

# Scientex streamlines ops

## It plans to merge its packaging and chemical ops

SCIENTEX Incorporated Bhd intends to streamline its core businesses by merging the packaging division and chemical operations, said managing director P.J. Lim.

This would be the plan if the voluntary general offer (VGO) for 61.4%-owned subsidiary Scientex Packaging Bhd (SciPack) were successful, he said.

Lim told *StarBiz* the consolidation would result in a stronger balance sheet and more efficiency.

In December, SIB proposed to buy the remaining 38.6% stake it does not own by issuing one new Scientex share for every SciPack share held. It does not intend to maintain the listing status of SciPack after the completion of the exercise.

The closing date of the offer is March 17. The EGM will be held on March 11. So far, the acceptance level has reached 75%.

Group financial controller Jesselyn Chang said gearing level of the enlarged group would drop to 1.3 times from 1.6 times at present.

Lim said maintaining two listed entities dried-up resources that could be used in more productive areas.

"Shareholders of SciPack would be able to participate in an enlarged group listed on the main board with a broader revenue stream," he said, adding that liquidity would also improve.

The enlarged listed entity will also embrace a new name, Scientex Bhd, to reflect the rationalisation exercise.

Shareholders can look forward to the long-term growth of the company, Lim said, adding that Scientex was committed to giving out one-third of net profit as dividend.

The merger of the packaging business and chemical division would be synergistic as the latter currently has a significant market share in the food industry which the former has not penetrated.

The chemical division, which is a joint venture with Japanese partner Mitsui, produces adhesives for packaging lamination.

"The margins for food packaging are much better than industrial packaging, and it does not require a significant investment to expand the product range," he said, noting that the global food industry was growing rapidly with an estimated value of US\$180bil.

Last year, SciPack's earnings were eroded by the higher cost of raw materials in line with rising crude oil prices. Resin, a derivative of crude oil, is the main raw material for packaging.

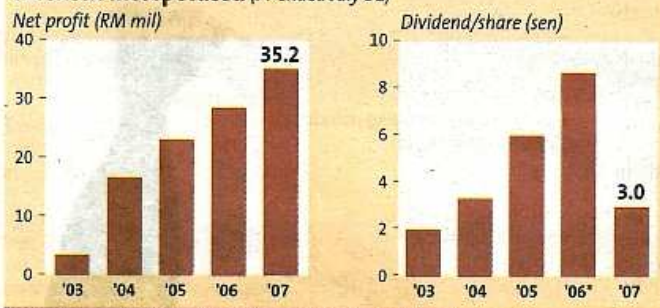
Lim said that to mitigate the impact, the group had developed a thinner stretch film that utilised less raw material but with the same quality and strength.

This resulted in 30% in cost savings. Also, it had gradually passed on the cost to customers, he said.

Stretch film constitutes about 75% of revenue for the packaging division. Other products include woven bags, carton boxes and strapping bands. About 70% of packaging products are exported to over 60 countries, mainly to Australia, New Zealand, Japan, South Korea, Russia, the US, Thailand and Indonesia.



### Scientex Incorporated (FY ended July 31)



\* Included a special dividend of 3.33 sen per share less 28% taxation.  
Source: 2007 annual report

» The margins for food packing are much better than industrial packaging«

P.J. LIM

While the strengthening of the ringgit has impacted earnings, the company also sees some natural hedging with raw materials denominated in US dollars.

The property division contributed about half of Scientex's earnings last year. Its main project is in Pasir Gudang, Johor, with about 1,100 acres

of landbank.

Chang said the mixed development project started in 1995 had a gross development value (GDV) of RM1.2bil.

So far, it has completed units worth about 40% of total GDV and delivered 5,000 units. The remaining 60% would keep the company busy for the next eight to 10 years, she said.

Scientex's strength is in providing affordable and quality homes with delivery within 12 months.

The property, usually in the form of 16 x 60 double storey link houses, costs RM100,000 to RM110,000.

"We target to sell about 800 units every year. The target group is first-time purchasers who are looking to stay in the houses. They are usually young couples starting a family," she said, adding that the combined monthly salary should be around RM2,000.

It also has a cluster of semi-detached homes that were launched



for existing buyers who wanted to upgrade to a bigger place. These cost about RM200,000 to RM210,000, said Chang.

Last year, the company bought a 250-acre of land in Kulai, Johor, and the first phase, which involves more than 390 units of residential homes, will be launched this month.

Chang said the GDV of the Kulai mixed development was about RM500mil spanning over eight years.

It is also looking for more land acquisition, particularly in the west of Johor.

The state provided many opportunities given that it would benefit from the spillover effect from Singapore's upcoming casino resorts.

"Singapore will need a lot of support services, and Johor will be an ideal home for lower cost of living," she said.

The company was able to control cost by becoming the main contractor and dealing directly with building material suppliers, she added.

The other revenue contributor for Scientex is the polymer business, which accounts for about 10% to 15% of revenue.

This division services mainly the automotive industry, with the bulk of the output exported to Japan and Australia as well as for local consumption.