

# FOCUS

M A L A Y S I A

Peninsular Malaysia **RM3.50** | **OCT 6-12, 2018** | WEEKLY ISSUE **302**



## SCIENTEX'S **RM10 BIL** AMBITION

Having smashed one corporate milestone after another, this stretch film maker and affordable homes developer is eyeing a daring target. Can it do it? **P.8-10**

Scientex  
Bhd managing  
director  
Lim Peng Jin

# Can Scientex smash its RM10 bil revenue target?

**M**ention the name Scientex Bhd, and most market participants will immediately think of stretch films. But behind the brand lies an extraordinary story of a homegrown venture that has been incrementally growing since its founding in 1968.

Moreover, the company's recent performance on Bursa has been nothing short of phenomenal. With the insatiable appetite of its group managing director Lim Peng Jin, the company is maintaining its steady growth trajectory. For Lim, taking Scientex to its current RM4 bil market capitalisation is not something he is satisfied with. While it is an enviable position to be in, Lim wants to take the company further.

He has bold, perhaps even daring, ambitions for Scientex to be a RM10 bil company by 2028 and to build 50,000 affordable homes.

How will Scientex pull off this feat? Is it even possible? As unbelievable as it may seem, Lim thinks it is achievable, given that he has met all his previous goals.

"We believe in setting stretch goals. In 2009, after the financial crisis, we said we wanted to double up in five years. So, we made a very clear and common goal for everyone in the company," Lim tells *FocusM*. "We worked hard towards that and we did it. It was a very nice accomplishment." What happened next is even more remarkable.

"We doubled up three years later. Today we are roughly RM4 bil in size and can take on bigger projects and invest to times more. So it's a scale-up kind of expansion," Lim explains.

Not bad for a company that started off as a humble manufacturer of PVC leather cloth and sheeting. It is now Asia's largest stretch-film maker.

• **The company recently posted its highest earnings in 50 years**



by Emmanuel Samarathna

More than that, the company also survived the financial crisis of 1997-08 when most other companies were struggling. Scientex also withstood the test of the global slowdown in 2008/2009 due to the subprime crisis in the United States.

Today, the company has presence in three countries: Malaysia, Vietnam and the US. By 2013, the company had smashed its RM1 bil revenue milestone, and followed up by posting a RM2 bil revenue three years later. Moreover, the company also ventured into property development, expanding its repertoire of services.

Scientex saw its net profit for 4Q ended July 31, 2018, rise to RM88.3 mil on the back of revenues of RM753.2 mil, up 22.4% and 13.7% respectively. For its full FY18, net profit was up 13.3% to RM289.8 mil, while revenue rose 9.3% to RM2.63 bil.

#### A hands-on approach

The company's "scale up" expansion strategy has its roots in the leadership style of Lim, who joined Scientex when the company's revenue was just RM60.6 mil. But having embraced a hands-on management style, Lim immediately worked on scaling up the business. He hit the ground running by joining trade exhibitions and conferences. He also organised meetings and networking sessions with major industry players. It is believed that 97% of



**"We found a lot of people were wanting or needing to buy a house. The problem was, they cannot afford to buy a house. So if you can make the price affordable, there will be a lot of buyers."**

— Lim

Scientex's businesses today were built by Lim.

This tenacity is also reflective of Lim's personality where at a recent business meeting he shared about his passion for outdoor activities such as trekking and mountain climbing. But his vision for a more dynamic company seems to be paying off. In fact, some of its investments and acquisitions, especially the purchase of plastics packaging firm Klang Hock Plastics Industries (KHIPI) for RM190 mil in 2016 have begun to pay off. "If you look at the results we recently announced, all these things are due to the seeds that we had planted earlier," he says.

"We invested and built up our plants. Recently, we acquired KHIPI, and those results came in last quarter. So, all the expansion and investment that we have put contributed to the positive results that we have recently shown."

Three other factors helped drive profitability for Scientex: higher sales volume in the manufacturing segment, higher utilisation of its plants in Malaysia and increased total annual output capacity from 376,000 tonnes in FY17 to 450,000 tonnes in FY18.

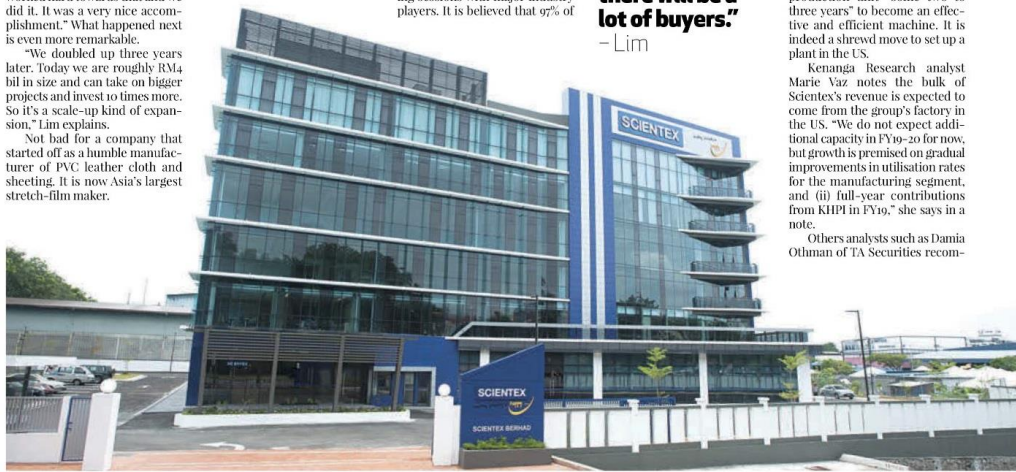
#### Not satisfied yet

But Lim wants more. The next goal, he says, is to reach plant utilisation of up to 70%. "This new company we acquired, KHIPI, we only incorporated three months of its results. In 2019, we are going to incorporate a full year. So, the higher usage will automatically come in," he says. "Then there is the new plant in Arizona. Because it is new, there are some challenges especially in getting the sales in. But it is slowly and steadily growing day by day, because it is a huge plant. So, we are not expecting a full run overnight."

Lim is referring to the setting up of the US stretch film facility two years ago, a move that cost RM107 mil in capital expenditure. It is the group's first stretch film plant overseas and he is giving the production unit "some two to three years" to become an effective and efficient machine. It is indeed a shrewd move to set up a plant in the US.

Kenanga Research analyst Marie Vaz notes the bulk of Scientex's revenue is expected to come from the group's factory in the US. "We do not expect additional capacity in FY19-20 for now, but growth is premised on gradual improvements in utilisation rates for the manufacturing segment, and (ii) full-year contributions from KHIPI in FY19," she says in a note.

Others analysts such as Damia Othman of TA Securities recom-





**Scientex's stretch-film plant in Pulau Indah, Selangor**

mends a "hold" for the company. She also notes some potential risks. "We believe potential risks to the group would include: i) increasing crude oil price which will increase cost of sales; ii) ringgit strengthening therefore reducing export competitiveness; and iii) softening of the property market in Malaysia," she says.

Vaz of Kenanga is also not "overly bullish" on Scientex's

property segment due to macro-economic uncertainties, despite it being a major contributor to the group's earnings.

### Bucking the trend

Lim, however, is unfazed. Scientex's property segment contributed RM722.2 mil to the group revenue for FY18. Its slew of new launches in FY18 has a gross development value (GDV) of RM1.2 bil, bringing the GDV of ongoing and future developments to RM13.5 bil.

"We've been doing this for 20 years," he says. Scientex first entered the property sector in 1995. But then came the Asian financial crisis. "If you remember 1998, things were bad and the entire (property) segment was stuck. We were struggling."

The company then doubled down and studied the market carefully. "We found a lot of people were wanting or needing to buy a house," Lim adds. "The problem was, they cannot afford to buy a house. So if you can make the price affordable, there will be a lot of buyers."

This spurred Scientex to launch 600 double-storey houses in 2001 and priced them at RM89,000 in Pasir Gudang, Johor. "We sold all the units overnight," says Lim. "So the question is, can you sell at RM89,000 and still make 20-30% profit? This is where we concentrated our efforts on." To date, Scientex has built 16,391 homes and what sets the company apart from most property developers, in Lim's words, is that the company thinks like a manufacturer.

"We standardised the house design. Because land is expensive, we reduced the land size. But we still deliver double-storey houses with a built-up of 1,000 to 1,200 sq ft," he says. "We also shortened the construction period, so these things drive costs down. That has been the competency that we've built over the years."

Scientex has built homes from Johor all the way up to Perak. Most recently, the company unveiled its latest township development in Senai, Johor, the 48.88ha (121-acre) Taman Scientex Utama with an estimated GDV of RM1.3 bil.

## Scientex Bhd

### BASIC & DIVERSIFIED CHEMICALS

#### KEY BOARD MEMBERS AND MANAGEMENT

Lim Hang Jui (managing director)  
Gan Kok Seng (executive director)  
Ye Jik Yan Yee (executive director)

#### MAJOR SHAREHOLDERS

Scientex Holdings Sdn Bhd

**21.43%**

Scientex Leasing Sdn Bhd

**9.65%**

Scientex Infinity Sdn Bhd

**8.39%**

#### MARKET CAP

**RM4.2b**

Share price on (Oct 3)

**RM8.70**

52-week high (Aug 1, 2018)

**RM9.30**

52-week low (June 4, 2016)

**RM6.51**

#### FINANCIAL RESULTS

12Q ended July 31, 2018

Revenue

**RM733.15m**

Net profit

**RM89.32m**

#### One-year price chart



Source: Bloomberg

Continues next page

# Running a successful business

What does it take to run a billion-ringing venture like Scientex? "A lot," Lim tells *FocusM*. After all, the company runs businesses in three countries, navigating the intricacies and demands of three separate locations can be daunting. Here, he sheds light on how the company is able to succeed and scale up despite operating in a challenging environment.

Scaling up is not entirely new to Lim, as he is known to be an avid outdoor person, having scaled mountains. In March this year, Lim climbed up the Everest base camp together with his network of corporate peers. All this experiences must have taught him valuable lessons on determination and being focused on goals.

## Stretch films are made of plastic. How does Scientex practise sustainability?

This is an important aspect of our business. I agree that we shouldn't abuse our use of plastics. Sure, plastics are convenient but the problem here is wastage and the only way to manage wastage is by recycling it.

At Scientex, we recycle all our inhouse waste. We invested in a machine that can degas the films. This means that during the recycling process, we will degas the ink and reuse the plastics.

Also, we are partnering brand owners to push for recyclable plastics, especially for items in the supermarket, for instance chips or instant noodles. We can standardise the polymer, because polymers have different melting points, by using a mono polymer with similar melting point, we can recycle.

## For a company heavily involved in research and development, how do you retain talent?

We practise an open book culture. It is important to share and be open with people about how the company is doing, its direction as well as the future with Scientex. So we set stretch targets. When we achieved them, everyone is naturally very motivated.

We also came out with the tagline "challenging new

heights together". When you look at it, not many people will tell you they want to hit RM10 bil in 10 years. We have made our intentions known and we have a plan. It's not just a dream because we want to increase our capacity to one million tonnes of stretch films. Last year we were able to produce 236,000 tonnes. To reach one million, it is four times. As for our houses, our plan is to grow 5,000 a year. So if people see the growth opportunities for themselves, they'll find the company to be exciting.

Not forgetting, our corporate philosophy, "management like water". This is our value system. Scientex is not all about making money but also the impact that we'd like to see by conducting ourselves professionally.

## What are some practices you or the company use to keep abreast of the industry?

It is the whole spectrum. We read reports, meet industry players, we engage in a lot of joint ventures. So we are continually updating ourselves. We cannot stop learning. So even individual business units, as there are different teams, we make it a point that they, too, are continually upgrading their skills.

## How does Scientex navigate regulation and compliance in different countries?

Even locally, different places present different compliance challenges. For example, developing property in Johor is different from Melaka and Perak. We have to learn and understand the rules and work together with consultants. More so, when it comes to Vietnam and the US. Here, we have to understand their cultures and their laws and regulations.

For instance, if we want to do business in the US, we have to approach the local government, talk to them. Then they will brief us and introduce consultants who would guide us through the compliance criteria.

For me, this is very good because although there are a lot of steps, everything was done properly. Besides, these consultants were recommended by the authorities.



An aerial shot of Scientex's affordable housing in Pasir Gudang, Johor

## Scientex's 'affordable' recipe for housing prices

It may seem odd that Scientex, which is not strictly a property company, is claiming to get affordable housing right. However, according to its managing director, Lim Peng, in the lessons learned were mostly through "trial and error".

The company realised that many who wanted to buy a house, simply could not afford them. This led Scientex to study the market deeper.

Lim approached the problem with the mindset of a manufacturer. His efforts paid off when they launched 600 double-storey houses in 2001, priced at RM99,000 each. The project was an overwhelming success, having "sold them overnight".

What is Scientex doing right? Lim believes there are three aspects that the company gets right in the building of homes.

"Firstly, it is speed. From the day we acquire the land to the handing over of the keys to the customer, speed is the essence," Lim explains. For example, Scientex acquired a large piece of land in Pulai, Johor, in January 2016. In July this year, the customers had received their keys. All in a mere two and a half years. The price of a Scientex home varies but most are between RM100,000 and RM200,000.

"Of course, this depends on the location. For example, in Durian Tunggal, Melaka, we sold those houses for RM180,000-200,000. And these are double-storey."

Another factor, Lim adds, is targeting Bumiputera buyers. He cites a development in Ipoh where "we sold double-storey houses to more Bumiputera buyers than non-Bumiputera. Again, this is where location as well as land costs are important."

The second and third aspects are cost and quality. "When I say quality, I mean we give the buyers whatever they want that meets their needs and try to save costs on what they do not need," he says. "Because over the years we've built 17,000 houses. In a lot of cases, the first time the buyers do is to knock down certain sections to renovate the unit. This happened to many of our homes."

Lim's line of thinking, which inspired the company to create livable homes, is that his buyers are the very people who would pay the same amount on monthly instalments for rent. The difference now is instead of paying rent, they are servicing their loans. "And they get a house, and a house will appreciate over the years," he says.

# Thinking like a manufacturer in building houses

## From previous page Weathering externalities

Given Scientex's exposure to the international market, two developments might give the company a run for its money. Firstly, the tense US-China trade war may yield some good news. "We are seeing more enquiries for our products," says Lim. "We have people who might find it difficult to import from China and they are looking for supplies in Southeast Asia. Also, we have our US factory, and some people are finding it a challenge to import to the US. So this is an obvious advantage we have here."

Scientex also benefits from a lower corporate tax in the US, which at 21% is even lower than

Malaysia's, making this another plus factor," according to Lim. "That's the reason we recently expanded further in the US. We have two lines and we just added another line over there."

But the steep labour costs in the US were posing challenges for the company, says Lim. To overcome the problem, he looked to automation. "So with this new line, we rely on robotics and it is fully automated. This helps us minimise the number of people we need while targeting a double output per worker as compared to the factories here," he adds.

Again, Lim has set out a timeline of three years to see whether the group's robotics experiment will uplift overall efficiency.

Secondly, on the local front, the minimum wage hike can pose another concern. The new minimum wage rate of RM1,050 and this will be implemented nationwide, effective Jan 1, 2019.

While this may increase operational costs, Lim once again looked to automation. "For example, in the past, if I am doing 10 tonnes per worker, I can now try to target 15 tonnes per worker," says Lim.

Then, there is Industry 4.0. "The good thing today is that technology has improved and the cost is more reasonable. For example, 10 years ago, when I wanted to use robotics, the cost was high," he adds. "So, because of these technological improve-

ments, pricing has become more reasonable."

## A practical touch

What's next for Scientex? Lim says if anything, the last 12 months have shown that successful acquisitions drive up profitability. "These will drive better profits and better share prices," he says. "Also, certain property launches that we did, we had good response. These, I believe, will enhance share prices."

But ultimately what provides the company with an advantage, Lim says, is its corporate philosophy of "management like water". This is about adapting to the times and seasons while being willing to embrace change.

He also points to the "good system and clear structure" within Scientex that allows him to go about managing the company. "A professional team has been built to manage the group's business and operations," he says. "They also delegate authority to people with clear business direction to achieve pre-determined targets set by the management."

It seems that Lim has this down pat but only time will tell whether Scientex will be able to smash its RM10 bil mark as well as its 50,000 affordable homes target. For now, the company can claim to be in the steady hands of the man who took the company to become the RM4 bil behemoth it is today. [FocusM](#)