

CORPORATE

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DESPITE the uncertainties that continue to loom over the local plastic packaging sector, Scientex Bhd continues to chart stable growth.

As a matter of fact, the packaging manufacturer and property developer reached yet another notable milestone in its revenue growth when it surpassed the RM4bil mark in its financial year ended July 31, 2023 (FY23).

It has been a strong showing over 20 years, during which the company's revenue has grown 16 times, surpassing RM250mil in 2003 to more than RM4bil in 2023.

Scientex's attractiveness largely stems from its unique business model that encompasses two core industries – property and packaging. The model provides multi-pronged growth catalysts that facilitate earnings visibility throughout various economic shifts. This has been a distinct advantage in the current volatile market environment.

Managing director and chief executive officer Lim Peng Jin tells *StarBizWeek* the group is eyeing to hit RM6bil in revenue within the next few years. To realise this target, Lim says it is important for Scientex to remain competitive in the markets it serves.

"In order to be competitive, we need to make sure that we continue to focus on our core operations and not divert to other segments. As such, we are very clear that the cash flow we have will either be used to replenish our landbank or to expand production capacity in our packaging segment. This is also the growth plan that we will continue to employ going forward," he says.

Scientex generated cash flow amounting to RM3.5bil over the last five years. Lim says the group has invested about RM3.6bil

Scientex eyes sustainable growth

Company's revenue hits a high of RM4bil in FY23



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Lim Peng Jin

into its operations, with RM2.4bil for land acquisition, and RM1.2bil in ramping up production capacity of its packaging arm mainly through mergers and acquisitions (M&As).

In its property segment, Scientex aims to construct 50,000 affordable homes by 2028. Presently, the group has successfully delivered 32,000 units, with 70% of these affordable homes priced at RM300,000 or less.

"For this, we implemented strategic business processes aimed at enhancing the efficiency, speed and value of our development activities. These processes encompass proactive land acquisition, standardised design, effectual launches and timely construction, supported by the industrialised building system construction technique," Lim says.

Affordable housing makes up about 90% of the total properties rolled out by Scientex, with the remaining being commercial

shoplots and cluster houses to complement its township developments.

For FY23, the group launched properties worth RM2.1bil in gross development value (GDV), comprising 6,608 units across 26 launches in Kedah, Penang, Ipoh, Selangor, Melaka, Negri Sembilan, and Johor. Scientex's ongoing and future GDV stands at RM33.2bil.

"We embarked on a cross-border growth strategy about a decade ago, expanding our reach into Malacca, Seremban, Selangor, Perak, Penang, and Kedah. The take-up rate of our launches is quite good so far.

"In the last five years, we have grown our landbank from 3,300 acres to 8,216 acres; from 16 townships to 32 townships presently.

"This will be the base for us to achieve delivery of 50,000 affordable homes. In fact, we have enough land to roll out another 100,000 affordable homes after we achieve the 50,000 target," Lim says.

Recently, Scientex expanded its presence into the property markets of Bangkok, Thailand, and Jakarta, Indonesia. In March, the group inked a joint-venture agreement with Mustika Land and Creed Group to build affordable homes in Jakarta.

"These markets are huge compared with Malaysia. Nevertheless, we are starting small first. Eventually, we intend to duplicate our property development strategies across South-East Asia," Lim says.

For FY23, Scientex's revenue was up 2% year-on-year (y-o-y) to RM4.1bil, underpinned by a higher contribution from property development, offsetting the effect of a softer global market for packaging products. The group's net profit rose 7% y-o-y to RM438.1mil, or 28.25 sen per share, in FY23 from 26.43 sen previously. It declared a total dividend of 10 sen per share for FY23.

By segment, Scientex's packaging revenue for FY23 dropped by 8.2% y-o-y on lower sales.

On the other hand, the group's property development revenue rose by 29.1% y-o-y due to higher sales and healthy construction progress in its affordable-property developments, as well as strong take-up for new project launches.

"We are very careful about our balance sheet. The company has a guideline on not to have a net gearing level of more than 0.5 times.

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Downturn in packaging likely a short-term issue

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"Despite all the investments we made, the group maintains a healthy net gearing level of 0.2 times as at July 31, 2023," Lim says.

According to a poll by *Bloomberg* there are four brokerages recommending "buy", three calling for a "sell", and one "hold" for Scientex. The median target price of the counter is RM4.01, representing an upside potential of about 11% from Thursday's close of RM3.62. Year-to-date, the share price has increased 11.04%.

Lim says the downturn in the packaging sector that occurred due to overstocking in the market stemming from supply-chain disruptions during the Covid-19 pandemic is likely a short-term issue. He notes that each down and up cycle typically spans about two to three years.

"We believe things will start to improve in the next one, two years. In fact, last month, things

were beginning to pick up and we anticipate to gain at least a 10% increase in volume compared with last year.

"We started from industrial packaging before moving onto consumer packaging. Given as we are serving basic needs such as food and transportation, the demand for such packaging solutions will always be present. In FY23, our packaging business achieved total sales of 256,510 tonnes. Moving forward, we expect to advance to 400,000 tonnes annually, possibly within the next two to three years," he says.

Meanwhile, Scientex is implementing advanced machines and automation across its 18 manufacturing plants. The new automated bag making line at the group's Ayer Keroh plant in Melaka is expected to commence operations in the fourth quarter of 2023 (4Q23), enhancing its capacity and capabilities for pet-food packaging.

"Furthermore, we have established a robotic stretch film plant in Shah Alam, Selangor, with the aim of enhancing worker output by 20% next year. We also installed more than 80 new machines in our manufacturing plants, resulting in a 50% increase in output per worker. All these measures will help to lower labour costs," says Lim.

In a bid to lower energy costs, Scientex is putting up solar panels at its manufacturing sites. In 3Q23, the group commenced the second rooftop solar photovoltaic panel project at its plant in Klang, Selangor, which is expected to be completed in 4Q23.

Over the years, Scientex has pursued growth organically as well as through acquisitions for its packaging segment. The group has acquired six companies so far including Daibochi Bhd, Mega Printing & Packaging Sdn Bhd, and Taisei Lamick Malaysia Sdn Bhd.

"Starting everything from the ground up – establishing factories,

buying machinery, recruiting and training staff – could take up to a decade. Acquisitions, on the other hand, offer a shortcut," says Lim.

Lim adds there are still substantial opportunities for the group to grow its packaging business, given that the global packaging market exceeds US\$100bil.

"Previously, we mainly produced transparent film. However, over the last decade, we have progressed up the value chain and incorporated value-added processes such as printing, bag making, and laminations into our offerings.

"With our newly acquired facilities, capabilities, and skilled technical teams, supported by ongoing investments in advanced equipment and machinery, we are well-equipped to harness sustained growth. Simultaneously, this enables us to innovate products aligned with emerging packaging trends, with a growing focus on advancing plastic circularity," he says.