

Scientex Berhad (SCI MK)

A Strong Packaging Player

- **Scientex Berhad (Scientex) business trajectory is set to be spurred by resilient growth in packaging segment through its organic expansion. This will also be boosted by the company's initiative through M&A activities.**
- **Property segment growth, on the other hand, is expected to be backed by inelastic demand on affordable housing which is still short in supply.**
- **This will also be added by broad initiatives on R&D to develop sustainable flexible packaging, eco-friendly products in line with clients' requirements.**
- **We initiate coverage on Scientex with a BUY call and TP of RM3.88, derived based on sum-of-parts (SOP) valuation.**

Organic expansion and M&A activities to drive growth

Scientex has grown over the years and become a leading end-to-end packaging player steered by growth-oriented and experience management. Note that Scientex growth ability shall be pushed by diverse products offerings, ranging from industrial to consumer. The management is optimistic to achieve 400k MT/year capacity by FY2023 through organic expansion as well as merger and acquisition (M&A) activities.

Fulfil the gap on supply-demand disequilibrium in Property market

Scientex has a strong position to take a slice of affordable housing market especially in the Southern region of Peninsular Malaysia. With price offering below RM500k, the Group managed to reach a commendable take-up rate (c.75%-85%) for its housing projects. Scientex is setting its eye to develop 50k units of affordable housing by CY2028.

Devoted on its products offering

The Group is putting a solid effort on R&D in line with its aim to offer a well-grounded plastic packaging products to their clients. Its R&D activity is being carried out to execute clients request and requirement to ensure clients' satisfaction. Some of its clients are comprised of multi-national companies (MNCs) such as Nestle, Pepsico as well as prominent domestic brands. As for stretch film, their key clients are the large distributors in Japan.

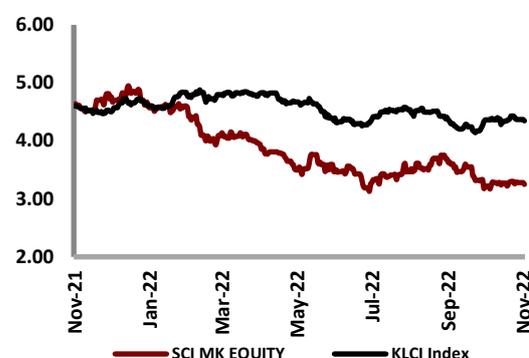
Initiate with a BUY call with TP of RM3.88

We initiate coverage on Scientex with a **BUY** recommendation and **TP** of **RM3.88** based SOP-derived valuation. We peg packaging segment PER at 12.9x (10% premium weightage average peers PE) as we expect rapid growth prospect for Scientex compared to its peers. Property segment wise, we apply a 30% discount to its property RNAV given its smallish market share and low margin housing category.

BUY

Share Price **RM3.32**
Target Price **RM3.88** **+16.9%**

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	1.2	(8.0)	(25.6)
vs FBM KLCI	(1.5)	(7.2)	(25.9)

Stock Data

ESG Rating	Good
Mkt Cap (RM)	5,149.3
Free float (%)	59.9
Issued shares (m)	1551.0
52w H/L (RM)	5 / 3.02
3m avg daily volume (m)	381,454

Major Shareholders (%)

SCIENTEX HOLDINGS SDN BHD	21.0
SCIENTEX INFINITY SDN BHD	10.0
SCIENTEX LEASING SDN BHD	9.1

FYE 31 July (RM'mn)	FY21	FY22	FY23F	FY24F	FY25F
Turnover	3,656	3,985	4,748	4,869	4,945
EBITDA	711	675	842	908	955
Pretax Profit	601	548	711	766	806
Core Profit	443	414	509	547	576
Consensus NP			491	557	613
Core EPS (sen)	28.6	26.7	32.8	35.3	37.2
PER (x)	11.6	12.4	10.1	9.4	8.9
DPS (sen)	9.0	9.0	9.0	10.0	11.0
D. Yield (%)	2.3%	2.3%	2.3%	2.6%	2.8%
P/B (x)	1.7	1.6	1.4	1.3	1.1

Key Ratios (%)

ROE	15.3	13.3	14.7	14.2	13.6
EBITDA margin	19.4	16.9	17.7	18.6	19.3
Pretax margin	16.4	13.8	15.0	15.7	16.3
Core profit margin	12.1	10.4	10.7	11.2	11.7

Source: Bloomberg, BIMB Securities

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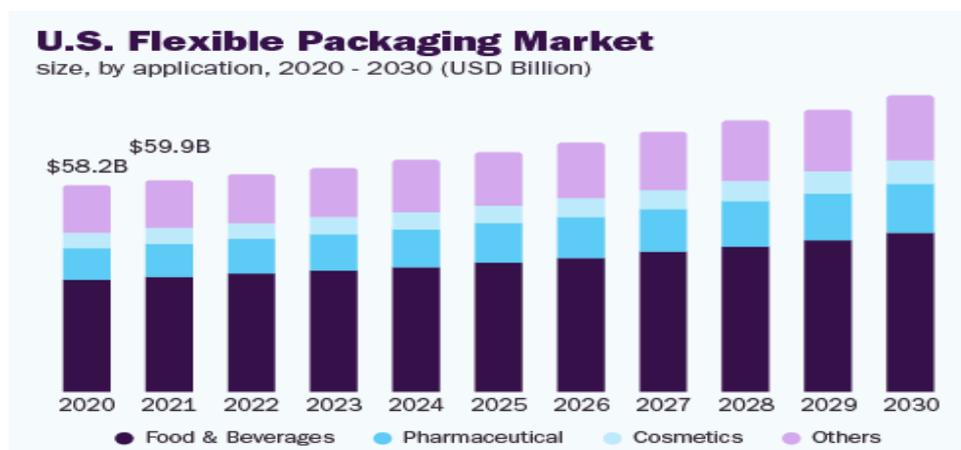
Industry Outlook: Sustainable Demand on Packaging Industry

First impressions (design) are important but type of packaging also matters just as much as the product itself. A good packaging should be reliable and sturdy so that it keeps the product safe during shipment and while the product sits on the shelf. The packaging industry nowadays is adopting a smart and sustainable solutions to make product packaging more environmentally friendly. As such, most of packaging players have shifted towards biodegradable, recyclable, and edible packaging.

According to Mordor Intelligence, the Global Packaging Market is expected to register a compounded annual growth rate (CAGR) of 3.9% during the period of 2022-2027. The global packaging business has experienced stable growth over the last decade thanks to expansion into new markets, and changing ownership dynamics. Among of the type of packaging that showed commendable demand is flexible packaging, owing to its energy and environmental benefits. A study conducted by Grand View Research stated that the global flexible packaging market size was valued at USD252bn in 2021 and is expected to expand at a compounded annual growth rate (CAGR) of 4.5% from 2022 to 2030. Market growth is primarily driven by the growing demand for packaged food coupled with the convenience of use and cost effectiveness.

Overall, we believe demand for flexible packaging is going to surge in view of increasing number of applications in various industries. Moreover, high penetration of ready-to-eat meals in food and beverage industry is expected to contribute towards growth in the wake of busy lifestyle and high number of working-class professionals.

Figure 1: Flexible Packaging Market Application



Source: Grand View Research, BIMB Securities

Background

Scientex Berhad (Scientex) was established in 1968 and listed on the Main Market of Bursa Malaysia since 1990. The company is a manufacturer of flexible plastic packaging (FPP) and a prominent affordable homes developer in Malaysia. Throughout its milestone, Scientex is a leading producer of industrial and consumer packaging, emerging as one of the world's top manufacturers of industrial film and end-to-end FPP producer with market presence across the value chain, from stretch films, to base films, printed films to bags and multi-layered FPP solutions. Apart from that, Scientex holds a 71.9% stake in Scientex Packaging Ayer Keroh (previously known as Daiboichi), a regional FPP converter serving international food and beverage (F&B) and fast-moving consumer goods (FMCG) brands.

Scientex business structure is consists of packaging and property segments. Packaging segment is an integrated packaging solutions which focuses on global industrial and consumer packaging markets. The Group has 17 packaging sites located in Malaysia, Myanmar, Vietnam and United States. As a fast-growing global player in the FPP industry, the Group is exporting its products to more than 60 countries. Scientex also has an overseas sales office in 9 countries such as Australia, Indonesia, Japan, USA and etc. Overall, Scientex is optimistic to achieve production capacity of 400k MT per annum in FY23 through both organic and inorganic expansion plans.

Figure 2: Scientex’s packaging products



Source: Company, BIMB Securities

As for property segment, the company is focusing on affordable housing projects with landbank across Johor, Melaka, Negeri Sembilan, Selangor, Perak, Penang and Kedah. The group is targeting to expand its footprint in the affordable housing sector, driven by both social and economic factors. As for social aspect, the Group believes there are undersupply of affordable homes which is critical to provide quality living for the middle-to-lower-income population. Scientex has so far completed 27.4k units of houses, about 70% priced below RM300k. Note Scientex is targeting to build 50k affordable homes by 2028.

Figure 3: New property launches

<p>Launched development in Seremban (109-acre)</p> <ul style="list-style-type: none"> Launched first two phases in July 2022 173 and 192 units 2-storey terrace house GDV of RM143.3 million <p>Take-up rate 75%</p>	<p>Launched high-rise development in Taman Scientex Rawang, Selangor</p> <ul style="list-style-type: none"> Freehold residence in Rawang hotspot 4-acre private Alpine Park and 40+ facilities Featuring energy efficiency, lower maintenance, and sustainable home - GreenRE certified upon completion GDV of RM230 million <p>Take-up rate 85%</p>
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Source: Company, BIMB Securities

Operational Highlight

Organic expansion on the card. Scientex remains upbeat on expanding its capabilities and capacities across its packaging segment. For a start, group is expecting to commence production of new robotics stretch film plant in 4QCY22. The plant has been installed with initial two cast stretch film lines with a total of 18k MT in capacity per annum. Besides that, Scientex has completed its expansion on Chemor plant during 3QCY22 which enables them to improve layout for a better process flow and production efficiency of form-fill-seal sacks for petrochemical use. Moreover, two new cast polypropylene lines and metallizer machine have been commissioned during 3QCY22 with a total capacity of 10.8k MT per annum. These installations have capabilities of producing ultra-high barrier packaging properties as well as customized for different functionalities requirement for fully recyclable solutions. We understand that their plants are running at average 70% utilisation rate, which could get higher once new foreign workers are in.

Figure 4: New facility and machinery



Source: Company, BIMB Securities

Adoption on sustainable packaging. Scientex is implementing sustainable packaging and developing plastic circularity in an effort for preserve the environment. The initiative includes: i) producing a thinner gauge stretch film through a reduction in materials usage (i.e., Nano 4.5 Micron Stretch Film and Nano Ultra XE), ii) offer fully recyclable flexible packaging products for F&B and FMCG manufacturers (iii) introduce packaging innovation for biodegradable based such as fully compostable and recyclable paper based flexible packaging. We reckon these efforts as a good move which highlights its commitment towards the environment. Moreover, choosing environmentally friendly materials to package the products is becoming increasingly important as more consumers are taking note of the brand's commitment towards sustainability and environment.

Potential M&A to spur growth. Apart from organic expansion, the Group is also keen to focus on M&A in the long run. Recall that Scientex has started its acquisition activity back in 2013 with a total sum of RM1.3bn so far for this. Its recent acquisition was on 2 September 2022 after the Group announced to acquire 80.2% stake in Taisei Lamick Malaysia (TLM) for RM63.8mn in cash, to expand into liquid and paste packaging. TLM is a subsidiary of Taisei Lamick, a Tokyo Stock Exchange listed Company. Taisei Lamick is principally involved in the manufacturing and sale of plastic films, retort pouches and pouches with zippers for automatic filling with liquids and pastes, as well as manufacturing and sale of "DANGAN" brand auto fillers for liquids and pastes, peripheral devices and technical services. The subsidiary of TLM is involved in the manufacturing and sale of printed and laminated flexible light packaging materials for food and beverage (F&B) and Fast-Moving Consumer Goods (FMCG) products. This acquisition enables Scientex to have a slice of fast expanding liquid and paste packaging base as well as increase its regional market share. All in all, Scientex

M&A strategy is to explore on new products, markets as well as new customers base thus enable them to be high-growth flexible plastic packaging manufacturer.

Figure 5: TLM's products



Source: Company, BIMB Securities

Table 1: Past M&A activities

Year	Acquired	Products	Purchase Price (RM'mn)
2013	Great Wall Plastics Industries Berhad	PE Film	283.2
2014	Seacera Polyfilms Sdn Bhd	BOPP Film	38
2015	Mondi Consumer Packaging International	Consumer and industrial	58
2018	Klang Hock Plastics Industries Sdn Bhd	FPP	190
2018	Daibochi Berhad (42.41% stake)	FPP	222.5
2019	Mega Printing & Packaging Sdn Bhd (via Daibochi)	FPP	125
2021	Daibochi Berhad (29.49% stake)	FPP	345.3
2022	Taisei Lamick Malaysia Sdn Bhd (TLM) (80.2% stake)	FPP	80.2
Total			1,343.20

Source: Company, BIMB Securities

Capturing growth in affordable housing market. Scientex is set to build affordable housing priced between RM200k-RM500k, driven by three main pillar "Speed, Cost and Quality". The Group believes demand for affordable houses to remain robust especially when other property players are focusing on above RM500k price range. Scientex will also continuously engage in strategic landbank expansion through locking-in landbanks at discounted price in addition to cost optimisation initiative across value chain. Positively, Scientex's projects are expanding across Peninsular Malaysia with 31 developments centered in Johor, Melaka, Negeri Sembilan, Selangor, Kedah, Penang and Perak. Scientex has also completed eight new landbank acquisition as at July, while another three are still pending completion including in Jenjarom, Selangor (251 acres), Mukim Tebrau, Johor (960 acres) and Klebang, Ipoh (219 acres). Overall, the Group is targeting to develop 50k units of affordable homes by 2028 with potential gross development value (GDV) of RM38.8bn.

Table 2: Scientex current and future property projects

Projects	Total GDV (RMmn)	Completed GDV (RMmn)	Current & Future GDV (RMmn)
Scientex Tasek Gelugor	750mn (180 acres)	-	750
Scientex Ipoh	670mn (102 acres)	406	264
Scientex Rawang	900mn (66 acres)	120	780
Scientex Kundang Jaya	1.7bn (208 acres)	-	1,700
Scientex Seremban	800mn (108 acres)	-	880
Taman Muzaffar Height (Ayer Keroh)	1.1bn (137 acres)	449	621
Scientex Durian Tunggal	1.5bn (411 acres)	645	855
Scientex Jasin & Scientex Bandar Jasin	4.8bn (1,515 acres)	-	4,800
Taman Scientex Pasir Gudang	2.0bn (1.1k acres)	1,673	277
Taman Scientex Kulai	1.0bn (298 acres)	618	372
Taman Mutiara Mas (Skudai)	2.2bn (146 acres)	1,165	1,035
Taman Scientex Senai	2.9bn (371 acres)	1,115	1,835
Taman Pulau Mutiara	5.2bn (661 acres)	1,507	3,743
Scientex Kota Tinggi	280mn (87 acres)	-	280
Total	25.9bn (5,390 acres)	7,698	18,192

Source: Company, BIMB Securities

Financial Highlight

Property segment commanding the bottomline. Traditionally, packaging segment is the main contributor to the Group's revenue, ranging from 70.4%-80.4% since FY16 to FY22. Nevertheless, property segment took the lead with 58% contribution during FY22 (c.18.5%-31.8% bottomline contribution during FY16-FY22). Its property segment earnings are expected to remain resilient arising from higher exposure on mid to lower market coupled with Industrialised Building System (IBS) method application. IBS method application or commonly known as "Pre-fabrication" construction is a technique of construction whereby components are manufactured in a controlled environment, either on site or off site, placed and assembled into construction works.

Chart 1: FY22 Revenue breakdown

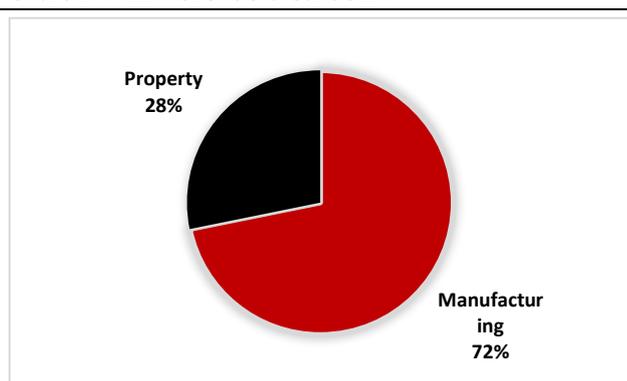
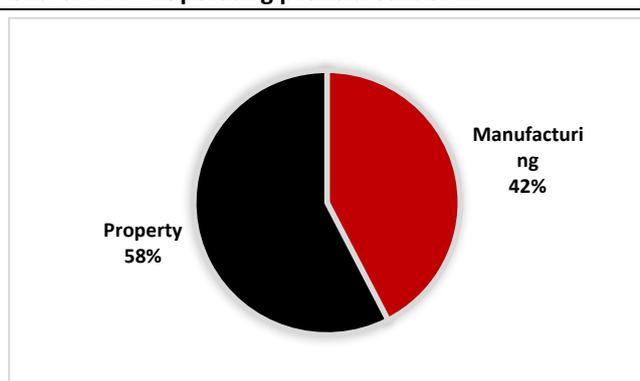


Chart 2: FY22 Operating profit breakdown



Source: Company, BIMB Securities

Margin compression during FY22 despite encouraging revenue. FY22 revenue improved by 9% YoY, backed by encouraging contribution from packaging segment (+14.8% YoY) which offset the decline in property segment (-3.4% YoY). Packaging segment was underpinned by industrial and consumer packaging products, driven by burgeoning demand for its export and domestic sales as well as encouraging average selling prices. However, normalised net profit tanked by 7.4% YoY following sluggish earnings from both packaging (-6.1% YoY) and property (-6.9% YoY) segments respectively no thanks to inflationary environment, rising raw material prices as well as elevated operating costs. This hurt the group's normalised profit margin which slipped by 1.7ppts during FY22.

Chart 3: Historical revenue and forecast (FY20A-FY25F)

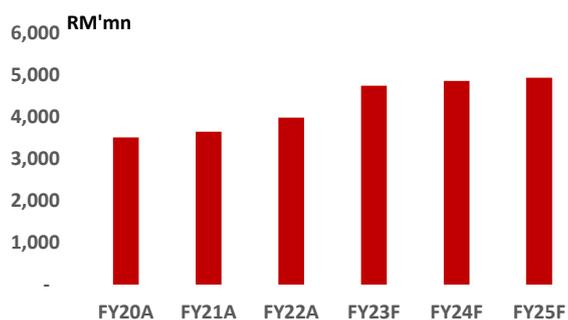
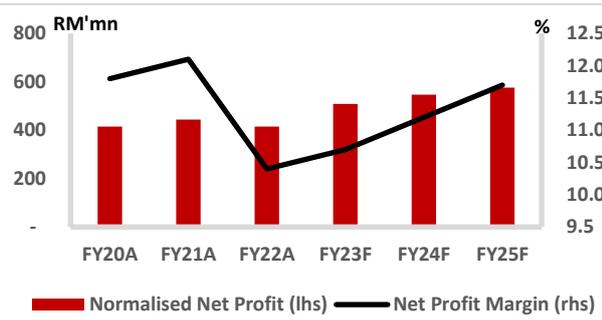


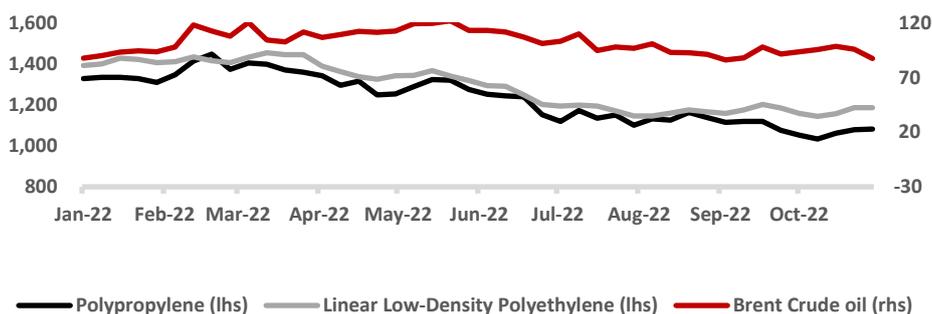
Chart 4: Normalised net profit vs Net profit margin (FY20A-FY25F)



Source: Company, BIMB Securities

Promising outlook. Moving forward, we expect revenue for FY23F-FY25F to reach within a range of RM4.7bn-RM4.9bn on the back of a normalised profit margin of 10.7%-11.7% underpinned by a steady contribution from Scientex’s new robotics stretch film plant that comes with additional capacity of 18k MT per annum. Also, we believe demand for property segment to remain steady and therefore, an expectation of 75-85% take-up rate for their new launches. Margin wise, we expect the group’s margin to improve, driven among others, by the easing of resin prices.

Chart 5: Scientex cost structure movement



Source: Bloomberg, BIMB Securities

Steady dividend payout. Scientex has a dividend policy of paying at least 30% of net profit as dividend. On the latest financial year (FY22), the Group paid a total of 9sen/share as dividend, 4sen/share for interim while 5sen/share for final dividend. Overall, we expect the group to pay 9sen-11sen DPS for FY23F-FY25F respectively translating into a yield of 2.3%-2.8% based on the current price.

Valuation

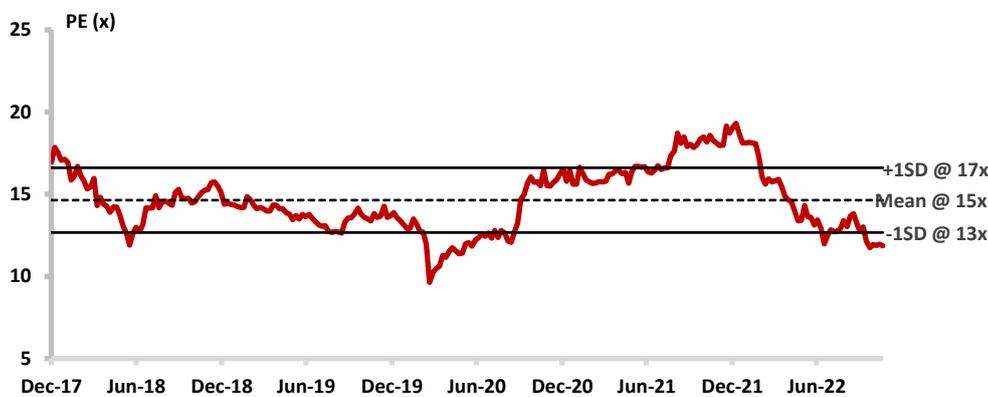
We initiate coverage on Scientex with a **BUY** recommendation based on sum-of-parts (SOP) derived fair value of RM3.88/share. We like Scientex given its enormous growth prospect banking on resilient demand for its products, continuous expansion through organic and inorganic growth as well as product innovations. We peg packaging segment earnings at 12.9x PER (10% premium from weightage average Packaging peers PE) as we expect rapid growth prospect for Scientex compared to its peers. Property segment wise, we applied a 30% discount to its property RNAV due to its low margin segment (i.e., low-cost housing).

Table 3: Sum-of-Parts (SOP) Valuation

			Segment Value (RM'mn)	Comment
Manufacturing	FY23F Operating Profit (RM'mn)	Target PER (x)	3,507.3	10% premium to peer's average PER
	272.5	12.9		
Property	RNAV (-) discount	4,995.3 (1,498.6)	3,496.7	30% discount to Property RNAV
Sub-total			7,004.0	
Holding co net debts			(980.3)	
Total Equity value			6,023.7	
Share cap (mn)			1,551.0	
Target Price (RM)			3.88	
Implied FY23 PER			11.8	

Source: Bloomberg, BIMB Securities

Chart 6: Scientex 5-years historical forward PE band



Source: Bloomberg, BIMB Securities

Table 4: Plastic packaging peers comparison

Company	Price (RM)@	Target	Market	PE(x)	PB(x)	ROE	Div.		
	25-Nov-22	Price (RM)	Cap. (RM'mn)					CY0	CY1
SCIENTEX BHD	3.32	3.88	5,149.3	12.6	10.5	9.2	1.7	13.7	2.7
THONG GUAN INDUSTRIES BHD	2.52	N/A	983.4	9.7	8.5	6.6	1.2	13.5	2.4
SLP RESOURCES BHD	0.98	N/A	310.6	14.0	16.9	14.4	1.6	11.5	5.6
SCGM BHD	0.80	N/A	153.1	5.6	N/A	N/A	0.7	13.6	240.8
Weightage average				11.7	10.2	8.9	1.6	13.5	8.3

Source: Bloomberg, BIMB Securities

Table 5: Small-cap property peers comparison

Company	Price (RM)@	Target	Market	PE(x)	PB(x)	ROE		
	25-Nov-22	Price (RM)	Cap. (RM'mn)				CY0	CY1
MAH SING GROUP BHD	0.51	N/A	1,226.0	10.5	8.6	7.3	0.4	4.8
MATRIX CONCEPTS HOLDINGS BHD	1.56	N/A	1,952.1	8.1	6.9	6.3	1.0	11.6
LAGENDA PROPERTIES BHD	1.20	N/A	1,004.8	5.2	N/A	N/A	1.0	22.7
LBS BINA GROUP BHD	0.43	N/A	660.6	5.5	5.4	6.2	0.5	9.9
MKH BHD	1.25	N/A	721.8	6.8	6.9	8.9	0.4	6.1
Weightage Average				7.6	5.9	5.7	0.7	11.2

Source: Bloomberg, BIMB Securities

Key Risks

- **Fluctuations in raw material price.** Volatility of main raw material price, resin could pose a risk to their production costs as well as a squeeze on margin. Note that resin price are moving in tandem with global crude oil price. Nevertheless, the Group has a cost-pass through business model which enables them to transfer its raw material price hike to their customers.
- **Foreign exchange risks exposure.** Scientex's packaging segment are exposed to fluctuation in USD as the segment is an exports-based business. This will be mitigated however by its natural hedging strategy.

Key Catalyst

- **Diversified product base.** Potential M&A could enable Scientex to have diversified products range, new customer base and markets.
- **High concentration on affordable home.** Encouraging demand on affordable home will enable them to capture the property segment growth.

Table 6: SWOT analysis

Strength	Weakness
<ul style="list-style-type: none"> • Leading end-to-end packaging manufacturer • Diversified customers base and products range • Sustainable packaging (recyclable) 	<ul style="list-style-type: none"> • Dependence on imports of raw material • Acumen on plastic usage
Opportunities	Threat
<ul style="list-style-type: none"> • Growth in emerging market (rapid urbanization) • Increasing demand for consumer non-durables • International & domestic expansion (M&A) 	<ul style="list-style-type: none"> • Volatility of crude oil price • Environmental concerns • Oversupply of property

Source: Company, BIMB Securities

ESG Exposure and Score

Our ESG score rating stipulates a score on how well a company's ESG risks are being executed. We opine the group's score is "Good" with 3.2 out of 5.0 points.

Table 7: BIMB ESG score rating for PMETAL

	Weighted (%)	ESG Rating
Environmental	33.33	1.33
Social	33.33	0.78
Governance	33.33	1.11
Sum	100.0	3.1

Source: BIMB Securities

Table 8: BIMB ESG Rating Classification

Rating	
4.5 - 5.0	Excellent
4.0 - 4.4	Best
3.0 - 3.9	Good
2.0 - 2.9	Fair
1.0 - 1.9	Poor

Source: BIMB Securities

Income Statement

FYE 31 July (RM'mn)	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	3,518.6	3,656.0	3,985.3	4,747.8	4,868.5	4,944.8
Operating cost	-2,713.7	-2,812.6	-3,140.1	-3,685.0	-3,786.7	-3,860.1
EBITDA	660.1	710.6	675.5	842.2	907.9	954.7
Depreciation & amortisation	-110.7	-110.2	-114.5	-122.6	-131.0	-139.7
EBIT	549.5	600.3	561.0	719.6	776.9	815.0
Interest income	5.4	3.1	2.1	4.2	3.2	6.4
Interest expense	-16.3	-11.1	-20.4	-25.7	-27.4	-27.4
Exceptional item	24.5	-13.8	4.6	0.0	0.0	0.0
Pre-tax profit	544.3	601.0	548.3	711.3	765.5	806.1
Income tax	-126.2	-115.2	-115.7	-170.7	-183.7	-193.5
PAT	418.0	485.8	432.6	540.6	581.8	612.6
Minority interest	-27.9	-28.5	-22.7	-32.1	-34.5	-36.4
Net profit	390.1	457.2	409.9	508.5	547.3	576.3
Core net profit	414.6	443.4	414.4	508.5	547.3	576.3

Balance Sheet

FYE 31 July (RM'mn)	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Non-Current Asset	2,776.7	3,160.0	3,582.3	4,899.0	5,000.8	4,993.5
Current Asset	1,823.7	1,939.9	1,892.3	1,833.8	2,077.9	2,378.7
Total Asset	4,600.4	5,099.8	5,474.6	6,732.8	7,078.7	7,372.2
Non-Current Liabilities	491.6	431.4	384.9	484.9	584.9	684.9
Current Liabilities	1,353.2	1,571.3	1,782.0	2,552.3	2,380.5	2,134.3
Total Liabilities	1,844.8	2,002.6	2,166.9	3,037.1	2,965.4	2,819.2
Total Equity	2,755.7	3,097.2	3,307.7	3,695.7	4,113.3	4,553.1
Total liabilities & equity	4,600.4	5,099.8	5,474.6	6,732.8	7,078.7	7,372.2

Cash Flow

FYE 31 July (RM'mn)	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Cash flow from operating activities (CFO)	85.3	392.0	1,337.8	413.5	655.6	749.9
Cash flow from investing activities (CFI)	-90.9	-167.0	-197.9	-180.8	-189.3	-182.4
Cash flow from financing activities (CFF)	-392.1	-180.6	-260.0	-278.2	-291.6	-300.3
Net change in cash & cash equivalent	-196.9	-152.5	727.4	681.7	856.4	1,123.6

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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Printed and published by**BIMB SECURITIES SDN BHD (290163-X)**

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