

COMPANY RESULTS

Scientex (SCI MK)

2QFY17: Property Arm The Saving Grace

Scientex's 2QFY17 results were within our expectations. Strong contribution from the property arm mitigated the lacklustre performance at its manufacturing arm, which we attribute to the tepid performance from industrial packaging, penetrative pricing strategy and operating loss from BOPP plant. Against the backdrop of intensifying competition in the plastic packaging sector, we conservatively cut FY17-19 earnings by 2-7%. Maintain HOLD. Target price: RM7.00. Entry price: RM6.50.

2QFY17 RESULTS

Year to 31 Jul (RMm)	2Q17	qoq % chg	yoy % chg	1H17	yoy % chg
Turnover	586.2	9.6	7.5	1,120.9	2.3
-Manufacturing	411.9	8.5	2.5	791.6	(0.3)
-Property	174.3	12.5	21.5	329.4	9.0
EBIT	82.6	19.9	5.1	151.4	(5.7)
-Manufacturing	30.4	29.2	(31.7)	54.0	(34.6)
-Property	52.3	16.1	43.8	97.4	16.1
-Others	(0.2)	(0.0)	(91.4)	0.0	(100.0)
Finance costs	(3.6)	4.9	39.5	(7.1)	24.7
PBT	81.8	23.2	2.5	148.2	(7.7)
Core net profit	64.5	23.4	(3.8)	116.8	(11.1)
Margins (%)		+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	14.1	1.2	(0.3)	13.5	(1.1)
-Manufacturing	7.4	1.2	(3.7)	6.8	(3.6)
-Property	30.0	0.9	4.6	29.6	1.8
PBT	14.0	1.5	(0.7)	13.2	(1.4)
Core net profit	11.0	1.2	(1.3)	10.4	(1.6)

Source: Scientex, UOB Kay Hian

RESULTS

• 2QFY17 results were broadly within our expectations but missed consensus expectations, with 1HFY17 core net profit of RM116.8m representing 44% and 38% of the respective full-year earnings forecasts. Scientex's 1H net profit is seasonally weaker, and historically accounts for 44-46% of full-year net profit. In 2QFY17, strong EBIT contribution from its property segment mitigated the lacklustre performance at its manufacturing arm, resulting in EBIT growing 5.1% yoy. However, 2QFY17 bottom-line consequently shed 3.8% yoy due to a higher effective tax rate of 19% (2QFY16: 16.5%).

KEY FINANCIALS

Year to 31 Jul (RMm)	2015	2016	2017F	2018F	2019F
Net turnover	1,802	2,201	2,398	3,058	3,747
EBITDA	269	367	386	453	530
Operating profit	225	313	324	391	468
Net profit (rep./act.)	158	241	248	301	359
Net profit (adj.)	173	256	248	301	359
EPS (sen)	37.6	55.7	53.9	65.3	78.0
PE (x)	19.3	13.0	13.5	11.1	9.3
P/B (x)	3.5	2.8	2.5	2.2	1.9
EV/EBITDA (x)	13.6	9.9	9.5	8.1	6.9
Dividend yield (%)	3.0	2.2	2.2	2.7	3.2
Net margin (%)	8.8	10.9	10.4	9.8	9.6
Net debt/(cash) to equity (%)	14.3	31.6	16.3	3.0	(8.1)
Interest cover (x)	32.6	26.9	31.5	39.3	52.7
ROE (%)	19.1	22.8	19.7	20.8	21.5
Consensus net profit	-	-	308	350	376
UOBKH/Consensus (x)	-	-	0.81	0.86	0.96

Note: There was a one-for-one bonus issue in Aug 16.

Source: Scientex, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM7.25
Target Price	RM7.00
Upside	-3.4%

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):	463.6
Market cap (RMm):	3,360.8
Market cap (US\$m):	759.0
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

52-week high/low RM7.54/RM5.93

1mth	3mth	6mth	1yr	YTD
2.1	7.6	17.7	12.1	8.2

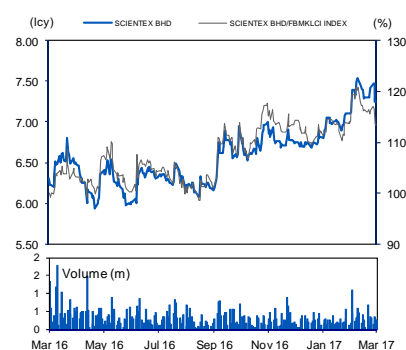
Major Shareholders

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

FY17 NAV/Share (RM) 2.92

FY17 Net Debt/Share (RM) 0.48

PRICE CHART



Source: Bloomberg

ANALYST

Fong Kah Yan
+603 2147 1993
kahyan@uobkayhian.com

• Manufacturing: Qoq margin improvement but yoy margin compression.

Manufacturing EBIT margin shrank 3.7ppt yoy in 2QFY17 which we believe was due to: a) tepid performance from industrial packaging segment against the backdrop of intensifying competition, b) penetrative pricing strategy particularly on its BOPP products, and c) operating losses incurred by its new biaxially-oriented polypropylene (BOPP) plant that is currently only 35% utilised. Meanwhile, 1QFY17 sales were flattish at +2.5% yoy from a 0.4% yoy sales growth in industrial packaging segment and a 4.8% yoy sales growth in consumer packaging segment. In 2QFY17, the consumer packaging to industrial packaging sales mix was 48%:52% (2QFY16: 47%:53%), and exports made up 56% of consumer packaging sales for 1HFY17 (1HFY16: 52%).

• **Property: Strong qoq rebound in sales.** The 21.5% qoq rebound in 2QFY17 property sales was expected due to timing differences which resulted in low billing of property sales in 1QFY17. 2QFY17 EBIT rose by a higher quantum of 43.8% due to margin expansion to 30% (1QFY17: 29.1%, 2QFY16: 25.4%). In 2QFY17, Scientex launched five new projects worth RM190.3m in GDV, bringing the combined GDV of 1H17 launches to RM371.1m. As at end-Jan 17, unbilled sales amounted to RM600m (end-Oct 16: RM650m) which will be recognised over the next two to three years.

STOCK IMPACT

• **New BOPP plant may take some time to fill capacity.** The second line of the BOPP plant was installed in end-16 and the plant is currently undergoing trial production. We note that of the 60,000MT p.a. capacity of the plant, one-third will go to Futamura Japan, one-third to the domestic market and the rest to Southeast Asia markets. Utilisation of the plant is currently at 35% and it has yet to contribute significantly to manufacturing sales. We expect the plant to breakeven in a year's time, and it will take about two years (from its opening in Sep 16) to fill up the capacity of the BOPP plant. Hence, it will incur operating costs for the time being.

• **PE capacity expansion to complete by 2H17.** Scientex has completed the installation of additional production lines to its plants in Rawang worth RM21m in end-16, which will increase its production output to 60,000MT p.a. Meanwhile, the RM50m capacity expansion to 24,000 MT p.a. at its Ipoh plant (Scientex Great Wall Ipoh) is expected to complete in 2H17. Overall, this will increase the annual polyethylene (PE) output from 60,000MT to 84,000MT p.a.

• **New manufacturing plant in the US to commence operation in end-17.** In Nov 16, Scientex announced a US\$25m capex to set up a new stretch film plant in Arizona, the US. The new plant with a capacity of 30,000 MT p.a. will see synergistic benefits from Scientex's highly efficient manufacturing operations with savings in logistics costs. It is also expected to benefit from anticipated ample supply of shale gas-based resin.

EARNINGS REVISION/RISK

• Although results were broadly within expectations, given the intensifying competition at its industrial packaging segment and the possibility of a prolonged penetrative pricing strategy, we conservatively cut our FY17-19F earnings forecasts by 6.9%/6%/1.8% after updating our key assumptions (see RHS table).

VALUATION/RECOMMENDATION

• **Maintain HOLD and SOTP-based target price of RM7.00**, following our earnings revision and based on a 14x PE pegged to 2018F EPS of manufacturing arm and a 6x PE pegged to 2018F EPS of property arm. Our target price implies a 10x 2018F PE.

SOTP VALUATION

	2018F Net Profit (RMm)	PE (x)	Fair Value (RMm)
Manufacturing	160.0	14	2,239.9
Property	164.8	6	988.6
Total	324.8		3,228.5
Current Outstanding No. of Shares (m)			463.6
Target Price (RM)			7.00

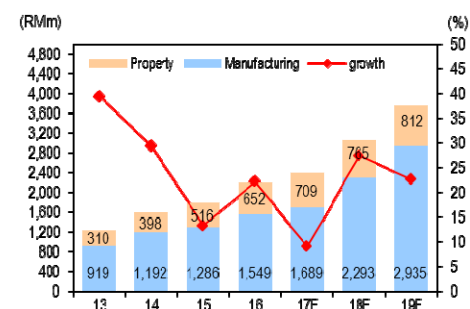
Source: UOB Kay Hian

EARNINGS OVERVIEW

Year to 31 Jul	EPS	yoy
	(sen)	% chg
2017F	53.9	(3.2)
2018F	65.3	21.3
2019F	78.0	19.4

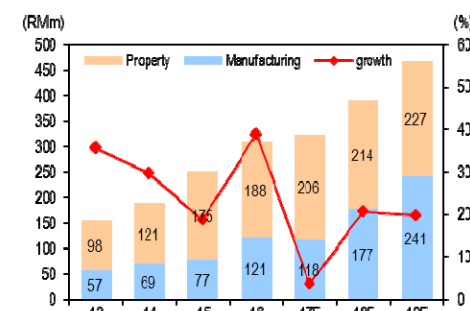
Source: UOB Kay Hian

SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

KEY ASSUMPTIONS

Year to 31 Jul	FY17F	FY18F	FY19F
Previous assumptions			
Sales	2,484	3,118	3,688
Manufacturing	1,775	2,376	2,888
Property	709	742	800
EBIT margin (%)			
Manufacturing	8.0	9.0	9.0
Property	29.0	28.0	28.0
US\$/RM	4.25	4.20	4.20
Current assumptions			
Sales	2,398	3,058	3,747
Manufacturing	1,689	2,293	2,935
Property	709	765	812
EBIT margin (%)			
Manufacturing	7.0	7.7	8.2
Property	29.0	28.0	28.0
US\$/RM	4.25	4.30	4.30

Source: Scientex, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Net turnover	2,201	2,398	3,058	3,747
EBITDA	367	386	453	530
Deprec. & amort.	55	62	62	62
EBIT	313	324	391	468
Associate contributions	7	9	10	10
Net interest income/(expense)	(14)	(12)	(12)	(10)
Pre-tax profit	306	321	389	468
Tax	(60)	(67)	(82)	(98)
Minorities	(6)	(5)	(7)	(11)
Net profit	241	248	301	359
Net profit (adj.)	256	248	301	359

CASH FLOW

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Operating	380	306	323	360
Pre-tax profit	306	321	389	468
Tax	(65)	(67)	(82)	(98)
Deprec. & amort.	55	62	62	62
Working capital changes	70	(10)	(46)	(71)
Other operating cashflows	14	0	0	0
Investing	(561)	(80)	(60)	(60)
Capex (growth)	(287)	(80)	(60)	(60)
Investments	(55)	0	0	0
Proceeds from sale of assets	1	0	0	0
Others	(220)	0	0	0
Financing	190	(126)	(130)	(198)
Dividend payments	(50)	(74)	(90)	(108)
Issue of shares	0	0	0	0
Proceeds from borrowings	218	0	0	0
Loan repayment	0	(52)	(40)	(90)
Others/interest paid	22	0	0	0
Net cash inflow (outflow)	10	100	133	103
Beginning cash & cash equivalent	91	101	200	333
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	101	200	333	436

BALANCE SHEET

Year to 31 Jul (RMm)	2016	2017F	2018F	2019F
Fixed assets	953	971	969	967
Other LT assets	537	547	540	539
Cash/ST investment	101	200	333	436
Other current assets	662	662	828	1,015
Total assets	2,253	2,380	2,670	2,956
ST debt	233	200	200	150
Other current liabilities	479	484	603	728
LT debt	239	220	180	140
Other LT liabilities	61	61	61	61
Shareholders' equity	1,175	1,344	1,548	1,788
Minority interest	66	72	78	89
Total liabilities & equity	2,253	2,380	2,670	2,956

KEY METRICS

Year to 31 Jul (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	16.7	16.1	14.8	14.1
Pre-tax margin	13.9	13.4	12.7	12.5
Net margin	10.9	10.4	9.8	9.6
ROA	12.4	10.7	11.9	12.8
ROE	22.8	19.7	20.8	21.5
Growth				
Turnover	22.2	9.0	27.5	22.6
EBITDA	36.6	5.1	17.3	17.1
Pre-tax profit	38.6	4.7	21.2	20.4
Net profit	52.3	3.1	21.0	19.4
Net profit (adj.)	48.2	(3.2)	21.3	19.4
EPS	48.2	(3.2)	21.3	19.4
Leverage				
Debt to total capital	27.5	22.9	18.9	13.4
Debt to equity	40.1	31.2	24.6	16.2
Net debt/(cash) to equity	31.6	16.3	3.0	(8.1)
Interest cover (x)	26.9	31.5	39.3	52.7

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