

### COMPANY RESULTS

#### Scientex (SCI MK)

2QFY18: Weaker Growth In Manufacturing And Property Segments

**Scientex's 2QFY18 core net profit dropped 11.9% qoq and 4.8% yoy on the back of: a) a less favourable product mix at its manufacturing and property segments, and b) a weaker ringgit. Nevertheless, we believe our forecast of 21.6% growth in bottom line for FY18 is achievable, underpinned by contribution from the new BOPP plant, maiden contribution from KHPI and a healthy property segment. Maintain HOLD. Target price: RM9.20. Entry price: RM8.28.**

#### 2QFY18 RESULTS

Year to 31 Jul (RMm)	2QFY18	qoq % chg	yoy % chg	1HFY18	yoy % chg
Turnover	634.8	(3.6)	8.3	1,293.4	15.4
Manufacturing	456.4	(2.7)	10.8	925.5	16.9
Property	178.3	(5.9)	2.3	367.9	11.7
EBIT	84.9	(8.9)	2.9	178.2	17.7
Manufacturing	31.6	(8.9)	4.5	66.3	22.7
Property	53.3	(8.9)	1.9	111.9	14.9
Finance costs	(2.3)	(3.2)	(37.9)	(4.6)	(35.3)
PBT	85.4	(7.8)	4.3	177.9	20.0
Core net profit	61.4	(11.9)	(4.8)	131.2	12.3
Margins (%)		+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	13.4	(0.8)	(0.7)	13.8	0.3
-Manufacturing	6.9	(0.5)	(0.4)	7.2	0.3
-Property	29.9	(1.0)	(0.1)	30.4	0.8
PBT	13.5	(0.6)	(0.5)	13.8	0.5
Core net profit	9.7	(0.9)	(1.3)	10.1	(0.3)

Source: Scientex, UOB Kay Hian

#### RESULTS

• **2QFY18 results within our expectations.** Excluding RM9.2m in net forex gains arising from higher export sales, 1HFY18 core net profit was RM131.2m (+12.3% yoy), representing 42% and 40% of our and consensus full-year forecasts respectively. We deem results to be in line as we are expecting a seasonally stronger 2H and maiden contribution from Klang Hock Plastic Industries (KHPI) starting May 18. Core net profit dropped 11.9% qoq on weaker sales from the manufacturing and property segments amid: a) evolved strategy at its BOPP plant to focus on margins instead of volume; b) less favourable product mix; and c) a stronger ringgit.

#### KEY FINANCIALS

Year to 31 Jul (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	2,201	2,043	3,029	3,874	4,721
EBITDA	367	388	476	565	633
Operating profit	313	325	403	492	561
Net profit (rep./act.)	241	256	313	380	435
Net profit (adj.)	248	258	313	380	435
EPS (sen)	53.9	53.3	64.8	78.5	89.9
PE (x)	14.9	15.1	12.4	10.2	8.9
P/B (x)	3.1	2.5	2.2	1.9	1.7
EV/EBITDA (x)	11.8	11.2	9.1	7.7	6.8
Dividend yield (%)	1.9	2.0	2.4	2.9	3.4
Net margin (%)	10.9	12.5	10.3	9.8	9.2
Net debt/(cash) to equity (%)	31.6	18.0	19.1	6.3	4.5
Interest cover (x)	26.9	27.7	36.9	49.0	62.1
ROE (%)	22.8	18.9	19.1	20.1	20.0
Consensus net profit	-	-	330	383	445
UOBKH/Consensus (x)	-	-	0.95	0.99	0.98

Source: Scientex, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	RM8.03
Target Price	RM9.20
Upside	+14.6%

#### 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):	488.9
Market cap (RMm):	3,926.1
Market cap (US\$m):	1,003.2
3-mth avg daily t'over (US\$m):	0.4

#### Price Performance (%)

52-week high/low RM9.80/RM7.27

1mth	3mth	6mth	1yr	YTD
(7.4)	(8.8)	(6.5)	10.8	(7.3)

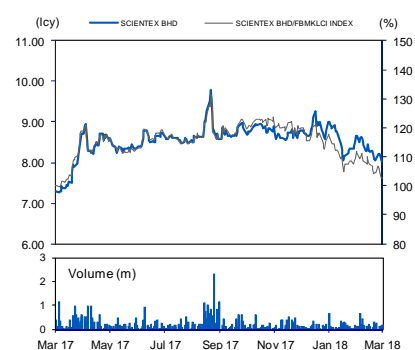
#### Major Shareholders

	%
Scientex Holdings Sdn Bhd	20.86
Scientex Leasing Sdn Bhd	9.65
Lim Teck Meng Sdn Bhd	7.82

FY18 NAV/Share (RM) 3.63

FY18 Net Debt/Share (RM) 0.69

#### PRICE CHART



Source: Bloomberg

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- 2QFY18 manufacturing EBIT rose 4.5% yoy to RM31.6m**, thanks to: a) the increase in sales volume mainly attributed to higher export sales, and b) lower operating losses incurred by the new BOPP plant. While utilisation rate at the BOPP plant remained relatively stable at about 50% in 2QFY18, we believe ASP has improved amid an evolved strategy to focus on margins rather than volume. In 2QFY18, exports made up 78% of the manufacturing sales (+16.2% yoy).
- Property segment continued to show healthy growth momentum in 2QFY18** with sales improving 2.3% yoy primarily due to the strong progress billings at all its property projects, particularly Taman Pulai Mutiara and Taman Mutia Mas. Scientex launched new properties worth RM566.7m in GDV in 1HFY18 with unbilled sales of RM500m as at 31 Jan 18. Management intends to launch RM600m worth in GDV of new projects in 2HFY18.

### STOCK IMPACT

- Penetrative pricing effect in the manufacturing segment should ease.** Gross margin in the manufacturing segment dipped 2.8ppt yoy to 11.8% in FY17, primarily attributed to the penetrative pricing strategy adopted to gain market share amid capacity expansion, especially in the consumer packaging segment. That said, we believe margin compression should ease once the BOPP plant begins to contribute in the coming quarters. Our forecast incorporates a 1.2ppt improvement in FY18 gross margin.
- Growing consumer packaging segment.** Scientex has increased its polyethylene (PE) capacity by more than three-fold in three years after completing: a) the installation of additional production lines at its plants in Rawang for RM21m at end-16; and b) capacity expansion of 24,000 MT p.a. (for RM50m) at its Ipoh plant (Scientex Great Wall Ipoh). Consequently, annual PE output has increased from 60,000MT to 84,000MT. Management intends to install a third BOPP line in the new plant in FY18-19, which should raise capacity to about 100,000MT p.a..
- Operations on track at the new stretch film plant in the US.** The US\$25m new stretch film plant in Arizona, US, which has a capacity of 30,000MT p.a., saw the commencement of its second extruder machine this month. With synergistic benefits from Scientex's efficient manufacturing operations, savings in logistics costs and low feedstock costs via ample supply of shale gas-based resin, the plant should start contributing from FY19.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

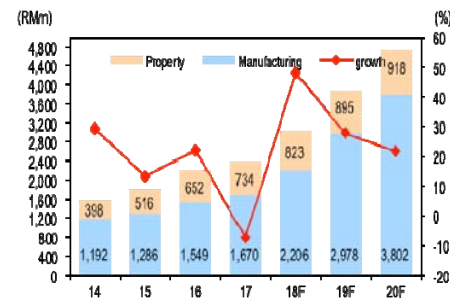
- Maintain HOLD and SOTP-based target price of RM9.20**, based on 15x 2019F PE for the manufacturing segment and RNAV methodology (see table below) on the property segment. Our target price implies 11.1x 2019F PE. We continue to believe Scientex's long-term prospects to be promising, attributed to greater economies of scale at its manufacturing segment post several acquisitions and a growing landbank to support the property segment.

### SOTP VALUATION

	2019F Net Profit (RMm)		Fair Value (RMm)
Manufacturing	212.6	15x PE	3,189.0
Property	190.0	10% discount to RNAV of RM2.56/share based on NPV@7% and remaining GDV of RM7.9b	1,237.9
Total	382.9		4,426.9
Current outstanding shares (m)			483.6
<b>Target Price (RM)</b>			<b>9.20</b>

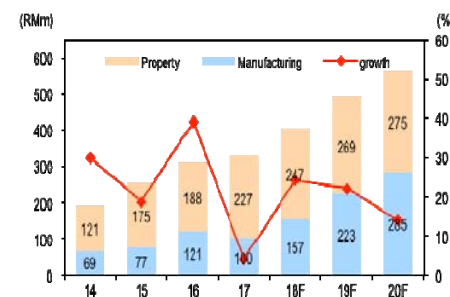
Source: UOB Kay Hian

### SALES BY SEGMENT



Source: Scientex, UOB Kay Hian

### EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

### KEY ASSUMPTIONS

Year to 31 Jul	FY18F	FY19F	FY20F
Sales	2953.9	3547.1	4366.7
Manufacturing	2206.2	2978.5	3802.5
Property	822.8	895.4	918.2
<b>EBIT margin (%)</b>			
Manufacturing	7.1	7.5	7.5
Property	30.0	30.0	30.0
<b>US\$/RM</b>	<b>4.0</b>	<b>4.1</b>	<b>4.1</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Jul (RMm)	2017	2018F	2019F	2020F
<b>Net turnover</b>	2,043	3,029	3,874	4,721
EBITDA	388	476	565	633
Deprec. & amort.	63	73	73	73
EBIT	325	403	492	561
Associate contributions	7	7	8	8
Net interest income/(expense)	(14)	(13)	(12)	(10)
<b>Pre-tax profit</b>	<b>318</b>	<b>398</b>	<b>488</b>	<b>558</b>
Tax	(58)	(80)	(102)	(117)
Minorities	(4)	(5)	(6)	(7)
<b>Net profit</b>	<b>256</b>	<b>313</b>	<b>380</b>	<b>435</b>
Net profit (adj.)	258	313	380	435

### BALANCE SHEET

Year to 31 Jul (RMm)	2017	2018F	2019F	2020F
<b>Fixed assets</b>	<b>1,013</b>	<b>1,143</b>	<b>1,150</b>	<b>1,137</b>
Other LT assets	612	798	818	819
Cash/ST investment	192	95	212	235
Other current assets	761	862	1,054	1,376
<b>Total assets</b>	<b>2,578</b>	<b>2,899</b>	<b>3,234</b>	<b>3,568</b>
ST debt	301	250	200	200
Other current liabilities	442	571	724	746
LT debt	167	180	140	140
Other LT liabilities	64	70	70	71
Shareholders' equity	1,535	1,755	2,021	2,325
Minority interest	68	73	79	86
<b>Total liabilities &amp; equity</b>	<b>2,578</b>	<b>2,899</b>	<b>3,234</b>	<b>3,568</b>

### CASH FLOW

Year to 31 Jul (RMm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>323</b>	<b>436</b>	<b>401</b>	<b>214</b>
Pre-tax profit	318	398	488	558
Tax	(70)	(80)	(102)	(117)
Deprec. & amort.	63	73	73	73
Working capital changes	3	45	(58)	(300)
Other operating cashflows	8	0	0	0
<b>Investing</b>	<b>(253)</b>	<b>(400)</b>	<b>(80)</b>	<b>(60)</b>
Capex (growth)	(127)	(200)	(80)	(60)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(126)	(200)	0	0
<b>Financing</b>	<b>22</b>	<b>(133)</b>	<b>(204)</b>	<b>(130)</b>
Dividend payments	(106)	(94)	(114)	(130)
Issue of shares	154	0	0	0
Proceeds from borrowings	85	0	0	0
Loan repayment	(92)	(38)	(90)	0
Others/interest paid	(19)	(2)	0	0
<b>Net cash inflow (outflow)</b>	<b>91</b>	<b>(97)</b>	<b>117</b>	<b>23</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>101</b>	<b>192</b>	<b>95</b>	<b>212</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>192</b>	<b>95</b>	<b>212</b>	<b>235</b>

### KEY METRICS

Year to 31 Jul (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	19.0	15.7	14.6	13.4
Pre-tax margin	15.6	13.1	12.6	11.8
Net margin	12.5	10.3	9.8	9.2
ROA	10.6	11.4	12.4	12.8
ROE	18.9	19.1	20.1	20.0
<b>Growth</b>				
Turnover	(7.2)	48.2	27.9	21.9
EBITDA	5.8	22.7	18.7	12.0
Pre-tax profit	3.8	25.1	22.7	14.4
Net profit	6.2	22.5	21.2	14.4
Net profit (adj.)	4.0	21.6	21.2	14.4
EPS	(1.1)	21.6	21.2	14.4
<b>Leverage</b>				
Debt to total capital	22.6	19.0	13.9	12.4
Debt to equity	30.5	24.5	16.8	14.6
Net debt/(cash) to equity	18.0	19.1	6.3	4.5
Interest cover (x)	27.7	36.9	49.0	62.1

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