



## Scientex Berhad

### Flourished Finish

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**TP: RM8.47 (+34.4%)**

Last Traded: RM6.30

**BUY**

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#### Review

- Scientex Berhad's FY16 core profit expanded by 52.4% YoY to RM240.9mn, 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 (95%) and consensus estimates (97%). For this quarter, the boards proposed a final dividend of 10sen / share, bringing the total dividend in FY16 to 16sen/share, 5sen /share higher than a year ago.
- FY16's revenue improved by 22.2% YoY to RM2.2bn, boosted by both manufacturing (+20.5% YoY to RM1.6bn) and property (+26.3% YoY to RM651.6mn). The outstanding results from manufacturing segment was driven by higher contribution from consumer packaging segment. The consumer packaging revenue increased by 45% YoY to RM746mn, thanks to expanded PE film capacity and clientele. On the other hand, the industrial packaging segment expanded by 4.3% YoY to RM804mn due to higher ASP on stronger USD/MYR rate. Meanwhile, the growth in the property segment was mainly attributable to steady construction progress from all on-going projects in Pasir Gudang, Kulai, Senai, Skudai and Melaka. Note that, new sales from the property segment improved by 31% to RM794mn, owing to resilient demand for affordably priced homes. In line with the strong demand, the group's unbilled sales improved by 23% YoY to 717.2mn, to be recognised in the next 2-3 years.
- Supported by outstanding sales, the group's operating profit jumped significantly by 39% YoY to RM312.6. The growth was driven by its manufacturing segment, which saw a stunning rise in its operating profit to RM124.7mn (+62.1% YoY). This was due to 1) stronger economies of scale (lower conversion costs per unit), 2) better products mix, and larger clientele base. As a results, the EBIT margin improved by 1.7%-age points YoY to 14.2%. Similarly, the group's property segment registered a 7.2% YoY growth to RM187.8mn, thanks to steady take-up rates for properties in Melaka as well as Pasir Gudang, Skudai, Kulai and Senai in Johor. However, EBIT margin contracted by 5.2%-age points, underpinned by 1) concentration on lower margin product (affordable homes rendered low margin as compare to other segments), and 2) higher promotions and advertising costs to mitigate the slowdown in overall property market.

#### Impact

- After imputing FY16 results, we tweak our FY17-FY19 earnings estimates slightly upwards by 1.8% /-2.1% /0.9% to RM311.4mn /RM363.1mn /RM379.3mn respectively, following some changes in key assumptions (i.e. revenue and opex).

#### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	460.9
Market Cap (RMmn)	2,903.7
Par Value	0.5
52-wk Hi/Lo (RM)	6.80 / 3.52
12-mth Avg Daily Vol ('000 shrs)	418.2
Estimated Free Float (%)	49.7
Beta	0.6
<b>Major Shareholders (%)</b>	
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

	FY17	FY18
Forecast Revision (%)	1.8	(2.1)
Core Net Profit (RMmn)	311.4	363.1
Consensus	317.5	370.7
TA's / Consensus (%)	98.1	98.0
Previous Rating	Buy (Maintained)	

#### Financial Indicators

	FY17	FY18
Net debt/ equity (%)	28.0	15.4
ROE (%)	22.2	21.7
ROA (%)	12.4	12.7
NTA/Share (RM)	2.2	2.6
Price/NTA (x)	2.9	2.5

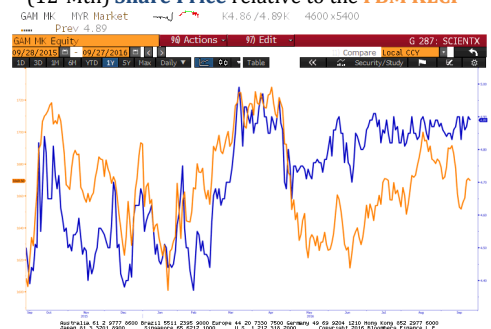
#### Scorecard

	% of FY16	
vs TA	95	Within
vs Consensus	97	Within

#### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	1.0	(0.8)
3 mth	4.1	2.5
6 mth	1.3	(2.0)
12 mth	78.7	3.4

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



Source: Bloomberg

## Outlook

- For the property segment, the group is looking to complete the Meru land acquisition in September 2016 with maiden launch to be held 2Q17. This will help to boost the sales of the group from these new projects over medium to longer term.
- The group will 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 the financing cost.

## Valuation

- Target price is maintained at RM8.47, 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**.

## FY16 Results Analysis (RMmn)

FYE July (RM'mn)	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	FY15	FY16	YoY (%)
Revenue	452.5	543.9	561.1	3.2	24.0	1,801.7	2,201.0	22.2
--> <i>Manufacturing</i>	319.9	382.8	372.7	(2.6)	16.5	1,286.0	1,549.5	20.5
--> <i>Property</i>	132.6	161.1	188.4	16.9	42.1	515.7	651.5	26.3
Operating Profit	76.9	77.8	74.1	(4.8)	(3.7)	224.8	312.6	39.0
--> <i>Manufacturing</i>	24.8	32.1	15.9	(50.4)	(35.8)	76.9	124.7	62.1
--> <i>Property</i>	61.5	45.7	58.2	27.2	(5.4)	175.3	187.8	7.2
Interest expense	(2.3)	(3.1)	(4.9)	59.0	113.2	(8.3)	(13.7)	65.1
Interest income	2.2	1.0	0.7	(30.8)	(67.4)	4.2	7.4	75.5
Extra-ordinary items (EI)	0.2	0.0	0.0	nm	nm	0.2	0.0	nm
<b>PBT</b>	77.0	75.8	69.9	(7.8)	(9.2)	221.0	306.3	38.6
<b>Adj. PBT</b>	76.8	75.8	69.9	(7.8)	(9.0)	220.8	306.3	38.7
Taxation	(27.2)	(13.2)	(15.4)	16.8	(43.4)	(58.9)	(59.8)	1.5
MI	(0.9)	(1.4)	(0.4)	(71.2)	(57.4)	(3.9)	(5.7)	46.0
<b>Report profit</b>	48.9	61.3	54.1	(11.6)	10.7	158.2	240.9	52.3
Core profit	48.7	61.3	54.1	(11.6)	11.1	158.0	240.9	52.4
<b>EPS* (sen)</b>	21.7	26.9	23.5	(12.4)	8.7	34.4	52.4	52.3
<b>Adj EPS* (sen)</b>	21.6	26.9	23.5	(12.4)	9.1	34.3	52.4	52.8
<b>DPS* (sen)</b>	6.5	6.0	10.0	66.7	53.8	11.0	16.0	45.5
				<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>
EBIT margin (%)	17.0	14.3	13.2	(1.1)	(3.8)	12.5	14.2	1.7
--> <i>Manufacturing</i>	7.8	8.4	4.3	(4.1)	(3.5)	6.0	8.1	2.1
--> <i>Property</i>	46.4	28.4	30.9	2.5	(15.5)	34.0	28.8	(5.2)
Adj PBT margin (%)	17.0	13.9	12.5	(1.5)	(4.5)	12.3	13.9	1.7
Core profit margin (%)	10.8	11.3	9.6	(1.6)	(1.1)	8.8	10.9	2.2
Effective Tax rate (%)	35.3	17.4	22.0	4.6	(13.3)	26.6	19.5	(7.1)

\* Adjusted for 1:1 bonus issue

**Earnings Summary (RMmn)**

<b>FYE July</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17F</b>	<b>FY18F</b>	<b>FY19F</b>
Revenue	1,801.7	2,201.0	3,017.6	3,439.7	3,581.0
EBITDA	264.6	367.2	475.2	549.0	575.4
EBITDA margin	14.7	16.7	15.7	16.0	16.1
Reported pre-tax profit	221.0	306.3	398.8	465.0	485.8
Reported net profit	158.2	240.9	311.4	363.1	379.3
Core net profit	157.6	240.9	311.4	363.1	379.3
EPS* (sen)	34.4	52.4	67.7	78.9	82.5
Core EPS* (sen)	34.3	52.4	67.7	78.9	82.5
PE (x)	18.3	12.0	9.3	8.0	7.6
Adj. DPS* (sen)	11.0	16.0	20.0	23.0	24.0
Div. yield (%)	1.7	2.5	2.4	2.8	2.9

\* Adjusted for 1:1 bonus issue

**Stock Recommendation Guideline**

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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