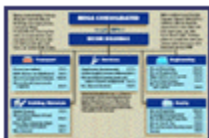


SELLING THE CROWN JEWELS

A Mega-Deal Raises Questions About Malaysian Privatization

By Steven K.C. Poh, Kuala Lumpur



IT WAS ONE OF THOSE transactions - again. In October, Khazanah Holdings, the Malaysian government's investment arm, sold its 32% stake in listed Hicom Holdings, which controls Proton, maker of the country's first national car. The buyer: private company Mega Consolidated, controlled by Malay industrialist Yahaya Ahmad. Public coffers were enriched by nearly \$712 million, 12% more than Khazanah's estimate of the shares' value. But some argue that the Hicom stake could have fetched between \$1.2 billion and \$1.6 billion in open bidding, even though the law does not require it. "There are some good assets in Hicom," says an investment analyst. "In Proton itself, there's a cash pile of some \$360 million. Then there's also the bank, two stockbroking houses and a land bank which is still held at nominal value in the books."

The sale had surprised many in the business community. "How did a mega-deal like this go through so fast?" asks a stockbroker. "How was it financed? How will it be rationalized and restructured? What will be the value added? Why create a monopoly in the automobile industry?" Diversified Resources Berhad (DRB), also controlled by Yahaya, assembles and distributes cars and commercial vehicles. The Hicom deal echoed the \$702-million privatization of Malaysia Airlines last year, when the central bank sold its 32% share in the national carrier without a public tender to another Malay tycoon, Tajudin Ramli. It is also seen as similar to the recent sale by state-controlled National Equity Board of its 25.8% stake in property and finance conglomerate Lion Corp. to Mirzan Mahathir, son of Prime Minister Mahathir Mohamad.

Not that Yahaya - or Tajudin and Mirzan - have no track records. Academic Terence Gomez says Yahaya, a 49-year-old automotive engineer, has the experience to run a giant like Hicom (market cap.: \$6 billion). "He fits well in the mold of the new *bumiputras* [Malays and other indigenous groups]," he adds. "Besides, the PM seems to be impressed by him." More than making a tidy profit for the state, these seem to be the key considerations in Malaysia's privatization and choice of private-sector partners in state projects. Asked recently about the Hicom divestment, Mahathir said the group will benefit if the manager is also the owner: "There are still a few companies in Hicom that have not performed to the mark." Last week, Yahaya took over from Jamil Jan as Hicom president.

But business - and politics - being what they are, the deal has gotten flak. "This is a good example of cronyism," charges Lim Guang Eng of the opposition Democratic Action Party. "It is deals like this that will make Malaysians feel that equal opportunities are hard to come by." There is also grumbling within Mahathir's UMNO party. "When the idea was hatched in a private plane over Myanmar, the 32% [in Hicom] was intended to be sold to a consortium made up of pro-ZgZs of [UMNO treasurer] Daim Zainuddin," says a party insider. "So you can imagine the disappointment." Says Gomez: "There's a prevailing feeling that there are not too many profitable mega-projects left to be privatized, hence the restlessness on the part of some people." Among the companies: power company Tenaga Nasional, Telekom Malaysia, Bank Bumiputra and shipping firm MISC.

Yahaya is eager to justify the government's confidence in him. It is a daunting task. Hicom has more than 25 companies directly under its control. These firms have their own high-flying

subsidiaries. Proton distributor EON, owned 30% by Hicom, owns or controls 13 other firms, including EON Bank and stockbrokerage Leong & Co. Proton has 12 more. In addition, Yahaya holding company Master-Carriage boasts some 35 companies, including DRB and Gadek, a listed plantation concern diversifying into financial services. "This is where the rubber hits the road," says an analyst. Yahaya has turned the ignition. Saleh Sulong, managing director of Gadek, says Mega Consolidated - and thus Hicom - will be injected into Gadek. DRB, he adds, will eventually become Gadek's holding company.

The restructuring will be massive and complex, but there are synergies that can be harnessed. "Putting the automotive business all under one big umbrella makes a lot of sense," says an auto industry watcher. "It will create economies of scale in the manufacturing and assembly operations. Also, rationalizing financial services in Gadek will create a financial supermarket for Yahaya in an instant. EON Bank, finance firm CCM, South East Asia Insurance and stockbrokerages Leong & Co. and Halim Securities all fit together well."

Is Yahaya up to the challenge? A former schoolmate of Deputy Prime Minister Anwar Ibrahim, he started out with Wearnes, which sold cars in Malaysia and Singapore in the 1970s. With Saleh, Yahaya later acquired Automotive Corp., which assembles France's Citr sen cars and commercial vehicles from Japan's Isuzu and India's Tata. They injected it in 1992 into ailing textile and property company Imatex, now Diversified Resources. In September 1993, DRB won the right to operate the Road Transport Department's lucrative commercial-vehicle inspection operations. The company was also given the green light to head a consortium to streamline bus services in Kuala Lumpur.

DRB's 51%-owned Usaha Sama Proton-DRB - Proton has a 30% stake - was created in the same month. Mahathir himself attended the signing ceremonies. The PM wants the venture, which also distributes motor vehicles and parts, to make all-Malaysian Proton models for export as well as homegrown commercial vehicles. Japan's Mitsubishi Motors is a direct shareholder in Proton, which prevents the Malaysian company from tapping other carmakers. Proton-DRB is developing a coupe variant of the national car. Through Automotive Corp., DRB is also a 50% partner in Proton Pilipinas, which assembles and distributes Proton autos in the Philippines.

Last year, DRB teamed up with Korea's Daewoo Group to study the feasibility of making excavators, forklifts, infantry vehicles and diesel engines in Malaysia. Earlier this year, Yahaya signed an agreement with Kawasaki Heavy Industries and Nissho-Iwai Corp of Japan to manufacture a national motorcycle. Its most recent project is a Proton-DRB tie-up with Citr sen to develop Malaysia's third national car. (Local group Perodua launched the second car, the 660-cc Kancil, in 1994.) Yahaya also expanded into financial services. Notes an analyst: "His involvement in motor manufacturing, assembly and distribution offers vast opportunities for his finance company."

That's Gadek, which acquired 90% of CCM, Malaysia's 10th-largest finance company, in 1994. Four months ago Gadek laid out \$16 million for South East Asia Insurance, which has 7% of the country's general insurance business. Gadek also paid \$1.1 billion for 70% of Pernas Precision Engineering and Construction, which has a \$660-million contract to build terminals for the new Kuala Lumpur International Airport. "Having a piece of the airport pie should contribute quite handsomely to DRB's bottom line, which has been weighed down by debts as a result of heavy capital expenditures and rapid expansion," says an analyst.

Last year, DRB announced plans to raise \$160 million from international markets with a convertible bond issue. For its part, Gadek has proposed a rights issue and the float of other financial instruments. (Trading in both counters, suspended two days before the Oct. 18 announcement of the Hicom deal, had yet to resume as of Nov. 7.) Given Yahaya's acquisition binge, many wonder how he will raise the \$712 million he needs for Hicom. The Union Bank of Switzerland has reportedly been asked to arrange an offshore loan. "The price is no small

potatoes, even if he currently has four quoted companies," says an analyst with a French financial house in Kuala Lumpur.

Other rumors abound. Daim, a close friend and adviser of Mahathir, is widely believed to be lending a hand. Some say the former finance minister, who is credited with starting Malaysia's eight-year economic boom, owns a chunk of Yahaya's shares in Hicom. The speculation is of a piece with rumors about Daim's alleged interest in conglomerate Renong, acquired in 1990 by his former business associate Halim Saad, and in engineering group Promet, which was recently bought by little-known businessman Soh Chee Wen. Daim should perhaps expect more of the same. Halim is said to be first in line for the government's sale of its holdings in Telekom Malaysia. Some Renong companies were previously owned by UMNO.

The trend worries academic Gomez. "If you look at the way state patronage is practiced in Malaysia, what we see is the passing of state monopolies to private monopolies," he says. "That's bad. In Hicom's case, even if Yahaya fits the bill, how sure is the government that he is the best person from the private sector to take the company further? If the state had been more transparent, it would have been in a much better position to assess the situation." Others are equally blunt. "This is one form of allocation of wealth among the supporters of UMNO," says another political scientist. "But the Hicom deal this time has caused an outcry. And the impact will be seen in all levels of UMNO politics."

How about the effect on Hicom? The stock market is not excited by its new parentage. "What Hicom will ultimately be is a mixed bag of investments," says Long Shih Rome of HG Asia in Kuala Lumpur. "If the investor wants exposure to the motor sector, it would be much cheaper to buy into the individual stocks like Proton or EON." Agrees another investment adviser: "Listed Hicom companies are producing better price fluctuation upsides and better dividends, especially Proton, EON and Kedah Cement. Although anticipated earnings for 1996 and 1997 should improve, we recommend underweighing Hicom." Company profits reached \$79 million in the year ending March 1995. For all the caveats, Yahaya does not seem worried. He is said to be eyeing a development in Lake Kenyir in Trengganu state, his first big venture into tourism. Given the empire he has to run, however, don't expect Yahaya to go waterskiing too often.

Malay industrialist Yahaya Ahmad controls Hicom Holdings through private company Mega Consolidated. Among his new moneymakers: auto manufacturer Proton (fiscal 1995 profit: \$91 million), car seller EON (1994:

MEGA CONSOLIDATED

bought 32% of

HICOM HOLDINGS

\$88.4 million) and Kedah Cement (fiscal 1995: \$19.2 million). Hicom itself is expected to earn \$93 million next year, up 18% from fiscal 1995. Yahaya plans to meld his new purchase with his motor and financial group DRB



Transport

| | |
|-----------------------------------|--------|
| Proton (car maker) | 27.5% |
| EON (Proton car distributor) | 30.1% |
| Hicom Commercial Vehicles | 100.0% |
| Hicom-Suzuki (motorcycle engines) | 45.0% |



Services

| | |
|---|-------|
| Uniphoenix (investments) | 27.7% |
| Simen Angkut (cement delivery) | 66.4% |
| Hicom-United Leasing (sale and rental of heavy equipment) | 50.7% |
| K.L. Airport Services | 70.0% |



Engineering

| | |
|-------------------------------------|--------|
| Hicom Diecasting | 100.0% |
| Hicom Engineering | 100.0% |
| Nippondenso (auto parts) | 32.3% |
| Proton Parts Center | 32.2% |
| Hicom-Teck See (plastic auto parts) | 30.0% |



Building Materials

| | |
|---|-------|
| Kedah Cement | 31.5% |
| Hicom Petro-Pipes (oil and gas pipes) | 65.6% |
| Petro-Pipe Industries (high-pressure steel pipes) | 29.9% |
| Nino Ceramic | 24.5% |

Selected subsidiaries and % of Hicom ownership. State-controlled National Equity Board has 9.7% of Hicom, the Ministry of Finance 8.1% and government investment firm Khazanah 6.55%. The public owns the rest.



Realty

| | |
|--------------------------|--------|
| Hicom Properties | 100.0% |
| Horsedale Development | 70.6% |
| Hicom Menang Properties | 51.0% |
| Hicom Tan & Tan | 50.0% |
| Hicom-Gamuda Development | 50.0% |
| Sucasa | 30.0% |