

# Scientex not done with M&As

## CORPORATE

By **GURMEET KAUR**  
gurmeet@thestar.com.my

OVER the past 10 years, Scientex Bhd has experienced significant growth thanks to a series of mergers and acquisitions (M&As) as well as capacity expansion.

Today it is among the world's top and Asia's largest producers of stretch film, which are elastic plastic wrap stretched around items to keep them tightly bound.

The group also stands out amongst locally-listed packaging firms with its large international profile. More than two-thirds of the group's products, rolled out from 17 manufacturing plants around the world, are exported to some 60 countries.

One of Scientex's recent M&A was the acquisition of flexible packaging producer Daibochi Bhd – now called Scientex Packaging (Ayer Keroh) Bhd.

Scientex, which commands a market capitalisation of RM5.4bil, also has a property segment where the focus is on affordable housing. Here too it's been actively expanding its land bank and is on the hunt for more land acquisitions around the country. But can it gear up further? Chief executive officer Lim Peng Jin believes so.

"Our commitment for capital expenditure amounts to RM360mil for financial year 2023 (FY23) of which RM260mil is for expanding our land bank, and the balance for acquiring machinery for the packaging segment," Lim tells *StarBizWeek*.

He says the group has room for allocating more investments given its strong net operating cash flow of RM480.2mil for the nine-month period ended April 30, 2022.

"As at the third quarter 3Q22, our net gearing stood at 0.39 times, which is a commend-

able position considering all our ongoing expansions and operations in the packaging and property segments. We have a targeted net gearing cap of 0.5 times, which gives more room for debt leverage should the opportunity arise," he points out.

### Packaging segment

For the packaging segment, Lim says it will continue to eye synergistic acquisitions, to either add value to its current product offering, expand geographical reach or improve production efficiency.

"Our options are not limited to Malaysia, we are open to consider other regional markets. Acquisitions aside, our organic growth plans are intact, and we continue to invest into new plants and machinery," he adds.

In the fourth quarter of 2020, Scientex's new robotic stretch film facility, which Lim says is the first of its kind in Asia, is expected to be up and running.

The facility will have an initial two lines with a combined capacity of 18,000 tonnes per year with room for another six lines to reach a total capacity of 72,000 tonnes per year.

Moving on, he says Scientex will continue to invest in new technology to "future-proof its operations for smarter and more rigorous manufacturing processes".

Mindful of the headwinds and the possibility of recession in the United States, he is hopeful that the group will be able to maintain its growth momentum.

"We are accustomed to the price fluctuations of raw materials but the steep and prolonged increase in freight cost has posed challenges for many industries. But, we have seen improvements over the past six months, as prices of resin (a key element used to make plastics) have come off their highs, and this should translate into improved performance going forward," he says.

He adds that while Scientex has a wide

export presence, its packaging mainly serves the Asia-Pacific region, where growth is still significant due to increasing population, affluence and applications.

"Industrial packaging such as stretch film, as well as consumer packaging used in fast-moving consumer goods, have largely seen stable growth. We continue to note healthy demand despite the Covid-19 pandemic in 2020, as our plastic packaging is widely used across diverse industries," he says.

In addition, there are also limited viable substitutes given its high-performance and lightweight nature. He believes that innovation in materials will open up new possibilities and growth areas for it to tap.

Another key trend, he notes, is the increasing demand for sustainable packaging, in line with global efforts to adopt greener products.

On its end, Lim says that Scientex has successfully developed various types of sustainable packaging, such as compostable packaging and fully recyclable mono-laminates, and is supporting multinational companies in their sustainable journey.

### Property division

As for its property segment, Scientex targets to launch 6,000 new affordable homes in FY23. The group ventured into the property sector close to three decades ago when it converted palm oil plantations in Johor into affordable housing estates and has since expanded its presence in the northern and central regions of Peninsular Malaysia.

"Of the 26,700 affordable homes we have delivered to date, more than 70% of them are priced below RM300,000 per unit. In June and July 2022, we launched close to 1,300 new affordable homes in our existing projects in Selangor, Melaka, as well as a maiden project in Seremban, Negri Sembilan.

These new launches have been well-received by homebuyers due to their affordable

price points," he shares, adding that it is poised to launch its maiden property project in Sungai Petani, Kedah in FY23.

"We have made tremendous progress, and do not plan to stop the pace. Indeed, our 50,000 target by 2028 underscores this ambition," he says.

Towards this end, Scientex has been buying land. In May, it bought eight parcels of plantation land in Johor for RM518.1mil and is now in the process of acquiring three tracts of land – in Johor, Selangor, and Ipoh – for a combined total of RM792.6mil. This new landbank will boost the group's total landbank to 7,667 acres.

Having brought land during the slowdown in the property market, Lim says the group will be able to take advantage of lower land cost to mitigate some of the increase in prices of raw materials, which have gone up between 10% and 30% from pre-pandemic levels.

"In view of this, we have increased the selling price slightly, but still able to maintain them within affordable reach. We also have our own in-house construction arm that uses high-efficiency methods, and this has helped manage cost fluctuations," he says.

Notably, the property division is also being aligned to the preservation of environmental standards.

"For example, our first high-rise residential development in Klang Valley, Mori Residences Scientex Rawang, which was launched in June 2022, aims to provide residents a more energy efficient, lower maintenance, and sustainable home," Lim says.

For the 3Q FY22, the group's net profit declined by about one-fifth to RM86.7mil due to higher raw materials prices and freight costs, plus lower property development contribution. This was despite posting a strong revenue of RM993.8mil – its the highest quarterly revenue to-date.

Shares of Scientex closed at RM3.47 yesterday.