

## BLUE CHIP STOCK-TO-BE?

*A number of diverse companies have been brought under the ASM fold and it only remains to make them as profitable as its steel mill.*

WITH A FOUNDATION built on solid steel, Lion Corporation's manufacturing associate, Amalgamated Steel Mills (ASM), seems poised for further growth as it embarks on the road towards diversification. The group is a classic example of a local firm making it big in the heavy industries, and with the support of the buoyant Malaysian economy and rising foreign investments, business at ASM can only get better.

Incorporated in 1974 as private limited company to operate a steel mill, ASM was then known as Kinta Steel Sdn Bhd. It changed to its present name in 1976. The firm went public in 1982 with an issue of 13 million shares of 1 rgt each priced at 1.15 rgt. Its pioneer status granted by the Ministry of Trade and Industry expired in June 30, 1984.

An analyst interviewed by **Malaysian Business** says that at the pre-tax level, ASM's profits are projected to grow by approximately 52 per cent this year. Since it no longer enjoys the pioneer status privileges, a higher tax charge will result in profits at net level increasing at a slower rate - roughly 16 per cent.

ASM's performance during the slump years of 1985 and 1986 was commendable. Even in difficult times, it was still able to chalk up net profits hovering above 30 million rgt. Its profit after taxation for the year ended June 30, 1989 was a healthy 56.78 million rgt, at 41.7 per cent increase over the 1988 figure. The group's 1989 turnover was 951.9 million rgt, a 62.7 per cent hike over the previous year.

Earnings per share (Eps) for the group jumped from 11.1 sen in 1988 to 14.0 sen in 1989. ASM's total paid-up capital currently stands at 205 million rgt.

The subsidiaries of ASM can be grouped into six major areas of business - steel products, finance, retailing, transportation, agriculture and rubber products.

The recovery in the construction industry, due to the increased housing projects as well as the implementation of highway and infrastructure projects, has stepped up the demand for steel bars and wire rods. Analysts say the demand for steel products is projected to grow at a rate of 15 to 20 per cent this year, which will in turn swell up ASM's steel coffers. It currently enjoys a third of the local market share in steel.

Analysts also say that ASM is cutting back on its export markets and concentrating on the domestic steel market. Funds obtained from this 'industry boom' have been channelled into the group's rapid diversification programme.

In March 1989, ASM's Steel Meltshop was successfully upgraded with the introduction of Eccentric Bottom Tapping Process. According to its chairman, Gen (R) Tan Sri Zain Hashim, this has resulted in increased productivity in addition to enabling ASM to produce higher value-added products. One of ASM's subsidiaries, Lion Metal Industries saw an increase in revenue by 53 per cent to 30 million rgt.

A report by PB Securities hails ASM's foray into the manufacture of dry cargo steel containers through its wholly-owned subsidiary Amalgamated Containers as timely since there is currently a shortage of containers world-wide. The group is confident that the notable increase in container traffic both domestically and internationally will benefit Amalgamated Containers.

In view of a volatile steel market in 1984, ASM made a 'maiden voyage' outside its steel territories in acquiring 20 per cent of Asia Commercial Finance (ACF). The buoyant national economy was a catalyst to ACF's operations and growth. Its branch network has expanded from only five in 1984 to 25 last year. ACF also saw an escalation in its paid-up capital from 2.5 million rgt at the time of its acquisition to its present 70 million rgt.

Despite the blessings of an upsurging economy, ACF suffered substantial losses last year, totalling approximately 22.3 million rgt. The bad performance, according to an analyst, was attributed to ACF's narrow loan base. Nevertheless, Lion Corporation's chairman, William H. J. Cheng, says that ACF is expected to return to profitability with the adoption of a more prudent lending policy. Cheng hopes this move will further strengthen ACF's loan portfolio. Analysts say that ACF will continue to experience marginal loss this year but by 1991 things will look a little more dandy.

In 1985, ASM bought a 49 per cent stake in Suzuki Assemblers Malaysia Sdn Bhd, the franchise holder to assemble and distribute Suzuki motorcycles locally. To date, the interest has been increased to 94.7 per cent. ASM also holds a 100 per cent interest in Lion Suzuki Marketing Sdn Bhd (renamed Lion Suzuki Motor Sdn Bhd after the takeover of Kobin Motors was finalised) which serves as the marketing arm of Suzuki Assemblers.

From an initial start of just motorcycles, Lion Suzuki Motors has gone into jeeps, vans, four-wheelers and light commercial vehicles below 1,000 cc. According to the PB Securities report, plans are underway for the assembly of passenger cars. Analysts are optimistic about ASM's Suzuki business. One analyst reckons it will grow by approximately 30 per cent this year.

The group's first involvement in the retail business was initiated by the takeover of Yuyi stores. As PB Securities puts it, the decision to enter the retail sector was essential to ensure a more balanced earnings for the group.

Inview Corporation Sdn Bhd, a wholly-owned ASM subsidiary, changed its name to Parkson Corporation Sdn Bhd in May last year to reflect its retailing chain of departmental and supermarket stores. To date, the group operates 29 outlets consisting of four Parkson Grand stores and 25 Parkson Ria stores nation-wide. Analysts opine that with sustained economic growth, the retail operations will contribute favourably to ASM's profits.

ASM has also diversified into aquaculture, plantations and commercial farming through the acquisition of four companies – Seritawan, Bungawang, Aquabio and Akur Jaya - which are involved in mixed farming and the rearing of fresh water fish and prawns, and marine prawns. The aquaculture and plantation division experienced a period of consolidation in 1989 as a result of the depressed international prices of cocoa and prawns. The market for prawns is expected to pick up soon.

ASM's acquisition of Silverstone Tire and Rubber Co Sdn Bhd last year was a direct result of the government's move to promote the rubber-based industry. ASM paid 75 million rgt for an 86 per cent stake in the plant. It is backed by Avon Technical Services (UK) in terms of technological know-how. Some 80 per

cent of the tyres produced by Silverstone will be marketed domestically, while the remaining 20 per cent will be exported.

In spite of ASM's optimism in Silverstone, analysts are sceptical of its potential as a profit raker. One analyst opines that the start-up cost for this capital-intensive plant is way too high and it is not expected to make profits in the next two years.

P H S Lim, president of the Malaysian Investors' Association (MIA), says that competition will be stiff for Silverstone as the existing market is already saturated with players like Dunlop, Goodyear and Michelin. Nevertheless, Lim believes an increase in the volume of car sales will help to offset this tight market condition.

Another ASM venture into rubber products, Ozly Shoe Sdn Bhd, in which it has a 77 per cent stake, has shown steady improvement in its production and marketing performance since the takeover in May 1989. ASM is confident that Ozly has the capability for further growth. The appreciation of the Taiwanese and South Korean currencies has eroded the competitive edge of the two shoe exporting giants, it says. Ozly is investing 2.15 million rgt in the current financial year to upgrade its facilities and products.

After such a rapid expansion through the acquisition of companies during the economic slowdown in 1985 and 1986, ASM is currently consolidating its position. It has managed to group a substantial number of potential money-making subsidiaries under its wings over the years, and its number one task now is to shape these companies into profit centres like that of its steel mill. If this happens, ASM will be well on its way to becoming a blue chip stock, Lim says.

<b>5 YEARS' FINANCIAL STATISTICS OF ASM BHD</b>					
<b>('000 Rgt)</b>	<b>1989</b>	<b>1988</b>	<b>1987</b>	<b>1986</b>	<b>1985</b>
Turnover	<b>951,860</b>	585,103	382,104	343,075	276,260
Pre-tax Profit	<b>60,428</b>	41,994	35,164	32,618	31,586
Profit after tax	<b>56,775</b>	40,050	34,231	31,063	30,986
Dividends (tax exempt)					
Rate	<b>8%</b>	8%	8%	8%	8%
Pay-out	<b>16,400</b>	16,007	13,600	13,600	13,600
Total Assets Employed	<b>844,418</b>	757,087	539,160	536,087	462,145
Shareholders' funds	<b>423,806</b>	370,335	284,065	260,825	243,931
Net Tangible Assets	<b>403,903</b>	353,103	279,710	257,476	240,023
N T A per share	<b>99 sen</b>	88 sen	82 sen	76 sen	71 sen
Earnings per share	<b>14.0</b>	11.1	10.0	9.0	9.1