

Out of Dad's Shadow

Mirzan Mahathir builds a business empire

By Steven K.C. Poh / Kuala Lumpur

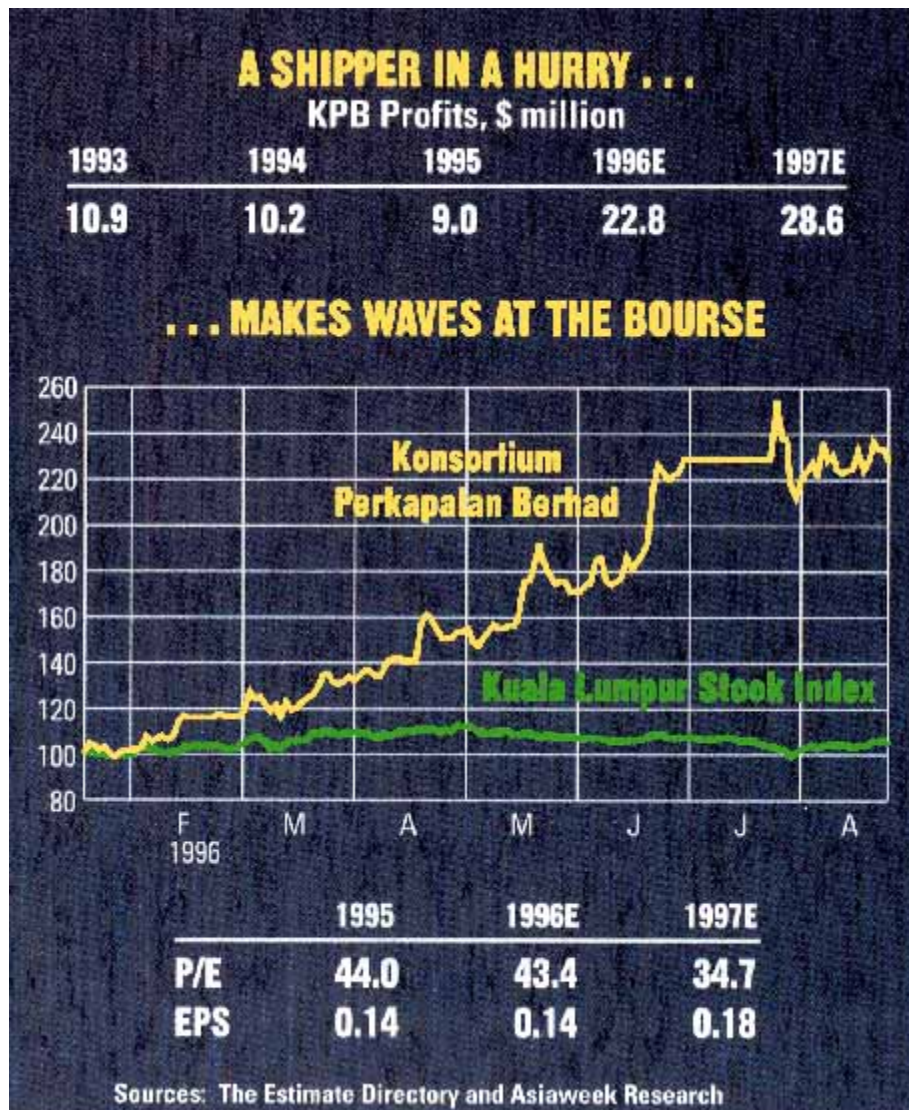
IT'S NOT EASY BEING Mirzan Mahathir. By many accounts, the eldest son of Malaysian Prime Minister Mahathir Mohamad is a savvy entrepreneur. A former investment banker in the U.S. and Hong Kong, Mirzan has an MBA from the University of Pennsylvania's Wharton School of Finance.



THE PM AND SON Mahathir's kids can engage in business, but "they should not involve the government"
(Chan Looi Tat for Asiaweek)

At 37, he is now shaking up Malaysia's \$1.7-billion haulage and shipping business. "The general perception has always been that this sector is boring," says Lo Chok Ping of Phileo Allied Securities. "But that has changed. The industry is undergoing a major transformation." After a series of acquisitions, Mirzan's 72%-owned Konsortium Perkapalan Berhad (KPB), once a small and sleepy freight-forwarding concern, is now a major force in local hauling and shipping -- and is making its presence felt in the region too.

But it seems that the young businessman's distinguished lineage is getting in the way. Cash-rich Malaysian International Shipping Corp. or MISC, owned 29.3% by the government pension fund KWAP, fits perfectly into KPB's plan of becoming a one-stop center for regional hauling, shipping and port handling needs.



Mirzan recently ruled out any KPB move to buy the fund's MISC shares, valued at some \$920 million. Why? His father provided a clue in a TV interview in early August. "My children are sometimes angry because I say 'don't do this and that,'" said the prime minister. "I don't at all give them a place in politics and I don't help them even if they have the interest. Likewise in business, if they want to do business, they can. But as far as possible, they should not involve the government."

None of the PM's children -- sons Mokhzani and Mukhriz also have substantial business interests -- has been granted lucrative licenses like the offspring of President Suharto in Indonesia. But Mirzan and his siblings get flak anyway. In 1994, Mirzan bought at a 24% discount to the market price 1.5 million shares in steel cable firm Leader Universal, under a preferential state allocation scheme to transfer corporate ownership to bumiputras or indigenous people. "I never persuaded nor pressured the Minister [for International Trade and Industry Rafidah Aziz] or her staff to approve this share allocation," Mirzan said in a letter to Asiaweek after the transaction became controversial. "I know that I shall not be able to convince the skeptics no matter what I write. However, I feel that it is unfair that I am judged purely by my connection to the name that follows mine rather than by my performance."

He would be happy to know that some industry watchers are impressed with what he is doing at KPB (market capitalization: \$1 billion), which was listed in January. "It's a fantastic concept," Dominic Armstrong of Pesaka Jardine Fleming says of the company's moves to turn itself into an integrated regional logistics center. KPB's game plan, says Lorraine Tan, senior analyst at HLG Securities in Kuala Lumpur, is to provide haulage and shipping services from factory to port. "Cognizant of the fact that it will not be able to compete with the world's shipping giants on international routes, KPB is concentrating its activities in Southeast Asia, in the lesser developed ports of Indonesia, the Philippines, Myanmar and Indochina," she says. The company has already formed joint ventures to manage inland ports in India and Thailand.

Mirzan is moving fast. In July, KPB agreed to pay \$240 million for 100% of Hong Kong-based Pacific Basin Bulk Shipping. "We did not expect to be bought up," says PBBS chairman and CEO Christopher Buttery. "The negotiations started with talks on joint ventures and regional cooperation. But one thing led to another. We have good relations with shippers in Japan and we are developing our relationship with the cargo control people in China. KPB has some clear-cut plans and we wanted a Southeast Asian partner. It looked like a good fit." PBBS has a fleet of 23 relatively small dry bulk carriers and two tankers, which transport minor cargo within Asia. The company reported \$11.9 million in profit on turnover of \$72.2 million last year.

Did Mirzan pay too much? That depends on what plans KPB has, says Armstrong. "People normally pay the odds at current prices when they make strategic leaps, because in the long-term the value they are looking for will be unlocked," says the Jardine analyst. Last December, KPB paid state investment company Pemas and listed Malaysian Helicopter Services \$99 million for Perbadanan Nasional Shipping Line (PNSL). Mirzan is now looking at a restructuring. He has proposed injecting PNSL and PBBS into Diperdana Corp., a road haulage concern controlled by Danny Tan, the younger brother of Malaysian tycoon Vincent Tan. For its part, Diperdana will issue 44.2 million new shares to KPB, giving Mirzan 61.3% of the company. If completed, the deal would give KPB 40% of Malaysia's haulage market, surpassing rival Kontena Nasional's 34%. "We will see the emergence of a giant, with well-defined strategic arms in land and sea-based logistics," says Low Yee Huap of Kuala Lumpur's Jupiter Securities.

Expect more acquisitions. "KPB is full of surprises," says Chan Tat Meng, an analyst at South Johor Securities. "It has an eye for anything that has anything to do with transport and shipping." KPB is said to be looking at Nepline, a shipping firm listed on the Kuala Lumpur stock exchange's Second Board. "Nepline is currently highly geared, which makes it a good takeover target," says Chan. "It enjoys good tax incentives and has stable earnings, with 80% of its income generated from ship-owning and chartering and from its activities as a liner agency. It also has an impressive client base, such as PUL, Indonesia's international container shipper." Mirzan was also rumored to be interested in Tiong Nam Transport Holdings, but he says KPB will build up its trucking fleet on its own. He is also said to be eyeing a stake in privately owned Westport container terminal, which is currently being built.

Some are wary of the buying spree. "There is a rising perception that the company may be stretching itself thin in too short a time," says an analyst with a Hong Kong brokerage. KPB's borrowings are forecast to reach \$640 million by 1998, with interest payments ballooning to \$49 million from just \$8.6 million this year. The company's debts are expected to exceed equity by 2.7 times next year and 3 times in 1998. But other analysts are more sanguine. The consensus estimate is 156% growth in 1996 profits from last year's \$9 million and another 25% expansion -- to \$28.6 million -- in 1997 (see table above). "Even at RM15 [\$6] per share, it's still a buy because a growth stock deserves a premium," argues Tan of HLG Securities. "And we must not forget the strong support it enjoys from the government and Malaysia's booming manufacturing sector." On Aug. 27, KPB stocks closed at RM15.70, for a price-earnings multiple of 43 times expected 1996 profits. The K.L. market is trading at an average p/e of 22.4.

Whether he likes it or not, the perception that the government is behind him is one of Mirzan's strongest cards. There are reasons other than his relationship with the PM. Some 95% of Malaysia's exports are shipped by sea. Because foreigners got most of the business, freight and insurance contributed significantly to Malaysia's \$3.4-billion services account deficit last year. The government hopes to shrink the shortfall by rationalizing the haulage and shipping industry -- mainly by encouraging private enterprise. "We've already seen it done in the air and on land," says Vasu Menon of Singapore's Keppel Securities. Kuala Lumpur has sold its shares in Malaysia Airlines to businessman Tajudin Ramli, and its holding in Hicom, which controls carmaker Proton, to Yahaya Ahmad.

So what's wrong with letting Mirzan help the country and himself? Nothing, says Nazri Aziz, who is a deputy minister in the Prime Minister's Department. "Do you think the PM ought to tell his son: 'Look, don't do business in Malaysia'? It's ridiculous." Says Fauzi Rahman, an MP and member of the Mahathir-led UMNO party: "It's unfair for anybody to use their position excessively to gain advantage. At the same time, it's also unfair to prohibit a son or relative of any person of high position to do business and to do well in business." Opposition MP Tan Seng Giaw also takes a considered view: "You must show hard evidence [of nepotism or favoritism]. Otherwise, let's make it clear that the children have got as much right as anyone else to be in business."

Others are unforgiving. "They should stay out of business," says opposition MP Karpal Singh. "And the PM should make their net worth public so as to dispel any doubt as to whether his children's association with others is benefiting them to an extent above and beyond what it ought to ordinarily." Fellow oppositionist Lim Guan Eng claims: "It's an open secret that the sons can get things done that other people cannot. They are getting extra advantages. There is nothing illegal, but is it ethical?" Last year, Mirzan bought state-backed investment fund PNB's 25.8% stake in property-based conglomerate Lion Corp. for an undisclosed sum. "People question this kind of deal," says a local fund manager, who notes that Mirzan's uncle, Tun Ismail Ali, is chairman of PNB.

The PM's son also has a quarter stake in listed companies Artwright Holdings, a furniture maker, and 10.25% in information technology firm Dataprep Holdings. He serves on the board of at least eight other firms, including snack food manufacturer Mamee Double-Decker and property developer Worldwide Holdings. Not bad for someone who returned to his homeland only six years ago. Mirzan got his break when KPB invited him to join its board in 1992. Analysts value his holdings in public companies alone in excess of \$880 million, though few hazard a guess about his debts and other liabilities or how he financed his share-buying.

Mirzan declined to be interviewed for this article. But his elder sister, Marina Mahathir, spoke to Asiaweek. "That particular brother has a pretty low profile," she says. "Sometimes it doesn't really help. Nobody knows what you're like. But he's really got a great mind and that's why he can do what he does." Provided, of course, that he follows Dad's dictum not to involve the government.

--With reporting by Roger Mitton / Kuala Lumpur