

## A PALE LUSTRE

*Kumpulan Emas' sure-footed steps bore analysts with a speculative bent.*

LETHARGIC, sleepy and justifiably underrated are among the descriptions lavished on Kumpulan Emas Bhd (KEB) by investment analysts. While others generally dismiss the counter as uninteresting, one analyst goes a step further. As he succinctly puts it, 'We don't track the counter'.

KEB chief executive officer and group managing director, Lim Fung Chee is familiar with such comments. Not that he's worried. Says he, 'Kumpulan Emas is not a speculative counter and we make no apologies for that.'

So what does he think of his company's performance on the Kuala Lumpur Stock Exchange (KLSE) so far? Says Lim, 'I believe that like water, our share price will find its right level.' Still, Lim is not about to let nature take its course. Though not quite ready to change analysts' perception of KEB, he has set out to improve the group's 1991 performance.

In the last financial year (ended July 31, 1991), KEB posted a pre-tax profit of 9.7 million rgt, which represented a 19.8 per cent drop from the previous year's figure of 12.1 million rgt.

Lim attributed the poorer performance to rising interest rates and the subsequent high finance charges on group borrowings. Furthermore, certain contracts held by Salcon Engineering (SE) group did not perform as expected. Instead of contributing a projected profit of 7.6 million rgt to the group, the SE group only managed to chip in 5.6 million rgt.

Then there was the sharp drop in palm oil mill margins due to the water crisis in Melaka and extreme drought in northern Johore. This resulted in lower yields of fresh fruit bunches (FFB). Lim says KEB had to compete aggressively in the market for FFB, and, as supply and demand would have it, prices jumped higher. Additional operational costs were also incurred as it became necessary to buy water by the tanker loads to be used in the plantations.

To top the list of reasons, Lim says the price ratio of palm kernel to crude palm oil was lower in 1991 than before.

Even so, the company expects a rosier bottom line for the group in 1992. The blueprint, says Lim, is the group's end-1991 restructuring and merger exercise which involved SE Sdn Bhd (SESB), Singapore-based Pan Salcon Limited (PSL), several PSL shareholders and Kanning Industries Sdn Bhd (KISB).

Under the restructuring exercise, Lim says SESB will divest seven subsidiaries to KEB for 17.9 million rgt cash. In addition, it will also acquire 2.36ha of industrial leasehold land comprising SESB's factory and office from KEB for 16 million rgt cash.

<b>KUMPULAN EMAS BERHAD</b>					
Five-year Financial Statistics (Million Rgt)					
	1991	1990	1989	1988	1987
Gross operating revenue	195.0	168.6	112.7	93.6	77.2
Profit before tax and minority interest	9.7	12.1	9.0	7.4	4.8
Profit after tax and minority interest	5.5	6.1	4.3	4.0	2.9
Profit attributable to shareholders	7.7	3.6	3.0	5.5	2.6
Shareholders' fund	105.4	93.4	80.0	79.3	76.1
Total assets employed	259.6	216.1	188.2	163.7	146.6
Gross dividend per share (Sen)	4.0	4.0	5.5	4.5	4.0
Net tangible assets per share	0.86	0.83	0.88	0.87	0.84

SESB, KEB's flagship company in terms of profitability and group contributions, has a paid-up capital of 20 million rgt. It specialises in fabrication and packaging of engineering products, building resource-based industrial plants, engineering contracting, civil and structural construction, water and waste treatment, supply of chemicals and equipment and providing technical services. It also has property investments.

Lim tells **Malaysian Business** that the restructuring exercise, intended to facilitate the merger of SESB and PSL, will also streamline SESB's activities to better reflect the company's engineering activities.

PSL, on the other hand, was incorporated in Singapore and is currently an investment holding company with interests in engineering and contracting activities related to water and waste treatment, trading in engineering products and sale of copper slag. It has a strong Southeast Asian network with offices in Thailand, Indonesia, Brunei and the Philippines. KEB sold off its 45 per cent interest in it in 1982 to fulfil an FIC (Foreign Investments Committee) requirement on foreign incorporated companies. PSL was 52.56 per cent owned by a company called Tricol Pte Ltd in Singapore.

Not any more. The merger will see KISB, a company incorporated (July 26, 1991) solely for the restructuring exercise, acquiring the entire paid-up capital of the restructured SESB and PSL for 22.72 million rgt and 40.6 million rgt respectively, to be satisfied by the issue of 63.32 million KISB shares of 1 rgt each at par.

The buzz words for the merger are none other than group synergy and economies of scale. The exercise will benefit both SESB and KEB since SESB and PSL are primarily in the same industry and they market related engineering products.

As a merged and enlarged entity, Lim says, KISB will benefit from the greater volume of in-house fabrication works, economies of scale in marketing and both a larger customer base and product range.

Excited and hopeful, Lim says that he expects KISB to clinch a turnover of between 180 to 200 million rgt this year.

Plans are underway to float KISB on the KLSE. KEB will hold a stake of approximately 25 per cent in KISB. Lim says that KISB will also undergo a name change to either Salcon Corporation Bhd or Salcon Holdings Bhd before the listing exercise. The deals, however, are still pending approval from the relevant authorities.

The nineties will see KEB consolidating its position and group resources in three major areas – engineering, manufacturing and financial services. Already strong in engineering through SESB and renowned as the world's best in the construction of palm oil mills, KEB will now spend more time building up its other businesses.

Diversification and joint ventures have become the name of the game. SESB recently signed a technical and marketing agreement with Simon-Carves, a member of the British-based multinational, the Simon Group. Under the agreement, both companies will undertake medium- to large- scale engineering development projects regionally.

According to Lim, KEB's various joint-technology collaborations with other multinationals offer the group ready access to international expertise. 'It also makes good business sense to have different joint venture partners in different markets.'

Another KEB venture is cryogenics. Cryogenic vessels are designed to store and transport gasses (like nitrogen, argon and oxygen) in liquid form at very low temperatures.

The Asian market for cryogenic vessels is currently valued at 100 million rgt and is expected to swell to about 165 million rgt in 1994. In August 1991, KEB through SESB, set up a joint venture with Taylor-Wharton International, a subsidiary of Harsco Corporation in the United States, to become the first cryogenic tank manufacturer in Asia.

SESB has a 30 per cent stake in the venture. It has, to date, invested about 8.5 million rgt, and Lim says Taylor-Wharton (Asia) may contribute to attribute another 5 or 6 million rgt. This year's joint venture turnover should be around 10 million rgt, growing to about 22 million rgt by 1994. There is no synergy in this joint venture. 'A good projected margin of profits is our primary motivator,' says Lim. For starters, more than 50 per cent of its production will be exported to the Asia Pacific market.

Traditionally, KEB's manufacturing division has always piggybacked on the strength of its engineering division. This is true even in the Taylor-Wharton joint venture. Another instance of this is the joint venture with Wurhlin-Soplamed SA, a subsidiary of Jamont Holdings Group of France, to produce examination and surgical gloves for export to the European market.

The joint venture with Wurhlin-Soplamed SA came about only after KEB's Salcon Rubber folded up in 1989 as a result of depressed prices in the rubber gloves world-wide. 'We're salvaging whatever assets are left to recover our precious loss from Salcon Rubber through our involvement with Wurhlin-Soplamed SA,' Lim explains.

'The failure of Salcon Rubber has not totally discouraged us from re-entering the rubber gloves industry. We have one line producing surgical gloves and another producing examination gloves. Expansions plans are yet to be finalised.'

KEB, it seems, is also big on water and waste treatment. Following its corporate policy of increasing shareholding in sound investments, KEB recently acquired an additional 14.9 per cent stake in IMD Sdn Bhd, a key player in the Greater Ipoh Water Supply Phase II (GIWS II) Privatisation Scheme. KEB now owns 72.9 per cent of IMD.

The water pumping and waste treatment division is expected to do well this year with the buoyant economy. SESB's portion of the GIWS II Privatisation Scheme contract works is 50 per cent completed. Works on the Sungei Petani water treatment plant, which was tested and commissioned in October 1991, are on schedule.

Another project, the 41 million rgt Sungei Selangor Water Supply Scheme project jointly undertaken with Degremont SA of France is almost halfway through and due for completion in 1993. KEB and Degremont SA also recently secured an 8.4 million rgt contract for electrical and mechanical works with the Bintulu Water Supply Scheme.

With so many projects on its plate, KEB's trade debtors swelled from 54.04 million rgt in 1990 to 87.77 million rgt in 1991. That is perceived rather favourably by analysts, who say KEB has too much money tied up with debtors which could otherwise be 'rolled' in other business ventures. On top of trade debtors, group borrowings are also on the high side. KEB, say analysts, is cash tight in the short term.

Lim disagrees. 'The very nature of the contracting and trading business means that we have a debtors position which will be in line with the level of turnover we achieve.' He also says that the group's debt equity ratio is very tolerable. 'I don't think we're over-trading or over-expanding. Because of the large trade debtors situation, we may look like we're very tight, but that's not the situation.'

'We know that we're not in a very bullish industry. But it's a healthy, mature and fairly cash-rich industry,' says Lim. 'Besides, our bad debt is only around 2 to 3 per cent.' Even so, Lim's plans for KEB go beyond that of plantations, industrial engineering and the construction of palm oil mills.

KEB's stable includes Pica (M) Corporation Sdn Bhd, and investment and financial services arm. Pica (M) Corp is the oldest established company in Malaysia providing venture capital and equity financing to companies. It also has an investment advisor's licence granted by the Registrar of Companies.

Lim believes the financial sector has good growth potential. Pica (M) Corp's profit contribution to KEB in 1991 was sustained at 1.9 million rgt. Thus, KEB's equity holding in Pica (M) Corp was increased to 47.1 per cent from 45 per cent at 1991's end.

Despite its growth, Pica (M) Corp is viewed as a high risk venture as KEB has no previous experience in the financial service sector. But it's too early to judge, say analysts. How well Pica (M) Corp turns out depends on how KEB nurtures it.

Not wanting to be left out of the information technology (IT) business, KEB established KE Systems Sdn Bhd (KES). While conceding that the IT business is a hard one, Lim is happy with KES' performance thus far. For 1991, its contribution to group profit was between 8 to 10 per cent.

KES has been ambitious. Last year, KES and SESB jointly set up a Computer Aided Design (CAD) centre to establish the first user-based support centre for CAD in Malaysia. The facility, on the premises of SESB in Shah Alam, runs Prime Computer Inc's high-end CAD software called *Medusa* – an integrated computer aided system used by SESB engineers in their work. Lim says that the investment poured into the CAD centre are in anticipation of future growth. At the moment, Malaysia is still backward in CAD/CAM (Computer Aided Manufacturing) applications.

'It is inaccurate to think of KES as just a mini computer vendor because it's a total information solution provider,' says Lim. KES also sees itself as a systems integrator with interest in the provision of hardware, software and other IT peripherals. 'We see IT as a high growth industry and are confident that KES will do well,' Lim says. KES is already planning to invest substantially in research and development to stay competitive.

Diversification notwithstanding, Lim concedes that the engineering division will continue to spearhead KEB. Even so, the group has come a long way. Beginning as a plantation management company in 1973 with only 60,000 rgt, KEB has not only established itself as a leading consultant in the plantation industry, but also has grown into a sizeable group with interests in oil palm and cocoa plantations, palm oil mills, civil and mechanical engineering, construction, marketing, finance, property, human resources development and training and information technology.

Its current paid-up capital stands at 60.2 million rgt. However, its market capitalisation, at the time of writing was only 157 million rgt. But for a mini-conglomerate, industry observers concur that it is a stable counter. Market speculators will have to look elsewhere for 'exciting' stocks.