

## BACK ON STAGE

*A price plunge provoked by rumours of a new gaming tax and a first-place management award puts Genting back in the limelight.*

IN MID-JANUARY, widespread talk that a new gaming tax could substantially shave the profits of gaming counters caused the price of Resorts World Bhd (RWB) to plunge. Shares of RWB's holding company, Genting Bhd, plummeted in sympathy.

RWB was the harder hit. Its price dropped like a stone, falling 1.05 rgt in just over three days; the counter, spurred by a wave of selling that analysts say was spearheaded by foreign fund managers, moved from 10.90 rgt to 9.85 rgt.

Local analysts believe the foreigners may have been the recipients of bad advice. Two foreign securities firms issued 'advisories' on RWB and Genting which included unconfirmed reports that the Malaysian government had planned to impose a 20 per cent tax charge on gross takings, rather than net proceeds, of certain gaming operators.

Unfortunately, the advice may have alarmed some clients into promptly selling. As it turns out, no such hike in gaming tax is in the offing. The tax changes – tax previously charged on net income is now charged on gross – only affect recreation clubs with slot machines. According to an investment analyst, that change had alarmed fund managers who thought that Genting, with hordes of slot machines in its casino, would also be affected.

How the tax change will affect RWB and Genting remains unclear; analysts do not foresee an immediate effect and the market clearly agrees. The counter's price has bounced back vigorously within a week, and players who bought Genting and RWB shares when the prices dropped have laughed all the way to their banks.

Incidents like these have a habit of affecting Genting primarily because of government ambivalence towards gambling. Islam, the count's official religion, frowns upon the practice. Indeed, all gaming counters have to be scrutinized under a bureaucratic microscope and Genting is no exception.

RWB is required to renew its gaming licence every quarter and pay gaming taxes every month. In 1989, Genting was the third largest corporate taxpayer in the country after Shell and Esso. Although the group appears to keep a low profile, it is continuously thrust into the limelight.

Example: on Feb. 25, 1992, under the Management Awards Programme which was organized by *World Executive Digest* in co-operation with the Asian Institute of Management, Genting outshone 96 Malaysian companies to win the financial management category for 1991. The Genting group was also credited for its ability to enhance group profitability and utilise the benefits of its strong cashflow. The group was also recognised for its effective long term investment strategies.

Tan Sri Lim Goh Tong, Genting Bhd's chairman and joint managing director, was not particularly ecstatic over the honour. Quizzed by **Malaysian Business** he replied, 'I don't feel anything at all.' Lim's lack of enthusiasm could merely indicate an over-familiarity with such awards. It is not surprising: cash reserves of more than 1 billion rgt do indicate reasonably successful financial management.

The huge sum is not necessarily viewed as a plus point. Analysts say the group has been slow in deploying its lucrative gaming profits in other business ventures.

Sieh Kok Jiun, Genting's director of corporate affairs, disagrees. 'I don't think we are slow. We know we are conservative but we have high standards. We also demand higher returns on our investments,' he says. 'Just because other companies seem to move very fast and are prepared to take higher risks, we appear to be slow. It's all relative.' There are reasons for Genting's conservative behaviour. Analysts say that as a result of having been in a practically recession-proof and high-returns business, Genting has become overly cautious with its investment strategies. 'It's understandable given the fantastic margins made from gaming,' says an analyst. 'The margins are even greater when there's a monopoly.'

RWB currently operates the only casino in Malaysia. It was a spin-off from Genting. In a massive restructuring exercise in September 1989, RWB acquired the gaming, hotel and resort-related operations from Genting which included the entire shareholdings in Genting Golf Course Sdn. Bhd. And Genting Highlands Bhd.

Under the exercise Genting's interest in the gaming, hotel and resort-related operations was reduced from 100 per cent to 54.9 per cent – in line with the New Economic Policy on bumiputera equity participation. However, the major bumiputera shareholders are unclear. Apart from the Armed Forces Superannuation Fund (LTAT), another major stake is widely believed to be held by members of the Pahang royal family through various nominees.

Its other substantial shareholders include Kien Huat Realty Sdn. Bhd, Inforex Sdn. Bhd, Info-Text Sdn Bhd, Dataline Sdn Bhd and Parkville Sdn Bhd. Most of these companies, say analysts, are believed to be related to the Lim family – Kien Huat, for instance, is Lim's original construction company.

The principal activities of RWB cover gaming, hotel, restaurants, recreation and amusement, golf and country club and condotel operations, property investment and the provision of utilities services. In 1990, it embarked on a 450 million rgt, comprehensive five-year development plan to transform the Genting Highlands Resort into a fully-integrated township.

In addition to increasing hotel rooms, part of the development plan includes the further expansion of the casino floor space which - according to analysts who recently visited the casino – has already been doubled. With the Treasury's approval, an additional 20 to 25 tables have been added as earnings correlate with the number of tables available. The refurbished casino has been opened for business since Christmas 1991.

All this is expected to fatten the bottom line. Analysts estimate RWB's 1991 pre-tax profit to be approximately 440 million rgt compared to 314.5 million rgt for 1992, the pre-tax profit is expected to jump some 22 per cent to 538 million rgt.

The group is also involved in plantations. Regardless of its dependence on erratic commodity prices, plantations remain a stable and mature industry. Profitability in this industry is a function of acreage. And Genting has been banking on that.

Asiatic Development Bhd (Asiatic) was incorporated as a wholly-owned Genting subsidiary to spearhead the group's interest in the plantation sector. Genting has 63.6 per cent stake in Asiatic.

Despite its infancy, Asiatic has grown to a commendable size; as of Dec 31, 1990, it has 36,579ha of land with plantations, factories, and oil mills in peninsular Malaysia and Sabah. It is currently among Malaysia's top five companies in the plantation sector in terms of hectareage.

Datuk Baharuddin Musa, joint chief executive of Asiatic, says the company has increased its landbank by over 100 per cent in the three years. 'Asiatic should do very well this year, partly because oil palm prices are going up and its mature acreage has increased.' says an analyst.

ON THE possibility of Asiatic or Genting acquiring more land, the analyst says, 'I don't think they are adverse to acquiring more land, but it's a question of cost. Besides, Lim is a shrewd land buyer.' There are other virtues inherent in plantations. With completion of the North-South highway, the possibility of converting plantation land to industrial estates is reasonably high. Genting has some choice land in Johore. The likelihood of Genting converting some of its land to industrial estates, according to Sieh, will depend heavily on the supply-demand situation. 'As of right now, there are no impending plans. At the right time, we hope to make the right move.'

Even so, given depressed commodity prices, analysts are quite puzzled by Genting's bullish interest in plantations. In addition, the plantation business is a direct opposite of gaming – in terms of returns, the former is very much slower. 'We have some of the best managed plantations in the country.' explains Sieh. 'There's still a lot of potential in the sector.'

In its quest for diversity, Genting has also moved into paper manufacturing. Through Genting International Ltd (GIL), it purchased a paper manufacturing facility in Singapore which produces brown grade industrial paper, specifically corrugating medium, test liner and white liner.

According to a senior analyst, the pilot project is doing 'quite well', contrary to market talk that Genting is planning to shelve the project. Says the analyst, 'They've done it on a small basis. They know the market is there, how it works. So in terms of viability they have done everything they possibly can.' The result of the trials seem positive – Genting has decided to set up a manufacturing facility in Kuala Langat, Selangor, which will cost some 244 million rgt.

'We normally do exhaustive studies of any project before we move into it,' says Sieh. 'Our conviction remains the same. What has changed is the number of other companies moving into the industry. But we are not worried. We will continue to pursue our plans, and hopefully emerge as one of the major manufacturers of brown grade industrial paper in the country.'

Genting, apparently, has no intention of moving into corrugating. Sieh feels the corrugating market is a little over-crowded with more than 40 companies in the business. 'Besides we don't want to be competing with our buyers,' he adds.

The group does not call the right shots all the time. Example: GIL, in which Genting has a 15 per cent stake through a company called Kazzon Ltd, reported huge foreign exchange losses in September last year. GIL is incorporated in the Isle of Man and listed on the Luxembourg Stock Exchange as well as Clob (Central Limit Order Book) International across the Causeway.

The forex losses came about in, well, accounting fashion. For its accounting purposes, GIL uses the Australian dollar.

In mid-1991, GIL redenominated its accounting base to the US dollar. 'They decided to do that at a time when the Australian dollar was extremely weak,' says an analyst. In doing so, the group lost US\$10 million (about 27 million rgt).

'It was a one-off loss,' adds the analyst. 'They recognized it in their profit and loss account. It's a technical loss, not an operational one. So that's not something to worry about.'

GIL is primarily engaged in investment holdings, manufacturing and the provision of technical know-how, management and consultancy services to casinos and resorts. It currently acts as consultant to a casino operator in Adelaide, South Australia and Burswood Hotel and Burswood Resort Casino in Perth, Western Australia.

In terms of management and consultancy fees obtained by GIL, an analyst estimates it to be about US\$2 to 2.5 million. GIL's pre-tax profit for 1991 was expected to touch some US\$16.7 million. Its 1990 pre-tax profit was A\$38.29 million. For 1992, one analyst estimates its pre-tax figure to hit US\$19.5 million.

'GIL's returns from casino management and consultancy is not exciting,' says Tan Teng Boo, managing director of Capital Dynamics Sdn Bhd, a licensed investment advisor. 'Genting has done what it knows best, and found out that it wasn't very easy.'

Adds Tan, 'Looking at Genting's attempts at diversification especially into plantation and international gaming sectors, one does not see any significant success.' He says that plantations have eaten up a huge amount of assets with poor returns to show for it. 'Had the same amount invested in plantation been put into fixed deposit, the returns would have been better,' notes Tan.

The plantation business is for long term capital appreciation, he says. 'It will do well for Genting in sustained inflationary periods. But as of right now, Genting will have to ride along with the cycles of the plantation business.' According to analysts, the cash-rich Genting should not have any problems there. 'It's got a comfortable cushion,' quips one.

Counter-wise, Genting and RWB have been described as 'the bluest of blue'. For Genting, the pre-tax profit for 1991 is estimated to be in the region of 629 million rgt (the 1990 pre-tax profit was 474.9 million rgt) and is forecast to increase by about 21 per cent in 1992.

'In terms of turnover, particularly in the gaming operations, I think Genting is bigger than many banks,' says Dr. P H S Lim, president of the Malaysian Investors Association. 'Investors, normally institutional ones, take long term interests in its counters.'

For the long term, however, analysts say that Genting has to reduce its dependence on gaming. And while Genting is fearful of making mistakes, analysts say that it has to take that chance to branch out. What are the options? For a company of its magnitude, in terms of cash, it needs big projects with big returns to be profitable. The Malaysian government, while unwilling to ban gambling outright is at the same time not willing to openly allow an expansion in gambling activities, say s Sieh.

Genting, apparently, is still feeling its way around. Suggests an analyst, 'How about stockbroking? It's quite similar to gaming and profitable when done right.'