



Scientex Berhad

A Monopoly in the Making

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TP: RM3.89 (+21.6%)

Last traded: RM3.20

BUY

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Acquisition approved by GW Plastic shareholders

GW Plastic's shareholders approved at yesterday EGM on the proposed disposal of 100% equity interest in Great Wall Plastics Industries Berhad and 100% equity interest in GW Packaging Sdn Bhd (both wholly owned subsidiaries of GW Plastics Holdings Berhad) to Scientex Berhad. With the final hurdle out of the way, we can expect the consolidation to take effect immediately.

GW Plastic business segments

GW Plastic has been in the business of manufacturing blown film and cast film packaging for almost 40 years. Its products are used in a wide array of industries including food & beverage, household products, toiletries, E&E, agricultural, petrochemical and medical to name a few. It is one of the largest player in Malaysia in both these segments. Its export market alone contributed an estimated 60% of its sales to countries like Japan, Australia, New Zealand, Singapore, South Korea to name a few.

Monopoly in cast film production

Upon consolidation, Scientex would further strengthen its position as the largest stretch film producer in Asia, with an estimated 33% market share. The other remaining players are much smaller and highly fragmented.

Presently, Scientex's stretch film capacity stands at 120kMT/year. With two additional lines expected to come in this year (tentatively May 2013 and September 2013), production capacity is expected to grow organically by 25% to 150kMT/year by end of 2013. Considering the time needed to install and run the new lines, coupled with lower initial utilization rate, we had estimated a 22% and 18% increase in stretch film production organically for FY13 and FY14 (Note: financial year end for Scientex Berhad is July).

Meanwhile, GW Plastic who currently has 34kMT/year of cast film (similar to stretch film) capacity is looking to increase capacity by another 10kMT/year in 2HCY13. Hence on a combined basis, this would translate to a total stretch film (cast film) capacity of 194kMT/year by the end of 2013.

Considering the timing of commissioning (2HCY13) and a lower start up utilization rate (estimating at 30%/60% for CY13/CY14), we are estimating GW Plastics' cast film production capacity to increase by 25.7%/18.5%/18.3% for CY12/CY13/CY14 respectively (Note: financial year end for GW Plastic is December).

Hence on a combined basis, the group's overall stretch film (cast film) production is estimated to grow by 9.9%/19.3%/7.3% for CY13/CY14/CY15 respectively.

Share Information

Bloomberg Code	SCI MK
Stock Code	4731
Listing	Main Market
Share Cap (mn)	230.0
Market Cap (RMmn)	745.2
Par Value	0.50
52-wk Hi/Lo (RM)	3.27/ 2.25
12-mth Avg Daily Vol ('000 shrs)	86.2
Estimated Free Float (%)	37.5
Beta	0.64

Major Shareholders (%)

Scientex Holdings Sdn Bhd	-19.11
Scientex Leasing Sdn Bhd	-10.83
Lim Teck Meng Sdn Bhd	- 8.30
Sim Swee Ti Sdn Bhd	- 5.68

Forecast Revision

	FY13	FY14
Forecast Revision (%)	8.1%	14.6%
Net profit (RMm)	119.1	142.8
Consensus	110.0	125.0
TA's / Consensus (%)	108.3%	114.2%
Previous Rating	Buy (Maintain)	

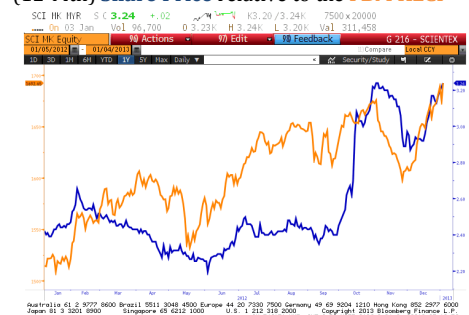
Financial Indicators

	FY13	FY14
ROE (%)	18.7%	19.2%
NTA/Share (RM)	2.5	3.0
Price/NTA (x)	1.3	1.1

Share Performance (%)

Price Change	SCIENTEX	FBM KLCI
1 mth	9.83	5.31
3 mth	32.24	2.60
6 mth	29.08	5.28
12 mth	33.88	11.83

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Tapping into the F&B industry

In CY11, GW Plastic blown film segment made up 63% of the group's sales. This is mainly because of the higher production capacity, utilization rate and pricing for blown films compared to cast films. Despite maintaining a production capacity of 28kMT/year, the group is the largest bread packaging manufacturer in Asia and Australasia. The acquisition would enable Scientex to tap into the F&B industry, where it lacks presence while hedging against economic down cycle experienced in the industrial sector.

Although no additional capacity is expected to come from this segment in the near term, we are estimating RM236.6m/RM254.4mn/RM273.3mn in revenue contribution from the blown film segment between CY13-CY15.

Impact on group's earnings

In light of the acquisition, we have considered the following in our forecast for Scientex: i) its organic expansion, ii) new contribution from cast film and blown film from GW Plastic, iii) assumption of effective tax rate of 10% for GW Plastic for the next three years due to the impact of reinvestment allowance, iv) additional interest cost assuming at 6% interest cost for the RM200mn debt raised, v) loss in interest income following RM83.2mn in cash paid out, and vi) timing of consolidation assuming as at January 2013. With that, we arrive at a net profit of RM119.1mn/RM142.8mn/RM149.2mn for FY13/FY14/FY15 respectively. This is an increase of 8.1%/14.6%/18.0% after the consolidation.

Valuation

Based on sum of parts valuation pegging a PE of 6x and 7x for the property and manufacturing segment respectively we arrive at a TP of R3.89 based on CY13 EPS of 60.2sen. We are maintaining our PE for the manufacturing segment at 7x despite increasing it (from 6x) upon the initial announcement of the proposed acquisition. This is because we have yet to take into account the potential cost saving synergies which at this point in time we rather take a wait and see approach. We are also expecting its dividend payout to be maintained at this current juncture which translate to a dividend yield of 4.2% for FY13. Maintain **Buy**.

Earnings Summary (RM'mn)

FYE 31 July	FY11	FY12	FY13E*	FY14F#	FY15F#
Revenue	804.0	881.0	1355.8	1776.5	1905.3
EBITDA	119.3	130.7	188.6	231.4	248.3
Pretax profit	96.6	107.2	149.8	178.4	186.9
Net profit	77.2	83.9	119.1	142.8	149.2
EPS (sen)	33.6	36.5	51.8	62.1	64.9
EPS Growth (%)		8.6%	42.0%	19.8%	4.5%
PER (x)	9.6	8.9	6.3	5.2	5.0
Net Div (sen)	12.0	14.0	13.6	15.0	15.2
Div Yield (%)	3.7%	4.3%	4.2%	4.6%	4.7%

*Consolidated to include GW Plastic on a prorated basis (from January 2013)

#Consolidated to include GW Plastic

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