

16/10/1997

A wary eye on property

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'TAIPING TEXTILES will always be in my heart,' confesses Arab-Malaysian taipan Tan Sri Azman Hashim unabashedly.

Such wistful sentiment is hardly startling, although it comes from a seasoned, savvy businessman. After all, the purchase of Taiping Textiles Bhd was a watershed manoeuvre for Azman. In essence, it marked his maiden foray into the ruthless piranha-infested waters of entrepreneurship.

'That was my first exposure to the corporate world. I bought Taiping Textiles in 1982 from its Hong Kong owners. It was a drastic change. Prior to that, I had been in Maybank, Bank Negara and I'd spent time setting up my own accounting practice.'

But once ensconced at Taiping Textiles, Azman didn't waste any time remodelling the company. One of his first actions was to change the company's name to Arab-Malaysian Development Bhd (AMDB). He also transformed 35-year-old Taiping Textiles - which was floated in 1972, making it one of Malaysia's oldest listed companies - into a property developer. Barely three years after his paradigm-shifting purchase of the textile company, Azman unveiled his landmark headquarters in Jalan Raja Chulan, a street that would soon be part of Kuala Lumpur's most lusted-after real estate.

'The opening of the Arab-Malaysian building in 1985 is one of my fondest memories. I'm very much attached to the building because I had a hand in the design. And the prime minister actually opened the building,' reminisces Azman.

In fact, Datuk Seri Dr Mahathir Mohamad's name is recorded for posterity in the guest book in Azman's spacious visitor's room on the 26th floor of the Arab-Malaysian building. Mahathir's is the first name. Other luminaries who have scrawled their John Hancocks in the visitors' book include a smattering of significant politicians - Datuk Sabaruddin Chik and Tok Mat among them - and leggy Hollywood thespian Jane Seymour. Relates Syed Anuar Syed Ali, the group public relations head of Arab-Malaysian Merchant Bank, 'Jane was here because she was supposed to star in Keys to Freedom, which was being part-financed by Arab-Malaysian. But problems cropped up and the film never saw the light of day.'

But the Arab-Malaysian building isn't just an icon of Azman's 14-year trek to the zenith of immense wealth, fabulous business success and intense public scrutiny. It's also a reminder that Azman's path to prosperity was lined with potential pitfalls. One of these was the recession of 1985-1987. In fact, 1985 could be considered Azman's baptism of fire.

'It was a tough period. The building opened during the recession. I'd never been through a recession before,' remembers the AMDB chairman. To woo hard-to-get tenants, Azman rented out office space for RM1.50 per square foot, a far cry from the current market price of RM5.00 per square foot. And he threw in sweeteners like three rent-free months to get tenants to stay put.

After such deleterious years, AMDB has practically breezed through the last 10 years with flying colours. Earnings have escalated steadily. For the year ended March 31, 1997, pre-tax profits rose 13.4 per cent to RM68.6 million from RM60.5 million previously. Earnings per share were 7.8 sen, giving a historic price earnings multiple of 14.1 times at the current share price of RM1.10. Of course, profits are still negligible

compared with the RM1 billion plus raked in by Azman's financial fiefdom, the Arab-Malaysian Banking Group (see accompanying stories).

But AMDB's glory days might just come to a rude halt in 1998. According to Azman, AMDB may be poised on the threshold of consolidation. It might even witness a watered-down version of the 1985-1987 recession years.

'It's a tough time now also,' says Azman. 'Right now, we're going into a crisis period. We're still profitable, but our profitability is going to be reduced.'

Any slackening in profits for AMDB will be due to a downslide in property. Currently, AMDB's broad property portfolio covers residential, commercial, industrial, resort and hotel development. For the 1997 fiscal year, property made up more than 50 per cent of AMDB's pre-tax profits, contributing about RM27.1 million. Azman predicts that this percentage may drop to 30 per cent or 40 per cent due to the recent twin calamities in the currency and capital markets that broadsided the property sector.

Nevertheless, Azman says that the impact on AMDB may be cushioned because it has almost completed its existing order book. For instance, big-ticket property projects like its Seri Duta II condominiums and the Pantai Panorama Condominiums have already been competed and fully sold. Industrial projects like the first three phases of the 634-acre Arab-Malaysian Industrial Park in Nilai, Negeri Sembilan are fully sold. Commercial projects are also in progress. The Seremban City Centre Business Complex is primed for completion by April 1998 while AMDB's twin tower office building in Kompleks Damai should kick off in the fourth quarter of 1997.

For prudence's sake, AMDB will also let its existing landbanks lie fallow instead of developing them and running the risk of not being able to hive off its projects in a softening property market. But economic crises may not be AMDB's only challenge.

It also faces a potential internal threat in the form of listed Goh Ban Huat (GBH), which is being taken over by Arab-Malaysian Corporation Bhd (Amcorp). Under an exercise proposed in October last year, Amcorp is injecting assorted assets including four property companies and 119 ha of Perak land into the ceramic ware manufacturer. Amcorp would then end up with between 27.65 million and 28.15 million GBH shares at RM6 per share. However, Amcorp officials have requested that the price be revised to RM4 per share owing to declining market conditions. The end result of the exercise - GBH becomes Amcorp's second property arm.

How does Azman explain such duplication? 'It's possible that GBH will become another property arm for Amcorp. But it will be more focused on property development, whereas AMDB is more diversified.'

To compensate for the predicted shortfall in property earnings, AMDB may have to bank on infrastructure and utilities. Currently, AMDB holds stakes in three associate companies - 22 per cent in independent power producer Powertek Bhd, 20 per cent in toll-collector Kesas Holdings Bhd which maintains the Shah Alam Expressway, and 25 per cent in waste treatment company Kualiti Alam Sdn Bhd.

For fiscal 1997, the infrastructure and utilities division brought in some RM27 million in pre-tax profits. On a smaller scale, AMDB also has a healthy financial sideline in the form of AMDB Factoring Sdn Bhd and 50 per cent-owned Sogelease (M) Sdn Bhd, which brought in RM9.9 million pre-tax profit for 1997.

Apart from its core businesses, AMDB still retains a remnant of its past via its textile operations in Taiping, Perak. However, Azman denies that he keeps the textile division open for purely sentimental reasons.

'It's a very big operation. But it's going through a rough time now. At one time, textiles employed over 2,000 workers. But now, there are only

over 1,000 people left.'
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