

## Scientex Inc offers VGO for Scientex Packaging shares

Scientex Incorporated Bhd (SIB) (SCIENTX) intends to streamline its core businesses by merging its packaging division and chemical operations. This would be the plan if the voluntary general offer (VGO) for 61.4%-owned subsidiary Scientex Packaging Bhd (SCIPACK) were successful.

In January, SIB had proposed to buy the remaining 38.6% stake it does not own in SciPack and it does not intend to maintain the listing status of SciPack after the completion of the VGO. The closing date of the VGO is March-17 while the EGM to approve the VGO will be held on March-11. As of March-6, the acceptance level by SciPack shareholders has reached 76%.

SIB will offer one new share valued at RM1.30 each for one existing SciPack share. As at 31 December 2007, SIB held 48.4 million shares in SciPack, representing a 61.4% stake. As such, this exercise involves SIB making the offer for the remaining 30.5 million SciPack shares currently held by minority shareholders.

Meanwhile, SIB also has revenues from its property and polymer (automotive parts) divisions. The enlarged listed entity will also embrace a new name, Scientex Bhd, to reflect the rationalisation exercise. With the new share issue, SIB's capital base will rise to 221.95 million shares.

### Comments:

Shareholders of SciPack would be able to participate in an enlarged group listed on the Main Board with a diversified revenue stream, with SIB's burgeoning property and chemical divisions.

The merger of SciPack's packaging business and SIB's 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 JV with Mitsui of Japan, produces adhesives for packaging lamination.

With both stocks currently not quite enjoying high trading volumes, the merged entity will be more high profile and as such its trading liquidity is also expected to improve. Post merger, the Lim family's controlling stake would be smaller in percentage terms and this would also add to the stock free float and hence liquidity.

We believe the proposed consolidation of SIB and SciPack would result in a stronger balance sheet with better cash management and lower financing rates. As a general rule Main Board companies are viewed more favourably (than Second Board/Mesdaq companies) by bankers while raising financing and adding banking facilities. The merged entity would enjoy higher shareholders' funds and a lower net gearing ratio.

Additionally, we expect more operational efficiency via savings in compliance, marketing and transportation costs. Meanwhile, Scientex's management has pledged to maintain a 33.3% dividend payout policy. All in all, with the synergies mentioned and the 13% GO offer premium over the current SciPack market price - we expect no hiccups with the passing of the VGO at the EGM and the final VGO acceptance tally to reach the mandatory acceptance level in due time.

