



MALAYSIA

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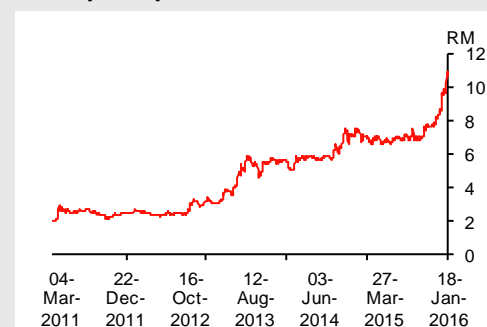
Stock price as of 19/01/2016	RM	11.02
GICS sector		Materials
Market cap	US\$m	579
Avg Value Traded (3m)	US\$m	0.32
12m high/low	RM	6.57 – 11.02
PER FY16	x	10.9
P/BV FY16	x	na

Historical financials

YE Dec (US\$m)	2013A	2014A	2015A
Revenue	1,229	1,590	1,802
% growth	40	29	13
EBITDA	174	220	258
% growth	36	27	19
EPS	0.51	0.67	0.71
% growth	30	33	5
EBIT Margin	11.6	11.3	11.9

Source: Company data, FactSet, January 2016

Share price performance



Source: Factset, January 2016

MacVisit: Scientex Berhad

Aiming to double profits by FY18

We met Scientex Bhd, a Malaysian flexible packaging manufacturer and property developer with a consistent track record of profitability and growth over past two decades. The company has delivered a 20 year Cagr of 15% in revenue, 13% in EBITDA and 17% in net profit.

Targeting profit doubling over FY13-FY18

In FY13, management guided for a 5 year goal of doubling revenue and profit. The company appears to be making progress in this direction, given FY15 profits are up 34% over FY13.

Entrenched in industrial flexible packaging

Scientex industrial packaging products include polyethylene (PE) stretch film, polypropylene (PP) strapping bands, PP (raffia) tying tapes, woven & flexible intermediate bulk container (FIBC) bags and corrugated boxes. It states it is one of the top three producers of stretch film globally and the largest in the Asia-Pacific region with 200K MT of annual production capacity and c120K MT output.

PE stretch film is most commonly used (as is strapping bands, tapes) in logistics and transportation to unitise pallet loads for efficient handling, storage, transport of goods while woven and FIBC bags are used for packing, storing commodities.

Rapidly ramping up consumer flexible packaging presence

Scientex entered consumer film packaging in 2013 and has since grown through a combination of acquisitions and organic facilities expansion. Current output is c74.4K MT annually, which the company hopes to more than double to c158.4K MT by end FY17.

Amongst key projects is a 54K MT increase in biaxial oriented polypropylene (BOPP) in collaboration with Futamura Chemicals (Japan) to contribute late-2016 and a 12K MT cast polypropylene (CPP) film facility to contribute mid-2016 onwards. Futamura has committed to around one-third of the plant's output and owns a 10% stake in the consumer film subsidiary with the option to acquire another 10%. Management expect flexible consumer packaging to see mid-to-high single digit growth in Asia-Pacific in the medium term from population growth, urbanisation, rising affluence and consumerism.

Property focus on affordable housing; land bank of c6 years

Scientex has a prominent property development business in Southern Malaysia with projects ranging from flagship mixed-use township development to luxury high-rise residential. The company estimates its land bank for future development at a GDV of cRM3.5bn which we expect would be adequate for next 5-6 year's projects (based on FY15 revenues). The soft market sentiment has resulted in a focus on the affordable housing segment which accounted for c80% of FY15 launches. Unbilled sales as at 1Q16 stood at RM632.2m (vs RM584.9m in 4Q FY15) to be recognised over the next 2-3 years.

Estimated gross development value (GDV) of property at 1Q FY16

RMm	Completed	Ongoing	Future development
Pasir Gudang	1,077	319	254
Kulai	262	128	777
Skudai	654	163	1477
Ayer Keroh	164	212	286
Senai	38	473	757

Source: Scientex Bhd, January 2016

Analyst(s)

Neel Sinha

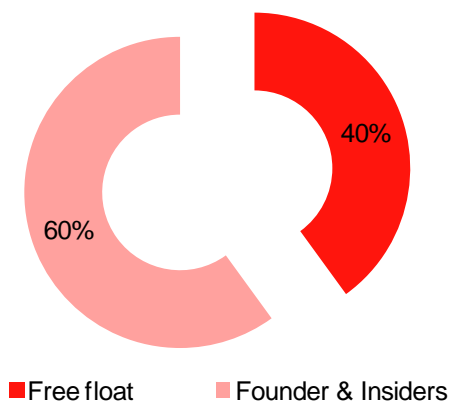
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20 January 2016

Macquarie Capital Securities
(Singapore) Pte. Limited

Ownership estimate



History and corporate governance

- 1968 - Founded by Lim Teck Meng; PVC cloth, leather cloth and sheet manufacture
- 1985: Polypropylene, polyethylene woven bag manufacture
- 1990 (Feb): Listed on Bursa Malaysia
- 1993: Maiden foray in property development in Pasir Gudang via JV with Lim Kah Ngam group of Singapore
- 1995: Set up stretch film manufacturing subsidiary
- 2013 – 2015 Packaging M&A activity: Acquired GW Plastics core business (RM283.2m), Seacera Polyfilms (RM39m), Scientex Great Wall (RM58m), formed alliance with Futamura Chemicals Japan for sale of up to 20% of shares in Scientex Great Wall to expand BOPP, CPP film capacity.

Balance sheet data and refinancing (1Q16; 31 Oct 2015)

- Net debt to equity at 23%, up from 13% in prior quarter mainly due to working capital increase from growth due to new plant expansion.
- On a y-o-y basis net debt to equity was lower than the 32% a year ago at 1Q15 and 37% in 1Q14
- AR2015 debt maturity analysis indicates c66% of borrowing are current, c3% due between 1-2 years, c14% due between 2-5 years and c17% due beyond 5 years

Management and Directors background

- Lim Peng Jin, age 48 – Managing Director, Chemical Engineering background, son of Founder
- Lim Peng Cheong, age 53 – Executive Director, Business Studies background, brother of Lim Peng Jin
- 4 of 6 Board members INEDs; Chairman is INED; All members of Audit committee are INEDs
- Tan Hong Koon – Chief Financial Controller (Accounting and Audit background)

Fig 1 Latest results highlights (1Q16; 31 Oct 2015)

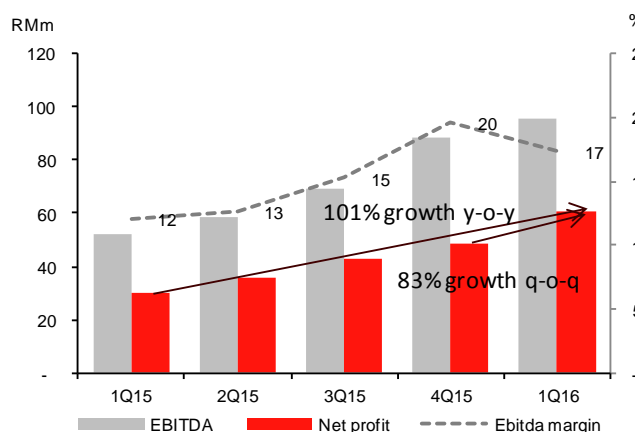


Fig 2 Latest results highlights (1Q16; 31 Oct 2015)

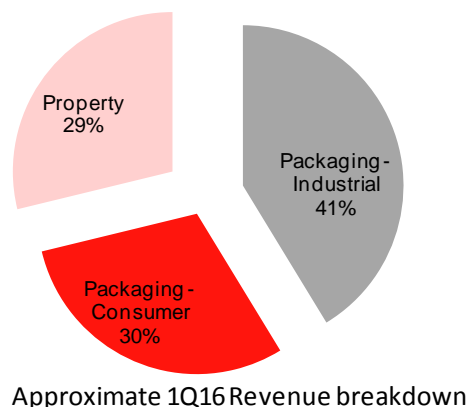


Fig 3 Industrial packaging: Stretch film & PP strapping bands



Fig 4 Consumer packaging: Wicket bags & printed film



Source: Scientex Bhd, January 2016

The growth proposition

- In 2013, Scientex's CEO stated a five year goal of doubling revenue and profit from FY13 levels. The company appears to be making progress in this direction as FY15 revenue and profit was respectively 47% and 34% higher than FY13 levels. The company also expects upside from the significant consumer packaging capacity expansion in the coming 12-18 months.
- Bloomberg consensus forecasts indicate a FY5-FY18 three-year net profit Cagr at 25% (annual net profit growth of 44% in FY16, 14% in FY17 and 19% in FY18)

The business model

- Scientex claims to be one of the top 3 industrial stretch film producers globally with c120K MT output. It also produces PP strapping bands and raffia products. This business accounted for c41% of group revenue in 1Q FY16 and is export driven with international distributors as customers.
- Scientex entered the consumer packaging segment in 2013 via acquisition of core businesses of GW Plastics and has since grown through capacity expansion as well as 2 more acquisitions. This business accounted for c30% of group revenue in 1Q FY16, evenly split between the domestic and export markets where customers are a combination of intermediary converters and end-user firms.
- Scientex has been in property development since 1993 in commercial, industrial and residential projects ranging from high-end to affordable housing in Johor and Melaka. Ongoing projects have a GDV of cRM1.3bn and the division accounted for c29% of 1Q FY16 revenue.
- Manufacturing contribution is rising: 1Q FY16 group EBITDA was split roughly 50%:50% for packaging and property versus 42%:58% in FY15 due to packaging M&A and manufacturing capacity increases coming through.

Strengths

- **Scale economies:** Industrial film output amongst largest in the region and consumer up with a 9x capacity increase of 54K MT for BOPP film, new 12K MT CP film plant
- **Diversified end markets:** c90% of industrial products exported to c60 countries and c50% of consumer products exported to c15-20 countries
- **Low historical cost land bank:** This allows development flexibility depending on economic conditions and demand

Opportunities

- **Further consumer sector consolidation:** More M&A driven growth opportunity in the fragmented consumer packaging space
- **Building land bank inventory:** Sluggish market could provide acquisition opportunities from distressed sellers

The value proposition

- On consensus estimates Scientex trades at FY16 PE of an undemanding 10.9x. On a 12 month forward PE basis it trades at 10.4x versus 16.1x for a regional peer basket median of process industries and materials companies.
- Scientex trades at a current EV/EBITDA of 9.4x versus 18.6x median for the same peer basket

(Peer basket median is based on consensus for Mulia Industrindo, Thai Plastic and Chemicals, Vinythai, Indorama Ventures, Hongda Xingye, Shanghai Pret Composites, Formosa Plastics, Daicel and Lotte Chemicals,

The main risks

- Regional macro slowdown driving lower household consumption in fast moving consumer goods (FMCG) items in F&B and non-durables that utilise flexible packaging
- Slower global trade driving lower demand for industrial stretch film that is mainly used for transportation of goods
- Volatility in oil, energy prices affecting resin prices. While the company typically has short term contracts (1-3 months) with industrial and consumer packaging converter clients that allow for regular repricing, consumer packaging end-user contracts are longer term in nature and hence carry raw material price exposure (resin is 60-65% of cost of goods) for Scientex
- Local currency volatility against the USD which affects the c50% of consumer packaging business for domestic clients; (balance of packaging revenues are exports driven and US\$ based).
- Scientex also has c6 month operating cashflow equivalent USD exposure mismatch on its balance sheet (USD borrowing) which it is working on to reduce.

Weaknesses

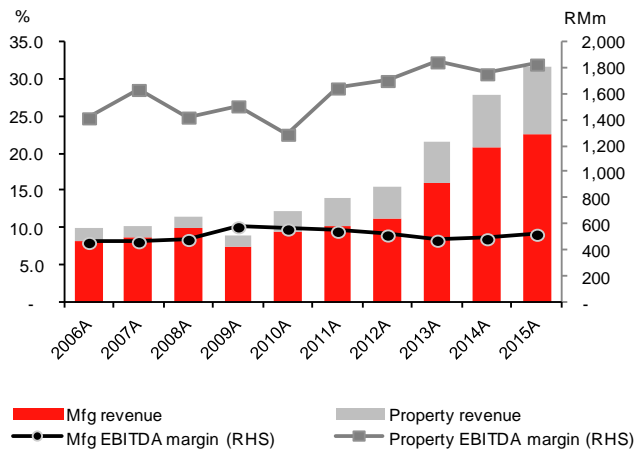
- **Succession:** While depth of the senior management bench is adequate, we perceive succession issues and long term direction of the company to be an area of concern as the CEO Lim Peng Jen is the only active member from the Founder's family engaged in the business.
- **Land bank concentration in Johor, Melaka:** Property market sentiment is soft due to weak economic conditions and oversupply concerns. Resultant affordable housing focus will likely mean lower margins from a mix shift.

Threats

- **Structural industry shifts:** Threat from countries that have a large petrochemical industry, have lower energy prices and/ or incentives for import substitution.
- **Property weakness:** Further slowdown in the property market

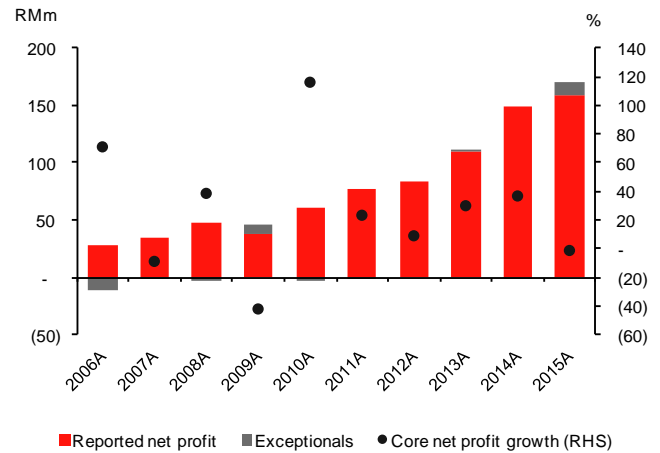
Key financial metrics – 10 year history

Fig 5 Revenue, EBITDA & EBITDA margin



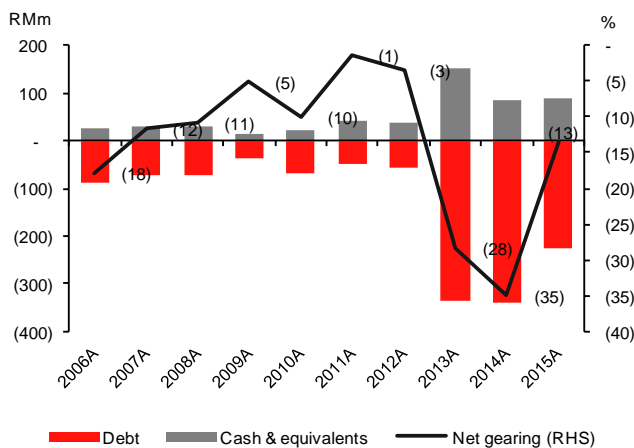
Source: FactSet, January 2016

Fig 6 Net profit & growth



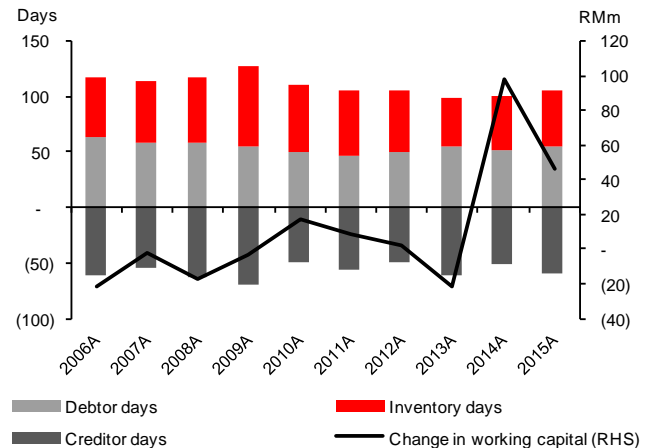
Source: FactSet, January 2016

Fig 7 Debt, cash & net gearing



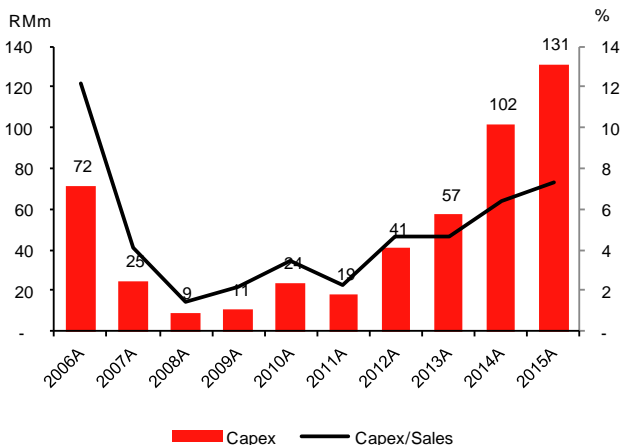
Source: FactSet, January 2016

Fig 8 Working capital analysis



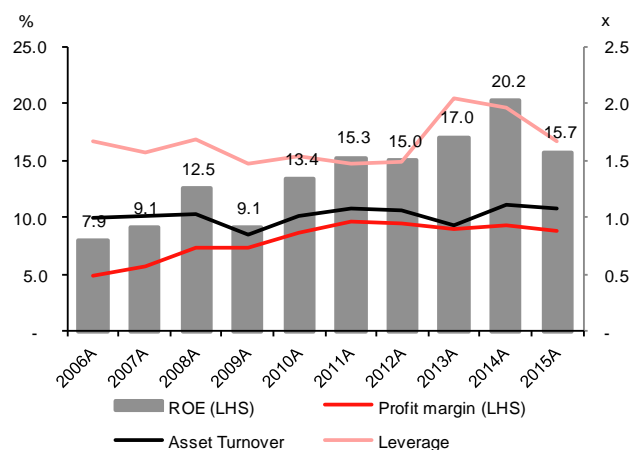
Source: FactSet, January 2016

Fig 9 Capital expenditure



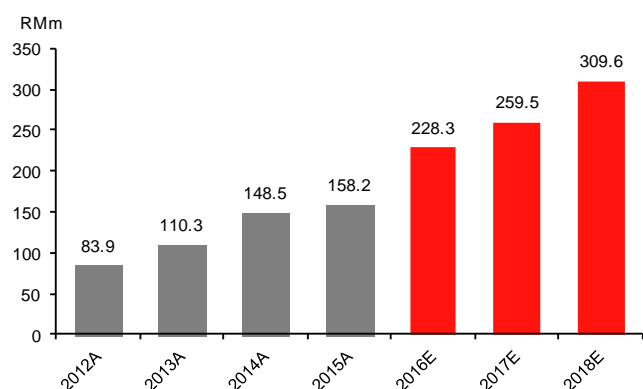
Source: FactSet, January 2016

Fig 10 Du Pont analysis



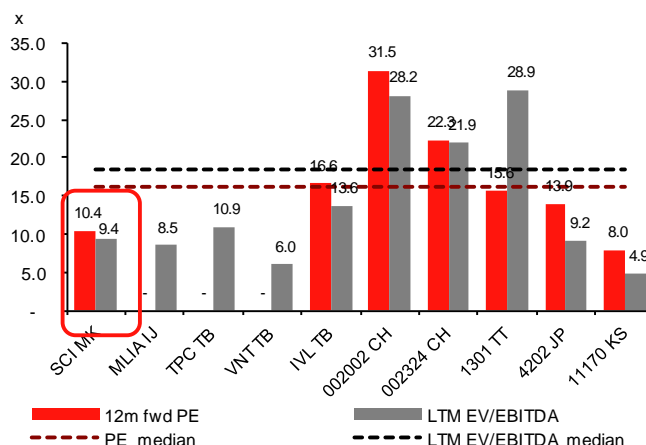
Source: FactSet, January 2016

Fig 11 Consensus net profit estimate (4 contributors)



Source: Bloomberg, January 2016

Fig 12 Regional peer valuation comparison*



*Based on Process Industries & Materials companies only; these peers do not have any material real estate development business like Scientex

Source: Bloomberg, January 2016

Summary financial statements – 10 year history

Fig 13 Balance Sheet

Y/e 31 July, RM	Unit	2006A	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A
Cash & equivalents	m	26	29	29	16	23	41	36	152	84	91
Receivables	m	115	99	110	78	94	106	124	192	227	272
Inventories	m	85	93	107	100	118	133	132	149	214	248
Other current assets	m	2	7	2	5	4	2	3	3	16	50
Total current assets	m	229	229	248	198	239	281	296	497	541	661
Net fixed assets	m	343	308	321	340	388	402	471	746	813	911
Intangibles	m	2	2	2	-	-	-	-	-	-	-
Investments	m	18	18	17	12	14	42	42	43	47	66
Other long term assets	m	2	53	53	51	50	19	19	41	43	32
Total assets	m	594	609	640	603	690	744	828	1,327	1,444	1,670
Trade payables	m	86	84	107	88	86	106	104	181	197	253
Other current liabilities	m	23	25	38	25	44	39	58	89	87	98
Short term debt	m	65	60	39	14	42	38	51	168	263	150
Total current liabilities	m	175	169	184	128	171	182	213	437	547	500
Long term debt	m	24	14	32	22	26	10	5	168	78	76
Other long term liabilities	m	40	39	43	42	42	46	51	74	84	90
Total liabilities	m	238	223	259	191	240	238	269	678	708	665
Equity	m	260	285	346	375	414	467	526	629	713	942
Minorities	m	95	102	35	36	36	39	34	20	23	63
Total liabilities and SE	m	594	609	640	603	690	744	828	1,327	1,444	1,670
Key Balance Sheet ratios											
NTA/share	RM	1.84	1.99	1.85	1.91	2.09	2.35	2.60	2.97	3.33	4.50
Book value/share	RM	1.85	1.99	1.86	1.91	2.09	2.35	2.60	2.97	3.33	4.50
Gearing and stability											
Current ratio	x	1.3	1.4	1.3	1.6	1.4	1.5	1.4	1.1	1.0	1.3
Quick ratio	x	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.6	0.8
Net gearing	%	17.8	11.6	10.8	5.1	9.9	1.3	3.5	28.3	34.9	13.4
Gross gearing	%	25.1	19.2	18.6	8.9	15.1	9.4	10.0	51.7	46.3	22.4
Net debt/Op Ebitda	%	0.8	0.9	0.9	0.4	0.6	0.1	0.2	1.1	1.2	0.5
Ebitda int exp cover	x	20.6	11.7	14.1	60.5	64.4	73.2	142.2	39.0	30.8	31.2
Productivity											
Fixed asset turnover	x	3.4	4.0	4.1	3.0	3.6	4.0	3.7	3.3	3.9	4.0
Inventory turnover	x	5.5	5.5	5.1	4.0	4.7	4.7	5.1	6.4	5.9	5.6
Capex/revenue	%	12.2	4.1	1.4	2.2	3.5	2.3	4.6	4.7	6.4	7.3
Debtor (AR) days	Days	63.1	57.6	57.2	54.2	48.4	45.1	49.2	54.1	50.9	53.9
Creditor (AP) days	Days	61.6	54.7	64.1	70.4	50.9	56.1	50.5	62.5	52.4	59.7

Source: FactSet, January 2016

Fig 14 Annual Profit & Loss Statement

Y/e 31 July, RM	Unit	2006A	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A
Consolidated revenue	m	586	613	657	510	695	804	881	1,229	1,590	1,802
Gross profit	m	119	101	112	105	147	181	201	279	332	403
EBITDA	m	76	50	47	54	81	115	128	174	220	258
Depreciation & amortisation	m	(21)	(21)	(23)	(24)	(24)	(22)	(23)	(32)	(40)	(44)
Operating income	m	56	29	23	31	58	93	105	142	180	214
Net interest and div income	m	(3)	(4)	(3)	0	(1)	(1)	1	(2)	(5)	(7)
Associate profit	m	1	0	1	1	1	2	1	0	1	4
Exceptional & others	m	(8)	14	35	10	12	4	2	2	7	9
Pretax profit	m	44	40	57	42	71	97	107	143	186	221
Minority interest	m	9	6	5	1	2	3	4	2	3	4
Net profit	m	28	35	48	37	60	77	84	110	148	158
EPS diluted	RM	0.15	0.18	0.23	0.17	0.28	0.36	0.39	0.51	0.67	0.71
DPS	RM	0.04	0.02	0.07	0.05	0.09	0.12	0.14	0.16	0.21	0.22
Average o/s shares	m	192	194	205	216	215	215	215	218	221	224
Dividend payout ratio	%	26	12	33	29	32	33	36	32	31	31
Margin											
Gross profit	%	20.2	16.5	17.0	20.5	21.1	22.5	22.8	22.7	20.9	22.4
EBITDA	%	13.0	8.1	7.1	10.7	11.7	14.3	14.5	14.1	13.8	14.3
Growth											
Revenue	%	16	5	7	(22)	36	16	10	40	29	13
EBITDA	%	41	(35)	(6)	16	49	42	11	36	27	17
Net profit	%	22	25	36	(21)	61	28	9	31	35	7
EPS diluted	%	(40)	23	28	(25)	61	28	9	30	33	5

Source: FactSet, January 2016

Fig 15 Cashflow Statement

Y/e 31 July, RM	Unit	2006A	2007A	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015A
Pretax profit	m	44	40	57	42	71	97	107	143	186	221
Tax paid	m	(7)	1	(6)	(6)	(8)	(14)	(15)	(8)	(33)	(55)
Depreciation	m	21	21	23	24	24	22	23	32	40	44
Change in working cap	m	21	3	17	4	(17)	(8)	(2)	22	(98)	(46)
Other items	m	(0)	(1)	(1)	(1)	(2)	(1)	(0)	(1)	(4)	(4)
Operating cashflow	m	79	64	91	62	67	96	113	187	91	159
Capital expenditure	m	(72)	(25)	(9)	(11)	(24)	(19)	(41)	(57)	(102)	(131)
Net investments	m	0	1	1	4	(2)	(28)	(0)	(1)	(4)	(19)
Others	m	2	(23)	(91)	(25)	(39)	22	(53)	(281)	(12)	88
Investing cashflow	m	(70)	(48)	(99)	(31)	(65)	(25)	(94)	(340)	(117)	(150)
Dividends paid	m	(7)	(4)	(16)	(11)	(19)	(26)	(30)	(35)	(46)	(50)
Share issues	m	6	6	27	0	(7)	(7)	(1)	24	(0)	73
Financing cashflow	m	(1)	2	12	(11)	(26)	(32)	(31)	(11)	(47)	24
BOY cash	m	(71)	(63)	(45)	(41)	(21)	(45)	(7)	(19)	(183)	(257)
EOY cash	m	(63)	(45)	(41)	(21)	(45)	(7)	(19)	(183)	(257)	(135)
Change in cash	m	8	18	4	20	(24)	38	(13)	(164)	(73)	122

Source: FactSet, January 2016

Fig 16 Quarterly Profit & Loss snapshot

Y/e 31 July, RM	Unit	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
Revenue	m	371	365	383	427	415	431	463	455	452	551
EBITDA	m	50	49	55	59	66	52	59	69	89	96
EBIT	m	40	39	45	49	56	41	48	58	77	82
Pretax profit	m	40	38	44	48	56	40	47	57	61	81
Net profit	m	30	29	34	36	49	30	36	43	33	61
Margin											
Ebitda	%	13	13	14	14	16	12	13	15	20	17
Ebit	%	11	11	12	11	14	10	10	13	17	15
Growth YoY											
Revenue	%	64	51	41	24	12	18	21	7	9	28
Ebitda	%	44	32	34	19	33	6	7	18	34	83
Net profit	%	29	18	32	25	61	3	6	18	(32)	101
Growth QoQ											
Revenue	%	8	(2)	5	11	(3)	4	7	(2)	(1)	22
Ebitda	%	2	(2)	12	7	13	(21)	12	18	28	8
Net profit	%	4	(3)	16	7	34	(38)	19	19	(23)	84

Source: FactSet, January 2016

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions																												
<p>Macquarie - Australia/New Zealand Outperform – return >3% in excess of benchmark return Neutral – return within 3% of benchmark return Underperform – return >3% below benchmark return</p> <p>Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell) – return >5% below Russell 3000 index return</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Asia/Australian/NZ/Canada stocks only</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																												
Recommendation proportions – For quarter ending 31 December 2015																														
	<table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> <th>EUR</th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>50.68%</td> <td>61.04%</td> <td>53.16%</td> <td>47.90%</td> <td>65.22%</td> <td>43.59%</td> </tr> <tr> <td>Neutral</td> <td>31.51%</td> <td>24.66%</td> <td>34.18%</td> <td>47.70%</td> <td>29.71%</td> <td>34.62%</td> </tr> <tr> <td>Underperform</td> <td>17.81%</td> <td>14.30%</td> <td>12.66%</td> <td>4.39%</td> <td>5.07%</td> <td>21.79%</td> </tr> </tbody> </table>		AU/NZ	Asia	RSA	USA	CA	EUR	Outperform	50.68%	61.04%	53.16%	47.90%	65.22%	43.59%	Neutral	31.51%	24.66%	34.18%	47.70%	29.71%	34.62%	Underperform	17.81%	14.30%	12.66%	4.39%	5.07%	21.79%	(for global coverage by Macquarie, 5.33% of stocks followed are investment banking clients) (for global coverage by Macquarie, 5.02% of stocks followed are investment banking clients) (for global coverage by Macquarie, 3.78% of stocks followed are investment banking clients)
	AU/NZ	Asia	RSA	USA	CA	EUR																								
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