

23 March 2017

Scientex Berhad

1H17 Broadly Within Expectations

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1H17 core earnings of RM116.7m was broadly within our (40%) and consensus (38%) expectations as we expect stronger contribution from its new BOPP, Rawang and Ipoh plants in coming quarters. No dividends, as expected. We make no changes to FY17-18E NPs of RM292.3-347.3m. Maintain OUTPERFORM but increase TP to RM8.36 (from RM7.63) upon rolling forward our Sum-of-Parts valuation to FY18E.

1H17 core net profit of RM116.7m was broadly within our (40%) and consensus (38%) FY17E expectations as we expect stronger contributions from: (i) its BOPP plant (opened in Sept 2016) as it ramps up utilization in coming months, and (ii) expansions at the Rawang and Ipoh plants, which should contribute to a stronger in 2H17. No dividends declared, as expected.

Results highlight. YoY-Ytd, CNP declined by 11% on the back of weaker manufacturing EBIT (-30%) as margins slipped to 7% (from 10%) likely on commencement of new consumer product plants, as well as competitive pricing strategies to gain market share. This was coupled with higher financing cost (+25%) to fund working capital for expansion plans, and higher effective tax rates of 20% (vs. 19%). QoQ, CNP improved significantly by 25%, driven by strong top-line growth (+10%) from both segments; (i) manufacturing segment, as the BOPP plant continues to ramp up capacity and, (ii) property segment, on steady construction progress from existing projects, and marginally lower effective tax rates of 19% (from 20%).

Outlook. We expect the continued ramp-up of the BOPP plant as well as expansion in Rawang (to 60k MT/year) and Ipoh (to 24k MT/year) plants to contribute to a stronger 2H17. All in, we expect total capacity to increase to 304k MT/year by end FY17 (+6% YoY), while we expect sales tonnage to ramp up by c.18% YoY as plant utilisation increases throughout FY17. Long-term growth should be sustained by its new venture into the United States (due 2H18) and we are positive on this project as it will allow the company to penetrate a new market outside its existing major exposure in the Japanese market. Furthermore, we expect to see cost savings in its new plant from the anticipated ample supply of shale gas-based resin, as well as lower distribution costs in the American market. As for the property segment, the Group has launched 5 new projects worth RM190m in 2Q17, which includes maiden launches in Ipoh, mainly consisting of affordable properties. **Note that we make no changes to our FY17-18E earnings estimates of RM292.3-347.3m.**

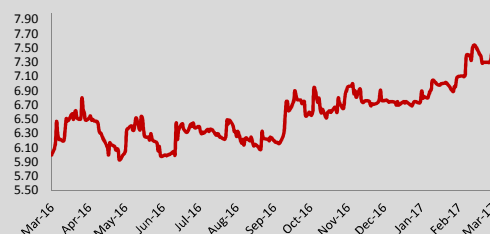
Maintain OUTPERFORM and further upgrade TP to RM8.36 (RM7.63) as we roll forward our Sum-of-Parts valuation to FY18E (from CY17E earnings). For the Manufacturing segment, we maintain an applied PER of 17.6x, while for the Property segment, we apply a PER of 4.0x which is in line with small-mid-cap property players during this slow market environment.

Risks to our call include; (i) higher-than-expected resin cost, (ii) weaker product demand from overseas, (iii) weaker-than-expected property sales, (iv) foreign currency risk from strengthening Ringgit, and (iv) new entrants/competition biting into its market share.

OUTPERFORM ↔

Price: RM7.25
Target Price: RM8.36 ↑

Share Price Performance



KLCI	1,748.30
YTD KLCI chg	6.5%
YTD stock price chg	8.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SCI MK Equity
Market Cap (RM m)	3,360.8
Issued shares	463.6
52-week range (H)	7.61
52-week range (L)	5.75
3-mth avg daily vol:	263,803
Free Float	60%
Beta	0.5

Major Shareholders

SCIENTEX HOLDINGS SD	21.4%
SCIENTEX LEASING SDN	10.0%
LIM TECK MENG SDN BH	8.1%

Summary Earnings Table

FY Jul (RM'm)	2016A	2017E	2018E
Turnover	2201.0	2969.6	3329.4
EBIT	312.6	376.2	441.7
PBT	306.3	374.7	444.9
Net Profit (NP)	240.9	292.3	347.3
Core NP*	248.0	292.3	347.3
Consensus (NP)	N.M.	307.8	350.2
Earnings Revision	N.M.	0%	0%
Core EPS (sen)	27.0	63.5	75.5
Core EPS growth (%)	-21.6	17.9	18.8
NDPS (sen)	22.0	19.1	22.6
BV/Share (RM)	2.55	3.19	3.82
NTA/share (RM)	2.55	3.19	3.82
PER (x)	26.9	10.5	8.9
PBV (x)	2.8	2.1	1.8
P/NTA (x)	2.8	2.1	1.8
Net gearing (%)	0.32	0.31	0.13
Div. Yield (%)	3.0	2.8	3.4

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Results Highlights

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	586.2	534.7	10%	545.4	7%	1120.9	1096.0	2%
EBIT	82.6	68.8	20%	78.6	5%	151.4	160.6	-6%
Interest income	2.9	1.0	178%	3.9	-26%	4.0	5.7	-31%
Finance costs	(3.6)	(3.5)	5%	(2.6)	40%	(7.1)	(5.7)	25%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Pretax profit	81.8	66.4	23%	79.9	2%	148.2	160.6	-8%
Taxation	(15.5)	(13.4)	16%	(13.2)	18%	(28.9)	(31.2)	-7%
Profit after tax	66.3	53.0	25%	66.7	0%	119.3	129.4	-8%
Minority interest	(1.1)	(0.9)	21%	(2.0)	-44%	(2.1)	(3.9)	-48%
Net profit	65.2	52.1	25%	64.6	1%	117.2	125.5	-7%
Core net profit	64.5	52.2	24%	67.0	-4%	116.7	131.4	-11%
Core EPS (sen)	14.0	11.3	24%	14.6	-4%	14.0	14.6	-4%
NDPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
NTA/share (RM)	2.3	2.2	4%	2.3	0%	2.3	2.3	0%
EBIT margin	14%	13%		14%		14%	15%	
Pretax margin	14%	12%		15%		13%	15%	
Core net profit margin	11%	10%		12%		10%	12%	
Effective tax rate	19%	20%		17%		20%	19%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
Y/E : July (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover								
Manufacturing	411.9	379.7	8%	402.0	2%	791.6	794.0	0%
Property	174.3	155.0	12%	143.4	22%	329.4	302.0	9%
Group Turnover	586.2	534.7	10%	545.4	7%	1120.9	1096.0	2%
Segment Results								
Manufacturing	30.2	23.8	27%	38.7	-22%	54.0	76.7	-30%
Property	52.3	45.1	16%	36.4	44%	97.4	83.9	16%
Group EBIT	82.6	68.8	20%	75.1	10%	151.4	160.6	-6%
EBIT Margin								
Manufacturing	7%	6%		10%		7%	10%	
Property	30%	29%		25%		30%	28%	
Group EBIT Margin	14%	13%		14%		14%	15%	

Source: Company, Kenanga Research

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Peer Comparison															
NAME	Price (22/3/17) (RM)	Mkt Cap (RMm)	PER (x)			Est. NDiv. Yld. ** (%)	Historical ROE (%)	P/BV (x)	Net Profit (RMm)			FY16/17 NP Growth (%)	FY17/18 NP Growth (%)	Target Price (RM)	Rating
			FY15/16	FY16/17	FY17/18				FY15/16	FY16/17	FY17/18				
PLASTICS UNDER COVERAGE															
SCIENTEX BHD	7.25	3,360.8	13.4	11.4	9.6	2.6%	20.4	2.3	248.0	292.3	347.3	17.8%	18.8%	8.36	OUTPERFORM
SLP RESOURCES BHD	2.60	643.1	22.0	17.6	13.3	2.3%	23.9	4.2	29.3	36.6	48.5	25.0%	32.5%	3.18	OUTPERFORM
THONG GUAN INDUSTRIES BHD	4.65	557.2	16.0	14.3	12.5	3.0%	12.4	2.0	53.6	60.0	68.2	11.9%	13.7%	4.76	MARKET PERFORM
SCGM BHD	3.73	541.6	24.4	21.3	16.6	2.3%	18.20	3.2	20.2	25.4	32.7	25.9%	28.7%	4.48	OUTPERFORM
Simple Average			18.9	16.1	13.0										
Weighted Average			17.9	15.2	12.4										

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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