLOW

Year to 31 Jul (RMm)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>190</b>	<b>330</b>	<b>340</b>	<b>394</b>
Pre-tax profit	221	339	413	482
Tax	(44)	(71)	(91)	(106)
Deprec. & amort.	44	49	53	52
Working capital changes	(34)	13	(34)	(34)
Other operating cashflows	3	0	0	0
<b>Investing</b>	<b>(37)</b>	<b>(533)</b>	<b>(50)</b>	<b>(50)</b>
Capex (growth)	(107)	(260)	(50)	(50)
Investments	(24)	(54)	0	0
Proceeds from sale of assets	13	0	0	0
Others	81	(219)	0	0
<b>Financing</b>	<b>(146)</b>	<b>212</b>	<b>(177)</b>	<b>(142)</b>
Dividend payments	(48)	(78)	(92)	(107)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	295	0	0
Loan repayment	(121)	0	(80)	(30)
Others/interest paid	23	(4)	(5)	(5)
<b>Net cash inflow (outflow)</b>	<b>7</b>	<b>9</b>	<b>113</b>	<b>202</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>84</b>	<b>91</b>	<b>100</b>	<b>213</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>91</b>	<b>100</b>	<b>213</b>	<b>415</b>

### BALANCE SHEET

Year to 31 Jul (RMm)	2015	2016F	2017F	2018F
<b>Fixed assets</b>	<b>643</b>	<b>826</b>	<b>823</b>	<b>821</b>
Other LT assets	334	569	597	592
Cash/ST investment	91	100	213	415
Other current assets	570	705	830	984
<b>Total assets</b>	<b>1,638</b>	<b>2,200</b>	<b>2,464</b>	<b>2,812</b>
ST debt	150	220	200	200
Other current liabilities	350	435	555	675
LT debt	76	300	240	210
Other LT liabilities	57	57	57	57
Shareholders' equity	942	1,119	1,334	1,584
Minority interest	63	69	77	86
<b>Total liabilities &amp; equity</b>	<b>1,638</b>	<b>2,200</b>	<b>2,464</b>	<b>2,812</b>

### KEY METRICS

Year to 31 Jul (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA margin	14.9	16.7	15.3	14.1
Pre-tax margin	12.3	14.4	13.4	12.7
Net margin	8.8	11.1	10.2	9.7
ROA	10.4	13.6	13.5	13.9
ROE	19.1	25.4	25.7	25.1
<b>Growth</b>				
Turnover	13.3	30.8	30.7	23.3
EBITDA	17.3	46.5	19.4	14.3
Pre-tax profit	18.6	53.4	21.9	16.6
Net profit	6.6	65.2	20.5	16.4
Net profit (adj.)	18.5	54.0	18.3	16.4
EPS	18.5	54.0	18.3	16.4
<b>Leverage</b>				
Debt to total capital	18.3	30.4	23.8	19.7
Debt to equity	23.9	46.5	33.0	25.9
Net debt/(cash) to equity	14.3	37.5	17.0	(0.3)
Interest cover (x)	32.6	30.2	35.6	43.9

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