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KUB confident of making it to billion-ringgit club

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NEWLY-listed KUB Malaysia Bhd, which is in the midst of strengthening its core businesses, believes it will soon join the billion-ringgit club, regardless whether its prized stake in Sime Bank Bhd is maintained or not.

Questions about the strength of the company, which derives 70 per cent of its earnings from Sime Bank, Malaysia's fifth largest bank, have always been asked by analysts. KUB's immediate outlook does not appear to be attractive enough to some as it is banking on projects which have yet to take off.

Suggestions that it may sell off its 30 per cent stake in Sime Bank have also surfaced a number of times in the corporate circle.

However, KUB chairman Datuk Hassan Harun, in an interview with Business Times, said KUB, based on its resources, experience, good management and with mega projects in hands, is set to join the billion-ringgit league.

Acknowledging the fact that the group does not want to be too dependent on Sime Bank, Hassan said the Securities Commission, in approving its listing, imposed a condition that requires KUB to strengthen its other core businesses.

Hassan did not dismiss the possibility of the company disposing of its stake in Sime Bank, saying that there are many options available.

"We may not dispose of the stake, or we may want to swap Sime Bank shares for another bank's. Maybe an existing bank plus a new Islamic banking licence," said Hassan.

He was reported as saying that KUB is interested in getting one of the two Islamic banking licences that are still available, but Hassan, commenting on this, admitted that this will take time to realise.

KUB, said Hassan, needs to find ways to strengthen its other businesses and explore new opportunities, and to have plans which provide good returns to the company in the immediate future to replace Sime Bank's contribution, should the stake is disposed of.

"The fastest way for us (to strengthen our core businesses) is to acquire, through a merger or an acquisition, of good assets, in other fields that KUB is involved in, so that our bottom line will not be entirely dependent on Sime Bank," Hassan said, adding this is KUB's long-term plan.

BBMB Securities has commented that should KUB ever consider selling its stake in Sime Bank, a potential capital gain of at least RM200 million and a cash reserve that can easily yield RM60 million to RM70 million in interest savings or cash inflow can be expected.

Some analysts claim that KUB is too diversified and not focused. To this suggestion, Hassan said it is caused by the misconception among certain quarters in not having a full understanding of the operations of the company.

"KUB's operations are divided into eight main divisions. Although we appear to have a variety of activities, KUB is indeed focused, in the sense that we have identified the eight sectors we are going into," he said.

Hassan predicted that in less than two years, each division will be strengthened, and the ratio will not appear to favour KUB's finance sector.

One research house has forecast pre-tax and after-tax profits of RM106.3 million and RM68.7 million respectively for KUB's financial year ending

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BBMB Securities has forecast pre-tax and net profits of RM121.10 million and RM75.30 respectively for KUB's current financial year.

KUB itself, in its introductory document released pursuant to its listing, forecast a pre-tax profit of RM106.30 million and a profit after tax of RM68.68 million.

Hassan said the group has a huge landbank to be developed. The Government has just alienated 405ha of land in Gadong, 4.83km from Sepang, to KUB.

"We may want to acquire or have a joint venture with other companies for the purpose of developing the land," said Hassan, explaining that one of KUB's plans is to strengthen its property division.

On its plate, the biggest project that KUB has to date is its petrochemical venture in Kelantan. In a partnership with the Pas-led government via Keloil Sdn Bhd, 2025ha is being developed.

The cost is yet to be revealed, but the development will, among others, comprise an integrated industrial and commercial park offering a multi-purpose infrastructure aimed at facilitating the utilisation, processing, distribution and overall development of petroleum resources and petroleum products.

On the status of the project, Hassan said the master plan of the project has already been prepared and now a market study is being conducted. The Kelantan Government has identified the land and is waiting to gazette it.

Hassan said KUB wants to be involved in activities such as gas processing. KUB is interested in making a deal with Petronas, which has not committed itself to any party for the processing of the gas from its second well that was discovered offshore Kelantan.

For that purpose, KUB is looking for a partner who is willing to go in as the venture requires heavy funding.

"A lot of international parties have approached us," Hassan said, adding that the companies are keen to know whether the political end can be handled by KUB.

A cash call is another method that KUB may resort to in financing the project, according to Hassan. "When we need to acquire the land, then we raise the money."

BBMB Securities is optimistic of the project. "The project is expected to provide spinoffs for KUB's property development and construction division given the huge development potential for petrochemical projects," it said.

Another analyst, however, seems to be more cautious. "The venture is with an opposition party," he noted.

Hassan dismissed that fear. "Prime Minister Datuk Seri Dr Mahathir Mohamad was at the signing ceremony. This goes to show the priorities the Government adopts insofar as developing areas which may appear not friendly on the face of it," he said.

Hassan himself is also a politician, and is said to have strong connections that will benefit KUB.

BBMB Securities stressed that to evaluate KUB, consideration should be given not only to its current potential earnings, but to its impeccable network and connections which may very well open the doors to future lucrative projects.

"Knowing politicians is good, because you talk to the decision makers," Hassan said when asked to comment on its well-known connection, but pointed out that no privatization project has been awarded to KUB because of this connection.