Scientex's appetite for acquisitions still strong

BY **KANG SIEW LI**

Fresh from gobbling up smaller rival Klang Hock Plastic Industries Sdn Bhd in a RM190 million acquisition in May, Scientex Bhd's appetite for acquisitions shows no sign of waning. If anything, the pace is about to pick up.

Managing director Lim Peng Jin says the plastic packaging manufacturer and property developer plans to step up acquisitions at home and abroad as it moves ahead with its Vision 2028 strategy.

The main focus of that vision is to hit RM10 billion in revenue by 2028.

In an interview, 51-year-old Lim — the second generation of the family that founded Scientex and that now owns 56.61% of the company — tells *The Edge* that the group is on the lookout for acquisitions related to its core businesses.

It expects 80% of its revenue in 2028 to come from the packaging manufacturing segment and the remaining 20% from the property development business.

It helps that the group's gearing ratio is still at a manageable level. According to Lim, Scientex's net gearing ratio is currently below 0.5 times. Even though some RM700 million had been ploughed into the business in the financial year ended July 31, 2018 (FY2018), the gearing stood at 0.43 times as at fiscal year end.

"We try to keep our gearing ratio at between 0.2 and 0.5 times. We also don't want to keep it too low, which means the management is not working hard enough to grow the company," says Lim.

Scientex's net operating cash flow was RM392.4 million as at end-July when the group disclosed its quarterly financial results.

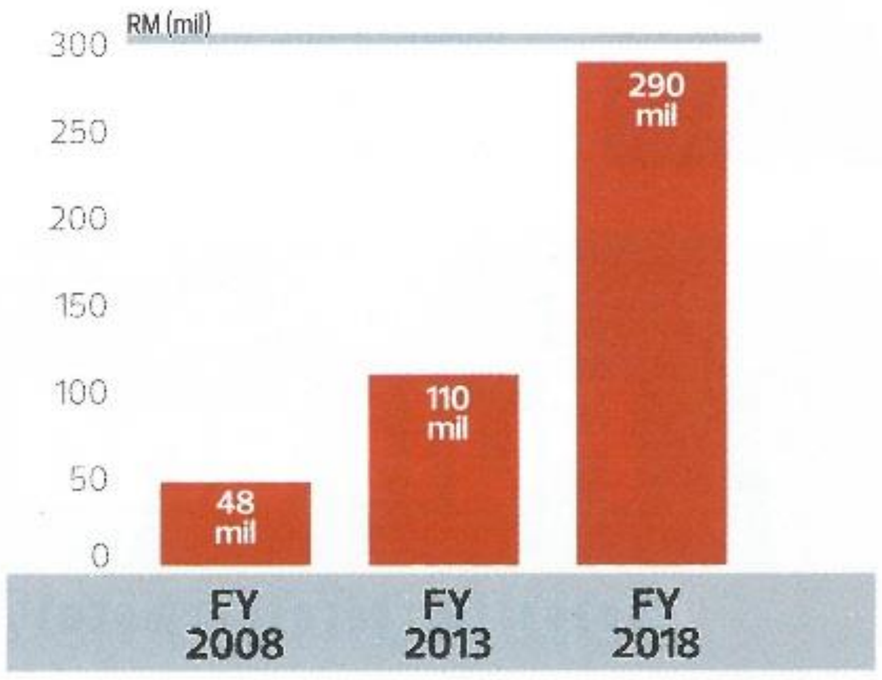
Lim says the group can pay off its borrowings of RM934.31 million in 12 to 15 months, using just the operational cash flow. "But in order to grow, we need to continue to invest. We have a dividend policy to return at least 30% of net profit and the balance of our cash flow will be reinvested in our core businesses."

Last year, production of stretch and custom films and speciality products from its 15 manufacturing facilities — 13 located in Malaysia and one each in the US and Vietnam — came to 233,000 tonnes.

CHU JUCK SENG/THE EDGE

Revenue

Net profit



Lim says Scientex expects to ramp up output to one million tonnes by 2028 to achieve its RM8 billion revenue target from manufacturing and that this will require about 40 factories to achieve.

The group has ambitious plans for the US after setting up a US$25 million stretch film facility in Arizona last year. It aims to double output to 60,000 tonnes soon.

"I am looking to acquire certain big companies in the US with annual output capacity of one million tonnes or those with several factories," he says, adding that there is nothing concrete yet.

The group's scouting is not limited to the US. "Southeast Asia is still our home ground. We will continue to scout for acquisitions in Asean countries such as Malaysia, Vietnam, Indonesia, Thailand and the Philippines, as well as Japan and China, be it existing factories or greenfield investments.

"Our business model is a centralised approach to the group's finance and procurement functions, but with multiple [manufacturing] sites to better serve our customers across the world," Lim says, noting that 75% of its manufacturing revenue is derived from exports.

Scientex is no stranger to acquisitions. The group has snapped up several rivals in the past 10 years, including Great Wall Plastic Industries Bhd, Seacera Polyfilms Sdn Bhd and Mondi Ipoh Sdn Bhd, to become the largest stretch film producer in Asia-Pacific with a market worth of RM4.18 billion.

The group is also seeking acquisitions to grow its property segment, where it is still a local player.

"It doesn't necessarily mean buying a company," says Lim. "For property, we will look at buying more land. However, if a company that has a good land bank comes along, why not?"

He says when Scientex made its maiden foray into property development in 1995, the focus was Johor, where its management team was built up.

Since then, the group has expanded its land bank to Melaka, Selangor and Perak. "We may go to the northern and eastern regions if there are good assets to purchase, but the focus will be on Peninsular Malaysia," he adds.

Slowdown is an opportunity for land banking

Ironically, Scientex is benefiting from the current slowdown in the property market as it has been able to expand its land bank at prices lower "than two to three years ago". The gross development value of Scientex's ongoing and future developments stands at RM13.5 billion, which will sustain the group for the next 10 years.

Lim says Scientex will remain focused on providing affordable housing as he believes demand will continue to be strong because Malaysia is a young country.

The group's Vision 2028 will also involve the building of 50,000 affordable homes in 10 years to meet the RM2 billion revenue target from the property segment. To date, the group has delivered 17,283 homes, of which 60% to 70% are priced below RM400,000.

"The government is also encouraging private developers to build affordable homes. The Sales and Services Tax exemption for construction materials has helped us to be more competitive and made homes more affordable," says Lim.

To him, speed is key to the development of affordable housing. "From the day we bought the piece of land to the launch, [it's] how fast we can do it ... normally, we try to target to launch within one to 1½ years and to deliver the homes to buyers in two years. That will help to bring the costs down."

Since Lim took over as group managing director in 2001, Scientex's net profit and revenue have climbed to a new high every year. The group has also doubled its net profit and revenue every five years, and this is a feat it wants to repeat under Vision 2028.

For the just concluded fiscal year, the group's net profit expanded 13.3% year on year to hit a record high of RM289.81 million. Revenue advanced 9.3% to RM2.63 billion.

Although Lim declined to provide an earnings forecast for FY2019, he says Scientex's performance will be boosted by the full-year contribution from Klang Hock Plastic Industries and higher capacity utilisation at its US and Ipoh plants, which will lead to better sales.

According to research house UOB Kay Hian, Scientex's plant in Arizona could benefit from the US' expanding protectionism. Lim concurs, adding that the US-China trade war represents an opportunity for the group, which is already seeing an increase in enquiries from the US market for its packaging products.

For the property segment, the group has lined up RM1.3 billion to RM1.4 billion worth of projects for FY2019.

Scientex's share price has more than tripled over the past five years. The stock currently trades at 14.35 times its earnings. It closed at RM8.55 last Thursday.

Asked whether the company is planning a share split, Lim says, "There are no immediate plans as we are focusing on growing our business. Our theme this year is challenging new heights, that is, RM10 billion target by 2028. We are not going to stop here." E