Star Biz

Scientex's Arizona plant set to gain from US-China trade war

PETALING JAYA: Packaging material maker Scientex Bhd is an underrated potential winner from the escalating trade war between the United States and China, according to a research house.

The company has a US$50mil stretch film plant in Arizona, US, that started operations in January. A second plant at the same site commenced operations in March.

"Scientex could be a potential winner in the changing landscape of global manufacturing supply chains, given the strategic location of its manufacturing plants in Malaysia and the US," UOB KayHian said in a research report.

The latest development in the trade war included the imposition of a 10% tariff by the US on US$200bil worth of imports from China, as the former threatened to further raise tariffs to 25% by January 2019.

The US tariff is likely to force many affected manufacturers in China to diversify or expand their manufacturing bases in Indochina or South-East Asia.

"Increased manufacturing capacity in South-East Asia should benefit Scientex's Malaysian plant, which exports mainly to Japan, South Korea and neighbouring countries (except China)," UOB KayHian said.

Scientex recently increased its custom film capacity to 230,000 tonnes a year, following the acquisition of Klang Hock Plastic Industries Sdn Bhd.

Separately, its stretch film capacity – including the Arizona plant's 30,000-tonne capacity – has reached 170,000 tonnes a year.

The group's plant in Arizona should benefit from the expected growth in the US domestic manufacturing sector with the country's growing protectionism.

"The plant has a floor space to expand production capacity to as much as 80,000 tonnes and management plans to add a third line by the end of 2019 if demand picks up," UOB KayHian said.

As it is, the factory utilisation rate at Scientex is expected to increase to around 70% in the financial year ending July 31, 2019 (FY19) from 60% in FY18.

The packaging material business contributed about 72% to group sales in FY18, with the rest coming from its property division.

Earnings before interest and tax from property development, however, was a lot higher at 32% compared with the manufacturing business.

For FY18, Scientex's revenue rose to RM2.63bil, while net profit was at RM290mil, or 60 sen a share.

UOB KayHian has projected that earnings in FY19 would reach RM378mil, or 78 sen a share.

It has a target price of RM10.41 for Scientex. This values the stock at 12 times its projected earnings in FY20 of 86.7 sen a share.

"Although our target price earnings-multiple is above mean valuation, the stock is still trading at a big discount to companies with good earnings growth visibility and a strong track record," UOB KayHian said.