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Charged with confidence

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`THE COMPUTER chip holds the future,' says Mokhzani Mahathir, chairman of THB Industries Bhd (THBI), the soon-to-be listed subsidiary of Tongkah Holdings Berhad.

`A lot of things will make use of the computer chip in the future. We are in the business of supporting the companies that make chips,' says Mokhzani on why he ventured into making high-precision metal component parts and tools. He adds, `It's a business that will grow. There is no doubt about that. You find chips everywhere. Almost every electronic appliance nowadays is intelligent.'

His views seem to be supported by a recent report quoting the United States-based Semiconductor Industry Association which said it was confident the industry's historical double-digit growth rates would return in 1998, 1999 and 2000, based on the expected rebound of the memory chip market in 1998. New growth in semiconductors is also expected to come from the continued expansion of the Internet and the development of new applications for personal computers and other consumer electronic devices. It also says the Asia-Pacific region, representing 21.8 per cent of all chip sales, will continue to be the fastest growing semiconductor market with sales projected to rise to 24.3 per cent in 2000.

Says Mokhzani, `The electronics industry may go down but it will definitely go up again. But we are not standing still. We are expanding our market. We are going overseas. If there is any slowdown, we will see what we can do overseas.'

THBI's expansion plans include extending its marketing base to Kuala Lumpur. It already has a small factory operation in Bandar Sunway. It is also targeting Melaka and Johor. `We are looking at expanding to the Philippines and China, probably within the next 12-18 months. This is because multinational companies (MNCs) who like our work in Penang want us to follow them wherever they go. As for our long-term plans, we will see how it goes,' he says.

Penang-based THBI's listing exercise involves an offer for sale of 12.262 million shares of RM1 each, representing 23 per cent of the total paid-up capital at RM2.50 each. According to THBI group managing director Koay Hean Eng, who is also the company's co-founder with his brother, 20 per cent of THBI's products are exported to the US, Japan, Thailand, Singapore and the Philippines. `By the end of June 1998, we might hit 25 per cent,' he adds.

THBI's six subsidiaries (see chart) were set up between 1984 and 1993 by Koay and his brother Cheng Lye. The companies are involved in the manufacture of jig and fixtures, precision tools, dies and moulds, precisioned machined components for computers, automobiles and other industries, and the design and manufacture of automated machines. This constitutes about 70 per cent of its sales turnover, and 80 per cent of its pre-tax profits.

The subsidiaries were bought over by THBI - formerly known as Mecoprise Sdn Bhd - in 1994. The reason according to Mokhzani was that at that time THBI had a strong presence in Penang and was looking to provide a comprehensive one-stop centre for the MNCs. `We want the ability to say to the MNCs "we can turnkey a product for you. We can do everything for you". Koay's companies can make some of the parts we are looking for and we can introduce them to new customers, both local and international. We feel

that we are a good fit, and they (the subsidiaries) are well-known in Penang too,' says Mokhzani, to which Koay adds, 'It's a win-win situation. Because of that, we have the opportunity to seek a listing.'

Why choose this particular industry?

Says Mokhzani, 'We are a feeder industry to the semiconductor and consumer electronic sub-sector of electronic industries. I think we are in the right kind of niche in the electronic industries. It is a very high-end product with very high value-added and a high entry barrier.

Therefore, competition is not very keen. In Penang, there are only two other companies doing the same thing. We are one of the few with the size and quality that MNCs prefer.'

Its two competitors are listed LKT Industrial Bhd and Eng Teknologi Holdings Bhd, who according to the THBI prospectus, emphasise a different product mix. THBI's main customers include Hewlett Packard, Siemens Semiconductor, ASE Electronics and Advance Micro Devices, all located in Penang.

What about competition from lower cost countries like China? 'Unless we see evacuation of all MNCs from Penang, I don't think our business will be affected. The parts can be flown in easily. After that, the parts have to go through the assembly line which is where we come in with our customised production line, fixtures and jigs. If you are talking of just putting chips on the board, the margin is very small and you can make that in China cheaply,' says Mokhzani, adding, 'For us, the most important thing is the design. We have in-house research and development facilities. We make the parts. Everything is custom-built. We do everything in-house to the customer's specification. We are also gearing for ISO9002.'

Mokhzani also says THBI has not been much affected by the ringgit's depreciation. 'We are gaining a bit from exports, although our export volume is not so big. In fact, we gain as with this exchange rate our product costs are low. And we have the added advantage of quality and a lot of experience. We have not bought that many new machinery. We are looking at countries where the currencies vis-a-vis the ringgit are not that strong, for example Italy, Germany and France from whom we might consider buying equipment. However, our current expansion has more to do with increasing current capacity which does not require too much capital equipment.'

Adds Koay, 'Our current capacity is about 80 per cent. If the order goes up, we can expand our capacity fully.' Currently, the computerised numerical-controlled (CNC) machines used to design and manufacture its products are imported from Switzerland, Japan and Germany. Furthermore, the group has no overseas borrowings. 'The total borrowing of RM633,000 will eventually be retired once we float. We will have a net positive cash position. Even if interest rates go up, say, by one or two per cent, it won't affect us much,' stresses Mokhzani.

THBI has 365 employees, of which about 50 are foreign workers doing the lower-end jobs like loading and unloading. Says Koay, 'The jobs are mainly higher-end which require more technical skills for which we provide ongoing training. The turnover is not high. We have about 100 people who have served the company for an average of four to five years. Moreover, we are looking to further automate to the extent that instead of one person manning one machine, we can have one person to two machines.'

Mokhzani is confident that THBI's shares will be well received. 'We hope to list before the end of this year when hopefully, the market picks up. But even at this level, we have seen some interest. We hope the trend continues. Our concern is for it to be fully subscribed. If it has some premium, great. We don't want to hold it back because that would mean, among other things, holding back its expansion,' says Mokhzani.

An analyst shares his view. At RM2.50 apiece THBI offers fair value, according to Julius Tan from Inter-Pacific Securities. `The price should even be higher, say RM2.90 to RM3.20. For example, PASDEC opened at RM3.30 recently when its offer price was RM1.80. The balance sheet is quite healthy. But because the company is very specialised with most products customised, it is very difficult to compare it with its competitors. There is no industrial average on this industry because there are too few players,' he adds.

THBI's consolidated profit forecast after taxation and minority interests for the year ending June 30, 1998 is RM12.165 million giving a net earnings per share of 22.83 sen. Its prospective net price earnings multiple based on the offer price of RM2.50 is 10.95 times. The industry average for the electronics industry is 12 to 14 times. THBI's paid-up is 53.28 million shares.

After the listing, Tongkah Equity - a wholly-owned subsidiary of Tongkah whose directors include Mokhzani, Yeow Kheng Chew and Cheong Eng Tick - will hold 17.6 million shares or a 33.04 per cent stake in THBI. Kobay Holdings whose directors include the Koay brothers will hold 14.02 million shares or a 26.32 per cent stake.

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