

Scientex to become regional consumer packaging player

By INTAN FARHANA ZAINUL
intanzainul@thestar.com.my

PETALING JAYA: Scientex Bhd's plans to become a regional consumer packaging player and the world's third-largest industrial stretch film maker would materialise this year, said UOB KayHian in a report.

The industrial packaging and property company's shares surged to all-time high on Dec 29 last year, after the company's net profit doubled in the first quarter ended Oct 31, 2015 from a year earlier.

Its shares rose more than 37% since January last year.

UOB said Scientex was planning to expand production capacity by 50%, driven by its recently acquired Scientex Great Wall Ipoh Sdn Bhd (SGWI), formerly known as Mondi Ipoh Sdn Bhd, by end of this year to early-2017.

"The acquisition has enabled Scientex to leverage on SGWI's major existing clientele such as Procter & Gamble to penetrate export markets like Japan, Indonesia, the Philippines,

Thailand and India," the brokerage said.

SGWI is involved in the manufacturing of downstream specialty consumer packaging films and film-based components including form-fill-seal bags.

"SGWI contributed about RM40mil in sales revenue to Scientex, which is about 10.2% of total sales of its manufacturing segment," UOB said.

Besides that, the research house said Scientex has begun to ramp up its new plant utilisation in Malacca with a production capacity of 12,000 tonnes per annum of cast polypropylene.

Meanwhile, its biaxially-oriented polypropylene plant in Pulau Indah would come on stream by the middle of this year as planned. This would increase its production up to 10 times from 6,000 tonnes per annum currently.

By mid-2016, Scientex would also install three polyethylene film production lines at its Rawang plant, which would increase the current capacity by 20%.

"2016 is set to be a record year ... we fore-

cast a three-year earnings compounded annual growth rate of 25.6%," UOB said.

It maintained a "buy" call on Scientex with a target price of RM12.50, which is about 27% upside from the current share price. The target price would imply a 9.2 times 2017 forecast price/earnings.

Shares in Scientex closed 18 sen lower at RM9.58 on Friday.

UOB said Scientex's property division would remain resilient despite the weak property market and this would be achieved through the company's exposure in affordable properties.

"Scientex's focus is on building affordable properties. About 80% of its launches comprise affordable properties and this has cushioned it from the industry-wide slowdown," it said.

In the first quarter of financial year ended July 31, 2016, the company launched six projects worth RM15.4mil in gross development value (GDV) located in Pasir Gudang, Kulai, Senai and Malacca.

UOB said Scientex had a pipeline of projects

with a total GDV of about RM4bil based on its existing land bank, which would last for another eight years.

Scientex had recently proposed to acquire a 326-acre land in Pulai, Johor, for RM219mil, which will increase its land bank to 1,200 acres from 870 acres currently.

"Management plans to build landed residential homes on the Pulai land with estimated GDV of RM2bil-RM3bil," UOB said.

It added that the company was enjoying 80% take-up rates for its recently launched projects, which had pushed unbilled sales to RM632.2mil that could be recognised over the next two to three years.

Although in FY15 Scientex recorded a forex loss of RM27.2mil from paring down its US-denominated loans, UOB expects the amount to be minimal from second quarter of FY16 onwards.

"As these loans now stand at only RM9.7mil, which is 3% of total borrowings as at end Oct 15, we expect minimal or no forex loss from the second quarter of financial year 2016 onwards," it said.