

# Scientex Berhad

Promising Growth Outlook

**TP: RM10.01 (+24.7%)**

Last Traded: RM8.03

**Buy**

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### Review

- Scientex Berhad's (Scientex) IHFY18 earnings came in at 42% of our and consensus' full-year estimates. We deem this as within expectation as we expect Scientex's FY18 earnings to be back-end loaded.
- Manufacturing.** IHFY18 operating profit improved by 22.7% YoY to RM66.3mn on the back of i) higher revenue contribution which increased by 16.9% YoY to RM925.5mn; ii) increase in production volume by 21.7% YoY to 113.4k tonnes; iii) positive contribution from the export sales, accounting for 78% (+4.0-pts) of the manufacturing total revenue; and iv) gained in operating profit margin by 0.3%-pts to 7.2% due to favourable product mix. While QoQ, operating profit declined by 8.9% to RM31.6mn due to lower revenue of RM456.4mn (-2.7%) as a result of strengthening of Ringgit against US Dollar.
- Property.** Operating profit for IHFY18 increased by 14.9% YoY to RM111.9mn attributable to strong progress billing and good take up rate for developments in Johor, Melaka and Perak. While QoQ, operating profit declined by 8.9% to RM53.3mn due to sales declined by 5.9% QoQ to RM178.3mn.
- No dividend was declared during the quarter under review.

### Impact

- No change to our earnings forecasts.

### Outlook

- Scientex is poised to become top regional player for plastic packaging manufacturing with a total expected capacity of 455,000 tonnes/year for FY18. Last month, the group announced its plan to acquire Klang Hock Plastics Industries Sdn. Bhd. (KHPI) for a total consideration of RM190.0mn which also comes with a profit guarantee of RM18.0mn to be recognised in FY19. We are positive on this acquisition as this will further support the group's long-term growth strategy.
- The new plant in Arizona, USA has commenced operations of stretch films in Jan-2018 with expected total capacity of 30,000 tonnes/year. This allows Scientex to be closer to its Central American customers therefore providing better sales and services with shorter delivery lead time. Furthermore, Scientex is expected to benefit from costs savings due to growing supply of shale gas-based resin as compared to current usage of fossil fuel-based resin.
- Note that with a total capacity of 356,000 tonnes/year as of FY17, Scientex has reached an utilisation rate of 55%. As of IHFY18, utilisation rate reaches 62% after active efforts by acquiring new clients through penetrative pricing. After the completion of the KHPI plant in 2H18, management plans to ramp-up capacity to 70% level by FY20 through

### Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	488.9
Market Cap (RMmn)	3,926.1
Par value (RM)	0.5
52-wk Hi/Lo (RM)	9.85/7.23
12-mth Avg Daily Vol ('000 shrs)	240.5
Estimated Free Float (%)	40.5786964
Beta	0.87
<b>Major Shareholders (%)</b>	
Scientex Holdings Sdn Bhd	20.86
Scientex Leasing Sdn Bhd	9.65
Lim Teck Meng Sdn Bhd	7.82
TM Lim Sdn Bhd	5.05

### Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMmn)	329.8	388.1
Consensus	330.3	382.5
TA's / Consensus (%)	99.9	101.5
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY18	FY19
Net debt/ equity (%)	39.4	42.5
ROE (%)	17.6	18.2
ROA (%)	10.4	10.4
NTA/Share (RM)	3.8	4.3
Price/ NTA (x)	2.1	1.9

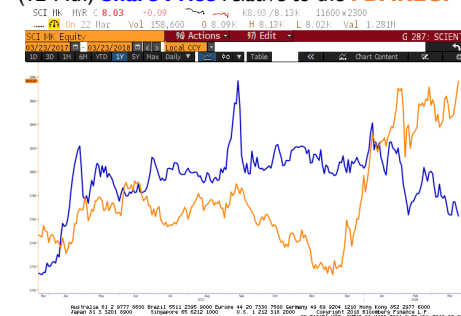
### Scorecard

	% of FY18	
vs. TA	42	Within
vs. Consensus	42	Within

### Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	(7.4)	0.8
3 mth	(8.8)	6.6
6 mth	(6.5)	6.0
12 mth	10.2	7.4

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

focusing on improving margins in product offerings within the custom films range coupled with sales volume growth. Moreover, management guided that the group is open to further acquisitions to expand capacity not just within Malaysia but also regionally in order to meet growing global demands.

- As of to date, Scientex has a total Gross Development Value (GDV) of RM10.0bn of future development to sustain earnings from the property segment for the next eight to ten years. Note that the property segment has been delivering positive take up rate of between 90% - 100% upon launching. Currently Scientex has presence in Klang Valley, North as well as South Peninsular of Malaysia.
- Note that Scientex has launched a total of 15 projects with projected GDV of RM566.7mn whereby 10 of these will be launched within 2Q18 period with projected GDV of RM500.0mn. Management guided that the group will continue to look for opportunities to acquire land and hope to expand in new areas while still focusing on the affordable housing segments.
- Risks to the group includes i) strengthening of Ringgit may limit topline growth and; ii) rising level of crude oil price which makes fossil-fuel based resin may limit gross margin within the manufacturing division; as well as ii) lower-than-expected take-up rate from new launches in the property division.

### Valuation

- Maintain our Buy call on Scientex with unchanged target price of RM10.01/share based on SOP valuation. We like Scientex due to its i) market leading regional position as flexible plastic packaging manufacturer; ii) high take up rates of newly launched property development projects; and iii) healthy balance sheet position.

### Sum-of-part Valuation

Sum-of-Parts	PAT (RMmn)			Target PER (x)	Segment Value (RMmn)	Comment
	FY18	FY19	CY18			
Manufacturing	164.9	194.0	177.0	20	3,611.7	20% premium to peer's PE average
Property	164.9	194.0	177.0	8	1,416.4	In-line with small-cap property players
					Equity value (RMmn)	4,896.2
					Share cap (mn)	488.9
					<b>Target Price (RM)</b>	<b>10.01</b>

### Earnings Summary

FYE 31 July (RMmn)		2016	2017	2018E	2019F	2020F
Revenue		2,201.0	2,403.2	2,729.2	3,388.0	3,729.5
Gross Profit		440.2	493.2	614.5	705.6	807.6
EBITDA		367.1	388.3	521.8	619.2	729.2
EBIT		312.6	325.1	450.9	535.1	629.9
Reported PBT		306.3	318.0	403.4	474.7	569.2
Adj. PBT		312.0	322.0	403.4	474.7	569.2
Reported Net Profit		240.9	255.9	329.8	388.1	465.3
Adj. Net profit		240.9	255.9	329.8	388.1	465.3
Basic/Diluted EPS	(sen)	106.0	54.8	67.5	79.4	95.2
Adj. EPS	(sen)	49.3	52.3	67.5	79.4	95.2
PER	(x)	7.6	14.6	11.9	10.1	8.4
Net Dividend	(sen)	16.1	16.0	21.0	26.0	34.0
Dividend Yield	(%)	2.0	2.0	2.6	3.2	4.2

## Quarterly Results Analysis

FYE July (RM'mn)	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	586.2	658.7	634.8	(3.6)	8.3	1,120.9	1,293.4	15.4
~ Manufacturing	411.9	469.1	456.4	(2.7)	10.8	791.6	925.5	16.9
~ Property	174.3	189.6	178.3	(5.9)	2.3	329.4	367.9	11.7
Interest Expense	(3.6)	(2.3)	(2.3)	(3.2)	(37.9)	(7.1)	(4.6)	(35.3)
Interest Income	2.9	1.7	2.7	62.9	(6.9)	4.0	4.4	10.5
Depreciation	15.4	17.3	17.1	(1.1)	11.0	30.6	34.4	12.3
EBITDA	98.0	110.5	102.0	(7.7)	4.1	182.0	212.5	16.8
Operating Profit	82.6	93.2	84.9	(8.9)	2.9	151.4	178.2	17.7
~ Manufacturing	30.2	34.7	31.6	(8.9)	4.5	54.0	66.3	22.7
~ Property	52.3	58.6	53.3	(8.9)	1.9	97.4	111.9	14.9
Reported PBT	81.8	92.6	85.4	(7.8)	4.3	148.2	177.9	20.0
Taxation	(15.5)	(19.2)	(16.5)	(14.1)	6.2	(28.9)	(35.6)	23.2
MI	(1.1)	(1.0)	(0.9)	(6.6)	(17.7)	(2.1)	(1.9)	(6.7)
Reported Profit	65.2	73.4	68.0	(7.4)	4.3	117.2	141.4	20.6
Adj. Net Profit	64.1	72.4	67.1	(7.4)	4.7	115.2	139.5	21.1
EPS (sen)	14.1	15.0	14.1	(6.1)	(0.3)	25.4	29.0	14.2
Adj EPS (sen)	13.8	14.8	13.9	(6.2)	0.1	25.0	28.6	14.7
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				<b>%-pts</b>	<b>%-pts</b>			<b>%-pts</b>
EBIT Margin (%)	14.1	14.2	13.4	(0.8)	(0.7)	13.5	13.8	0.3
~ Manufacturing	7.3	7.4	6.9	(0.5)	(0.4)	6.8	7.2	0.3
~ Property	30.0	30.9	29.9	(1.0)	(0.1)	29.6	30.4	0.8
PBT Margin (%)	14.0	14.1	13.5	(0.6)	(0.5)	13.2	13.8	0.5
Net Margin (%)	10.9	11.0	10.6	(0.4)	(0.4)	10.3	10.8	0.5
Tax rate (%)	19.0	20.7	19.3	(1.4)	0.3	19.5	20.0	0.5

## 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. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**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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As of Friday, March 23, 2018, the analyst, Damia Othman, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

**Kaladher Govindan – Head of Research**

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