

COMPANY RESULTS

Scientex (SCI MK)

4QFY16: Looking Forward To The Next Record Year

Scientex's 4QFY16 results were within expectations. Excluding one-off items (notably RM8m start-up costs for new plants), its manufacturing and property segments' core EBIT rose 6.5% yoy and 18.7% yoy respectively. Core net profit rose by a bigger 41.8% yoy due to a lower effective tax rate of 22% (4QFY15: 35%). The new BOPP plant is undergoing trial production and will take one to two years to fill up the capacity. Maintain BUY. Target price: RM7.40, implying 10.4x 2017F PE.

4QFY16 Results

Year to 31 Jul (RMm)	4Q16	qoq % chg	yoy %chg	2016	yoy % chg
Turnover	561.1	2.9	24.0	2,201.0	22.2
-Manufacturing	372.7	(7.3)	16.5	1,549.5	20.5
-Property	188.4	31.3	42.1	651.5	26.3
Core EBIT	74.1	(5.7)	(3.9)	312.6	38.9
-Manufacturing	26.3	(40.9)	6.5	139.9	82.2
-Property	58.2	59.8	18.7	187.8	15.4
-EI	(10.4)	329.8	(404.7)	(15.2)	3.7
Finance costs	(4.9)	87.7	113.2	(13.7)	65.6
PBT	69.9	(12.5)	(9.2)	306.3	38.6
Core net profit	64.5	(3.7)	41.8	256.0	48.2
Margins (%)		+/- ppt	+/- ppt		+/- ppt
EBIT	13.2	(1.1)	(3.8)	14.2	1.7
-Manufacturing	7.1	(1.0)	(0.7)	9.0	3.1
-Property	30.9	2.5	(6.1)	28.8	(2.7)
PBT	12.5	(1.5)	(4.6)	13.9	1.7
Core net profit	11.5	0.4	1.4	11.6	2.0

Source: Scientex, UOB Kay Hian

RESULTS

• **4QFY16 results within our and consensus expectations.** Scientex's FY16 core net profit was RM256m (excluding RM4.2m forex loss on its US\$ loans, RM8m one-off start-up costs for new plants and RM3m impairment for fixed assets) representing 96% and 102% of our and consensus forecasts respectively. Both the manufacturing and property segments' core EBIT rose 6.5% yoy and 18.7% yoy respectively in 4QFY16. An interim DPS of 10 sen was declared (4QFY15: 6.5 sen), bringing FY16 DPS to 16 sen (FY15: 11 sen), representing a 31% payout.

KEY FINANCIALS

Year to 31 Jul (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	1,802	2,201	2,851	3,772	4,150
EBITDA	269	367	459	553	598
Operating profit	225	313	397	492	538
Net profit (rep./act.)	158	241	300	372	405
Net profit (adj.)	173	256	300	372	405
EPS (sen)	37.6	55.7	65.2	80.9	88.1
PE (x)	16.8	11.3	9.7	7.8	7.2
P/B (x)	3.1	2.5	2.1	1.8	1.5
EV/EBITDA (x)	12.4	9.1	7.3	6.0	5.6
Dividend yield (%)	3.5	2.6	3.1	3.9	4.2
Net margin (%)	8.8	10.9	10.5	9.9	9.8
Net debt/(cash) to equity (%)	14.3	31.6	14.1	(1.6)	(14.2)
Interest cover (x)	32.6	26.9	36.6	45.2	53.8
ROE (%)	19.1	22.8	23.5	24.7	23.0
Consensus net profit	-	-	318	371	-
UOBKH/Consensus (x)	-	-	0.94	1.00	-

Note: Historical valuations are adjusted for a one-for-one bonus issue on 15 Aug 16

Source: Scientex, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM6.30
Target Price	RM7.40
Upside	+17.5%
(Previous TP	RM7.20)

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):	460.9
Market cap (RMm):	2,903.9
Market cap (US\$m):	702.7
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

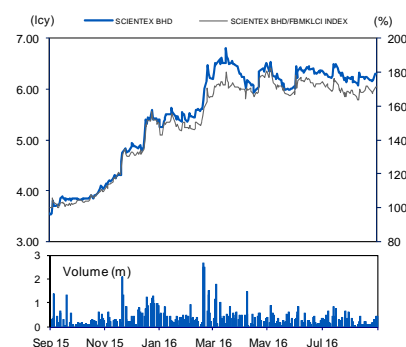
52-week high/low	RM6.80/RM3.53			
1mth	3mth	6mth	1yr	YTD
1.0	4.8	1.3	78.7	29.2

Major Shareholders

Scientex Holdings Sdn Bhd	21.9
Scientex Leasing Sdn Bhd	10.1
Lim Teck Meng Sdn Bhd	8.2

FY17 NAV/Share (RM)	3.00
FY17 Net Debt/Share (RM)	0.42

PRICE CHART



Source: Bloomberg

ANALYST

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- **Margin compression in manufacturing arm due to one-off items.** Notably, 4QFY16 manufacturing's EBIT declined 37.8% yoy despite a 16.5% yoy growth in top-line. We note the significant margin erosion was due to a one-off RM8m start-up costs from its new plants and a RM2.9m impairment of fixed assets during the quarter. Excluding these one-off items, 4QFY16 EBIT would have grown 6.5% yoy. In 4QFY16, the consumer packaging to industrial packaging sales mix stood at 50%:50% (4QFY15: 41%:59%) and exports made up 56% of consumer packaging sales (4QFY15: 47%).

- **Property arm remained resilient in current subdued environment.** 4QFY16 property sales rose 42.1% yoy with core EBIT up 18.7% yoy (after stripping out RM12.6m revaluation gains on property in 4QFY15), driven by steady construction progress and new sales from projects in Johor and Melaka. As at end-Jul 16, unbilled sales amounted to RM717.2m to be recognised over the next two to three years. In 4QFY16, new launches amounted to RM256m, including the launch of the newly acquired Pulau land worth RM129m comprising 341 2-storey and 2.5-storey terrace houses.

STOCK IMPACT

- **New BOPP plant in trial production.** The new biaxially-oriented polypropylene (BOPP) plant is currently undergoing trial production with one line. The second line should come onboard by Dec 16. We understand that out of the 60,000MT p.a. capacity of the plant, one-third shall go to Futamura Japan, one-third to the domestic market and the remainder to Southeast Asia (SEA) markets. We gather from management that it will take one to two years to fill up the capacity of the BOPP plant.

- **More manufacturing capacity to come on-stream in 2017.** Scientex will install additional production lines to its plants in Rawang and Ipoh (Scientex Great Wall Ipoh) worth RM21m and RM50m respectively. This will increase overall polyethylene (PE) production output to 84,000MT p.a. from 60,000MT p.a. in 2017.

EARNINGS REVISION/RISK

- Given that the ramp-up of the new BOPP plant will take longer than expected, we trim our FY17 net profit forecasts by 5% but raise our FY18 net profit forecasts by 2% after adjusting FY17-18 manufacturing sales and margin assumptions. We also introduce our FY19 projection.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher ex-bonus SOTP-based target price of RM7.40 (from RM7.20),** based on a higher 14x 2017F PE for the manufacturing segment and an unchanged 6x 2017F PE for the property segment. We raise the PE multiple for the manufacturing segment to 14x (from 13x) to be in line with listed consumer packaging companies such as Daibochi and Tomypak which are trading at 2017F PE of 20x and 15x respectively. Our target price implies 10.4x 2017F PE.

SOTP VALUATION

	2017F Net Profit (RMm)	PE (x)	Fair Value (RMm)
Manufacturing	176.9	14	2,476.5
Property	153.2	6	919.1
Total	330.1		3,395.5
No. of Shares (m)			460.0
Target Price (RM)			7.40

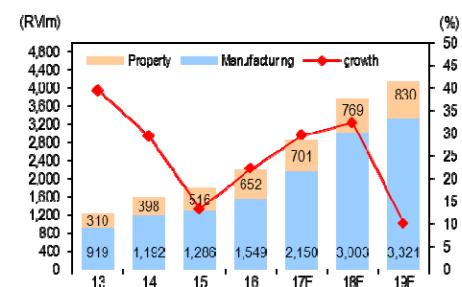
Source: UOB Kay Hian

EARNINGS REVISION

Year to 31 Jul	EPS (sen)	yoy % chg
2017F	65.2	17.2
2018F	80.9	24.0
2019F	88.0	8.8

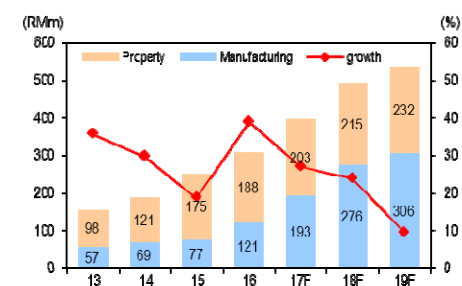
Source: UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

KEY ASSUMPTIONS

	FY17F	FY18F	FY19F
Sales (RMm)	2,851.3	3,771.9	4,150.3
Manufacturing	2,150.0	3,003.2	3,320.8
Property	701.3	768.7	829.5
EBIT	396.9	491.5	537.8
Manufacturing	193.5	276.3	305.5
Property	203.4	215.2	232.3

Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Net turnover	2,201	2,851	3,772	4,150
EBITDA	367	459	553	598
Deprec. & amort.	55	62	61	61
EBIT	313	397	492	538
Associate contributions	7	9	10	10
Net interest income/(expense)	(14)	(13)	(12)	(11)
Pre-tax profit	306	393	489	537
Tax	(60)	(87)	(108)	(118)
Minorities	(6)	(7)	(9)	(14)
Net profit	241	300	372	405
Net profit (adj.)	256	300	372	405

CASH FLOW

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Operating	380	347	383	414
Pre-tax profit	306	393	489	537
Tax	(65)	(87)	(108)	(118)
Deprec. & amort.	55	62	61	61
Working capital changes	70	(22)	(60)	(65)
Other operating cashflows	14	0	0	0
Investing	(561)	(80)	(50)	(50)
Capex (growth)	(287)	(80)	(50)	(50)
Investments	(55)	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(220)	0	0	0
Financing	190	(122)	(142)	(201)
Dividend payments	(50)	(90)	(112)	(122)
Issue of shares	0	0	0	0
Proceeds from borrowings	218	0	0	0
Loan repayment	0	(32)	(30)	(79)
Others/interest paid	22	0	0	0
Net cash inflow (outflow)	10	145	191	164
Beginning cash & cash equivalent	91	101	246	437
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	101	246	437	601

BALANCE SHEET

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Fixed assets	953	971	959	949
Other LT assets	537	545	536	532
Cash/ST investment	101	246	437	601
Other current assets	662	757	984	1,108
Total assets	2,253	2,518	2,916	3,190
ST debt	233	200	200	120
Other current liabilities	479	566	733	802
LT debt	239	240	210	211
Other LT liabilities	61	61	61	61
Shareholders' equity	1,175	1,378	1,630	1,900
Minority interest	66	73	83	96
Total liabilities & equity	2,253	2,518	2,916	3,190

KEY METRICS

Year to 31 Jul (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	16.7	16.1	14.7	14.4
Pre-tax margin	13.9	13.8	13.0	12.9
Net margin	10.9	10.5	9.9	9.8
ROA	12.4	12.6	13.7	13.3
ROE	22.8	23.5	24.7	23.0
Growth				
Turnover	22.2	29.5	32.3	10.0
EBITDA	36.6	25.0	20.5	8.2
Pre-tax profit	38.6	28.4	24.2	9.8
Net profit	52.3	24.6	24.0	8.9
Net profit (adj.)	48.2	17.2	24.0	8.9
EPS	48.2	17.2	24.0	8.9
Leverage				
Debt to total capital	27.5	23.3	19.3	14.2
Debt to equity	40.1	31.9	25.2	17.4
Net debt/(cash) to equity	31.6	14.1	(1.6)	(14.2)
Interest cover (x)	26.9	36.6	45.2	53.8

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