

PM Mahathir Mohamad at the wheel: UMW has a big stake in Perodua

CONGLOMERATES

# Cars, Trains and Buses

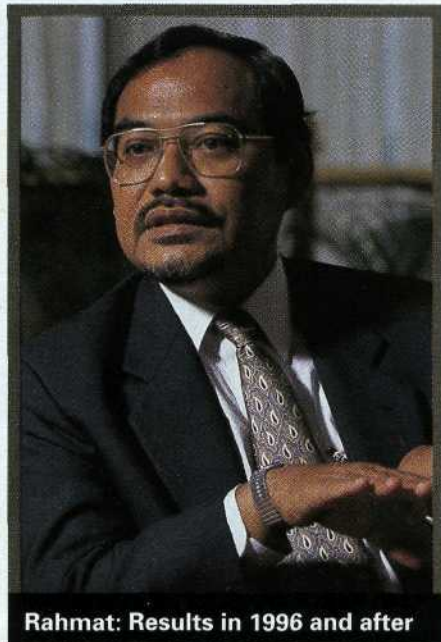
## *A Malaysian Blue Chip Diversifies — Very Quietly*

Rahmat Jamari has a vision of UMW Holdings as "an engine" of Malaysian growth. He is speaking literally. The 55-year-old company has a 38% stake in Perodua, which makes the sub-compact Kancil (Mouse Deer), the country's second state-sponsored car. Perodua rolled out its first 660-cc model only in late 1994, but it now has 16% of the market. "By the end of 1995, Perodua expects to have produced 42,000 units," says UMW chairman Rahmat. That is 28% of the cars government-owned Proton, Malaysia's best-selling automaker, is estimated to make for local buyers this year. Perodua should break even in 1995 after a \$5.2 million loss in 1994.

UMW is revving up other engines. A subsidiary has won orders for 120 city buses and long-haul luxury coaches. Rail-Tech Industries, a 74%-owned venture with national railways KTM Berhad, has a deal to manufacture and maintain locomotives and railway cars. Holder of the Malaysian franchise for Toyota cars and vans, UMW sold 17,000 units of the Japanese marque last year. Rahmat predicts a 20% boost in 1995. Demand for tractors and other heavy equipment is also high as the construction boom continues. Analysts forecast UMW's profit to top \$35 million this year, up more than a third from fiscal 1994.

This veteran blue chip must be hot, right? Not really. "The stock has lost its shine," says Patrick Lim, president of the Malaysian Investors Association. "Its share price once moved up very fast, but it has

been stagnant for a few years." Adds Andrew Lim of Singapore stockbrokerage Ong & Co.: "The Malaysian economy is in danger of overheating and we expect some credit-tightening measures. Competition from the third national car may also affect UMW's bottom line." The central bank announced curbs on auto and property loans last week. The third national car — a 1,100-cc model developed by Proton and France's Citroen — will be on sale in 1996.



Rahmat: Results in 1996 and after

Above all, says another analyst, "UMW is slow-moving. Being circumspect is great, but overdoing it is bad for business." In fact, the problem may be one of communication. "Many people are still unaware of UMW's aggressive diversification," says an analyst with a French brokerage in Kuala Lumpur. There is actually plenty to say. "Its diversification programs are well under way now," says John Duckett of Mohaiyani Securities. "They should see some results in 1996 and 1997." That should help cushion UMW from foreign-exchange problems in its yen-denominated activities. The Japanese currency has been weakening of late, but its surge earlier this year put pressure on the company to increase Toyota prices. And about half the parts of Perodua's Kancil come from Japan. The automaker aims to increase local content to 75% by 1997.

Industry watchers rate the venture with the national railways particularly promising. Rail-Tech's contract with KTM to make and maintain rolling stock is estimated to be worth \$43.7 million in revenues this year and \$59.5 million in 1996. Rail-Tech is studying a proposal to acquire all of KTM's 96 locomotives, which it will then maintain and lease to the railway company. The deal is projected to net Rail-Tech some \$9.9 million a year. UMW owns 66% of bus manufacturer UMW-Dennis Specialist Vehicles, a tie-up with the British firm. "By year-end, UMW-Dennis buses will have 80% local body content," says Rahmat. He expects orders of up to 350 more units by then, though profits are not expected until next year because of high start-up costs.

Another potential profit center: a 593-hectare property 20 km from Kuala Lumpur. The company can make \$119 million just by selling the raw land. "It will yield better returns if more value-added developments take place," says a property analyst. In a team-up with U.S.-based Browning Ferris, UMW is also bidding for a \$265-million waste-treatment project, which the government wants the private sector to build and operate. "The deal could boost UMW's bottom line by as much as 15%," says the research head of a Kuala Lumpur finance house.

If it wins the contract, UMW should consider telling everyone. The company is faulted for not being more open. Rashid Abdullah, who initiated many of the diversification moves, resigned as managing director in March. UMW declines to discuss why. A lawyer nominated by key government shareholder Permodalan Nasional Berhad, Rahmat is acting CEO. "We see UMW in the next millenium as a company that would take advantage of growth areas in Malaysia and the opening up of ASEAN," he says. The engines are purring. The punters need only climb aboard.

Chiam Looi Tai

Chiam Looi Tai