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## Cabling to the top

Anna Chidambar

IN JUST OVER two years, Opcom Cables Sdn Bhd (Opcom) has emerged as the largest fibre optic cable manufacturer in the country.

An analyst estimates that the company enjoys about 50 per cent share of the local fibre optic cable market. Opcom expects its share of the domestic market will increase further.

Very impressive, percentage-wise. But translated into monetary terms, the numbers are smaller. The local fibre optic cable market last year was estimated at around RM207 million, says an analyst. The bulk of Opcom's business comes from two contracts with Telekom Malaysia Bhd, one of which was awarded three years ago.

Opcom chairman Mukhriz Mahathir explains, 'I set up Opcom Trading in 1993 solely as a trading company as there was already a demand for fibre optic cables from Telekom Malaysia. Under the first RM80 million three-year contract, Opcom sourced the fibre optic cables from abroad, provided project management expertise and managed the installation of the cables for Telekom.'

'The contract involved 8,000 km of fibre optic cables. Halfway through the contract I realised that it made more sense to form a joint venture and manufacture the cables locally,' says Mukhriz. Thus, Opcom Cables was established as a 70:30 joint venture between Mukhriz's wholly-owned Opcom Holdings Sdn Bhd and Ericsson Cables of Sweden.

According to Mukhriz, the company has just been awarded its second three-year contract, worth RM162 million, to supply fibre optic cables to Telekom. It is now working out the final details.

Opcom manufactures aerial and normal duct cables in its Shah Alam plant. The two cables are widely used by Telekom. There are two types of fibre optic duct cables - loose tubed and slotted core cables.

'We are manufacturing the slotted core cables which are sturdier than loose tubed cables. There is not much difference between the two types. So far we have invested RM40 million in our manufacturing plant, inclusive of land and equipment. Telekom Malaysia is by far our biggest customer,' says Mukhriz.

Opcom's plant has a capacity to produce 1,000 km of fibre optic cables per month. It is now running at 100 per cent capacity, with 90 per cent of its output going to Telekom Malaysia and the rest to Celcom and other smaller orders. It is believed to be the largest fibre optic cable plant in Southeast Asia.

Opcom's cables contain between 12 and 96 optic fibres depending on the buyers' specifications.

Opcom does not manufacture the optic fibres but only the cables. 'Fibre can be sourced worldwide. In our case, Ericsson sources our raw materials for us. This is an advantage since Ericsson is a large buyer of fibre. There is leeway in terms of bargaining for prices, quality and supply,' says Mukhriz.

What about profit margins? 'Under normal circumstances the bigger the supply, the higher the margin due to economies of scale. However, there has been a shortage of fibre worldwide for over a year. Now the more orders there are, the harder it is to source the raw materials. It definitely makes it more difficult to deliver and causes certain other problems,' sighs Mukhriz.

The other factor is the market is highly competitive. Though there are

three main local fibre optic cable manufacturers - Opcom, Leader Optic Fibre Cable Sdn Bhd (a subsidiary of Leader Universal Holdings) and Fujikura Federal Cables Sdn Bhd (FCW Industries Bhd is the holding company) - Malaysia is still an open market. So anyone in the world can supply the cables. Sometimes it comes down to pricing - imported cables can be much cheaper. Then there is the technical issue of meeting certain specifications, says Mukhriz.

'I don't see the need to import fibre optic cables. Local manufacturers are equally capable. Take Opcom for instance. We have been supplying cables to Telekom Malaysia for a number of years and there are no major problems with regards to quality or delivery,' he quips.

Another factor dampening profit margins in the industry is that no tariffs are imposed on imports of fibre optic cables, except for a marginal five per cent duty. Opcom suffers more than its competitors as its product range is limited to fibre optic cables.

Fujikura and Leader manufacture copper cables in addition to fibre optic cables and both benefit from a 40 per cent duty on imported copper cables. Margins on copper cables are thus higher.

'Our operation is definitely not a cash cow. We don't really make a lot of money. I'm caught every time I read newspaper reports announcing a RM3 billion project or a RM15 billion project for fibre optics. I'm assuming what was meant is the whole infrastructure including cost of equipment, installation etc, not just the fibre optic cables per se,' says Mukhriz. Analysts agree that profit margins in the industry are not high. They peg glass fibre margins at about eight per cent while completed cables margins are slightly better being value-added, ranging from 15 per cent to 18 per cent.

With the advent of the internet, the tempo in the fibre optic industry has picked up. In countries like Japan, Sweden and Europe are looking at average size cables of 100 core (100 fibres in one cable). Previously the average was 36 core. This is one of the major causes for the worldwide shortage of fibre, says Mukhriz.

'In Malaysia, when calculating the cost of a cable we used 18 fibres as our average. Now it has almost doubled, more along the lines of 30 fibres. The internet has made a fantastic impact on local policy in terms of fibre optic cable installation. In the near future we will see more collaboration between the telecommunications service providers and companies with their infrastructure already in place such as KTM Bhd, Petronas and Tenaga Nasional Bhd,' he adds.

Fibre optic cables still cost more than copper cables but prices are declining and fibre optics is known for its value-added potential. A copper cable can carry about 700 voice transmissions simultaneously but fibre in comparison can take 10,000 transmissions. It is also much lighter and easier to install. An average 36 core cable can take 360,000 phone calls simultaneously and so that is an effective advantage over copper.

'I estimate the local demand for fibre optic cables to be between 20,000 and 25,000 km per annum. (This is in terms of cable km and not fibre km.) Our target is to corner 50 per cent of this market. We have made a lot of headway with Telekom. Next, we are looking at the Asian region, particularly at Indonesia and Thailand. The Philippines is only now opening up. Indo-China, especially Vietnam and Cambodia, are next on our list. We have several requests for quotations from the Middle East,' Mukhriz enthuses.

In the long-term, Opcom plans to go one step upstream, manufacturing the optic fibre itself. But this involves a different technology. Mukhriz explains, 'Optic fibre manufacturing involves the drawing or pulling of fibre which is a very complex process. A manufacturer has to supply huge

quantities to be successful. It is unlikely the local market has the demand currently.'

So why did Mukhriz decide to set up a manufacturing plant? 'Right from childhood I used to follow my father on factory visits. The idea of making things almost out of nothing fired my imagination, and still does even now,' explains Mukhriz, who is the third son of Prime Minister Datuk Seri Dr Mahathir Mohamad.

Mukhriz is also in other businesses. Prior to his involvement in telecommunications, he was actively involved in the tourism business. He set up Layang-Layang Island Resort which caters especially for scuba divers. Mukhriz is an avid scuba diver himself.

'Being involved in the tourism business, it was the most obvious move to be part of the largest travel and tour agency in the country, so I became a partner of Reliance Pacific Bhd,' he reveals.

'Through a joint venture with Reliance I have been able to tap into its international network to get tourists to visit Layang-Layang. In fact we are now popular within the Asia-Pacific region. I guess my hobby has evolved into quite a lucrative business deal,' says Mukhriz, who holds a seven per cent stake in Reliance.

His latest focus is on manufacturing - this time through his 15 per cent stake in Ajiya Bhd, a construction material manufacturer which was listed on the second board of the KLSE last month.

'I am particularly interested in Ajiya's manufacturing of safety glass for buildings and vehicles. Ajiya Safety Glass Sdn Bhd began its operations in September last year and is slated to produce 3,000 metric tonnes of safety glass per annum by 1997,' says Mukhriz.

It is also in line with the government's efforts to make Kuala Lumpur a more attractive place after working hours where people can window shop instead of being faced with shutters and darkness, he adds.

'There seems to be good demand for laminated and safety glass in the country with all the construction and development projects going on. What Ajiya manufactures is value-added and is very much in demand. I think it's a lucrative business,' he says.

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