



## Scientex Berhad

### FY17 Earnings Back-end Loaded

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY\*

**TP: RM8.50 (+23.0%)**

Last Traded: RM6.91

**BUY**

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#### Review

- Scientex Berhad's 1QFY17 core profit came in at RM52.1mn or 17% of our full-year estimates and 16% of consensus forecast. We consider the results within expectation as the new BOPP plant, which is currently under trial run, is expected to start contributing from 2HFY17 onwards.
- Manufacturing:** 1QFY17 revenue declined by 3.1% YoY to RM379.7mn due to weak demand for stretch films (-5.3% to 8.9mn tonnes), partially offset by increased sale of consumer packaging products (+3.9% to 6.0mn tonnes). However, 1QFY17 operating profit contracted by larger 16.1% YoY due to lower product margins. Also, we attributed this to pre-operating expenses incurred for the trial process for the new BOPP plant in Bukit Indah.
- Property:** 1QFY17 revenue declined slightly by 2.2% YoY to RM155.0mn while operating profit dropped by 5.1% YoY to RM45.1mn. This was mainly due to slowdown in progress billing.
- The YoY decline in contribution from both the manufacturing and property divisions has resulted in Scientex's 1QFY17 core earnings contracted by 14.5% to RM52.1mn. No dividend was proposed for this quarter.

#### Impact

- We tweak our FY17/FY18/FY19 earnings estimates slightly by +1.1%/+0.4%/-1.8% to RM314.7mn/RM361.6mn/RM386.0mn respectively after incorporating the audited FY16 earnings into our model.

#### Outlook

- We are positive on the prospects of the manufacturing division considering Scientex has implemented operational efficiency approach for the industrial packaging segment and is currently ramping up production capacity for the consumer packaging segment.
- Management has advised that property sales will pick up due to pent up demand for affordable housing in Johor and Melaka. To capitalize on this, the group targets to launch two housing projects within Johor (Pasir Gudang, Kulai, Senai and Skudai) and Melaka (Ayer Keroh) with estimated GDV of RM700mn in FY17.

#### Valuation

- FY17 earnings are expected to be back-end loaded as the new BOPP plant is expected to make its maiden contribution in 2HFY17. Target price is adjusted higher to **RM8.50/share** (previously RM8.47/share) based on SOP valuation. Maintain **Buy** on Scientex.

#### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	463.6
Market Cap (RMmn)	3,203.5
Par Value	0.5
52-wk Hi/Lo (RM)	7.08/4.27
12-mth Avg Daily Vol ('000 shrs)	418.2
Estimated Free Float (%)	32.8
Beta	0.5
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	21.3
Scientex Leasing Sdn Bhd	10.0
Lim Teck Meng Sdn Bhd	8.1
Sim Swee Tin Sdn Bhd	5.3

#### Forecast Revision

	FY17	FY18
Forecast Revision (%)	1.1	0.4
Core Net Profit (RMmn)	314.7	361.6
Consensus	317.6	369.8
TA's / Consensus (%)	99.1	97.8
Previous Rating	Buy (Maintained)	

#### Financial Indicators

	FY17	FY18
Net debt/ equity (%)	40.9	42.1
ROE (%)	21.4	20.8
ROA (%)	11.7	11.4
NTA/Share (RM)	2.2	2.7
Price/NTA (x)	3.2	2.6

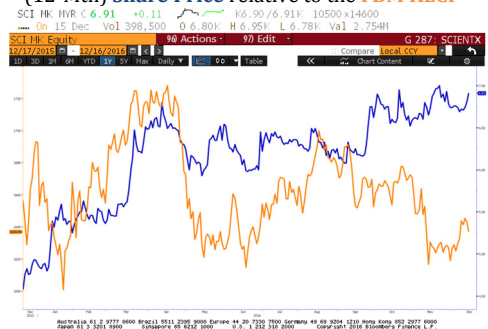
#### Scorecard

	% of FY17	
vs TA	17	Within
vs Consensus	16	Within

#### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	2.7	0.4
3 mth	10.6	(1.0)
6 mth	12.9	0.6
12 mth	60.7	0.9

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



Source: Bloomberg

### 1QFY17 Results Analysis (RMmn)

FYE July (RM' mn)	1QFY16*	4QFY16	1QFY17	QoQ (%)	YoY (%)
Revenue	550.6	561.1	534.7	(4.7)	(2.9)
--> Manufacturing	392.0	372.7	379.7	1.9	(3.1)
--> Property	158.6	188.4	155.0	(17.7)	(2.2)
Operating Profit	82.1	74.1	68.8	(7.1)	(16.1)
--> Manufacturing	34.5	15.9	23.8	49.1	(31.2)
--> Property	47.5	58.2	45.1	(22.5)	(5.1)
Interest expense	(3.1)	(4.9)	(3.5)	(29.1)	12.1
Interest income	1.8	0.7	1.0	47.9	(42.1)
Extra-ordinary items (EI)	0.0	0.0	0.0	nm	nm
<b>PBT</b>	80.8	69.9	66.4	(5.0)	(17.8)
<b>Adj. PBT</b>	80.8	69.9	66.4	(5.0)	(17.8)
Taxation	(18.0)	(15.4)	(13.4)	(12.7)	(25.5)
MI	(1.9)	(0.4)	(0.9)	> (100)	(51.1)
<b>Report profit</b>	60.9	54.1	52.1	(3.8)	(14.5)
Core profit	60.9	54.1	52.1	(3.8)	(14.5)
<b>EPS (sen)</b>	13.5	23.5	11.3	(51.9)	(16.0)
<b>Adj EPS (sen)</b>	13.5	23.5	11.3	(51.9)	(16.0)
<b>DPS (sen)</b>	0.0	10.0	0.0	nm	nm
				<b>%-pts</b>	<b>%-pts</b>
EBIT margin (%)	14.9	13.2	12.9	(0.3)	(2.0)
--> Manufacturing	8.8	4.3	6.3	2.0	(2.6)
--> Property	30.0	30.9	29.1	(1.8)	(0.9)
Adj PBT margin (%)	14.7	12.5	12.4	(0.0)	(2.3)
Core profit margin (%)	11.1	9.6	9.7	0.1	(1.3)
Effective Tax rate (%)	22.3	22.0	20.2	(1.8)	(2.1)

\*Restated

### Earnings Summary (RMmn)

FYE July	FY15	FY16	FY17E	FY18F	FY19F
Revenue	1,801.7	2,201.0	3,058.2	3,364.5	3,605.0
EBITDA	264.6	367.1	488.4	552.0	586.8
EBITDA margin	14.7	16.7	16.0	16.4	16.3
Reported pre-tax profit	221.0	306.3	403.0	463.0	494.3
Reported net profit	158.2	240.9	314.7	361.6	386.0
Core net profit	157.6	242.7	314.7	361.6	386.0
EPS (sen)	34.4	52.4	68.4	78.6	83.9
Core EPS (sen)	34.3	52.8	68.4	78.6	83.9
PE (x)	20.1	13.2	10.1	8.8	8.2
Adj. DPS* (sen)	11.0	16.0	20.0	23.0	25.0
Div. yield (%)	1.6	2.3	2.4	2.8	3.0

\*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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