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Pampering to the palate

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MAMEE-DOUBLE Decker Bhd (Mamee), listed on the main board since 1992, may not be as exciting as a company dealing with new cutting edge technology or a savvy property developer. In fact the family-owned company thrives on something more basic but important - our need to fill our stomachs, fast. Mamee's core activity is the manufacture and sale of instant noodles and snacks ranging from prawn crackers to potato chips under brands such as Double Decker, Mister Potato and Smax. Mamee also caters to those with a sweet tooth. It produces a range of confectionery under the Nicolet brand name and beverages under the Cheer and Orangina brands.

Investors seem hungry for its shares as much as for its food. Since its listing, Mamee shares have risen steadily from around RM3 in March 1992 to a peak of RM9 sometime in March this year. At the time of writing, its price is hovering around RM6.50.

But there might have been another reason for the surge in its share price this March. Says an analyst, 'Interest in the shares were sparked off by rumours that the Pang family, which controls the company, was cashing out and that one of its directors, Mirzan Mahathir, was seeking to take control of the company.' However, to date, no announcement to that effect has been made. As at June 30, 1996, Mirzan held a mere 400,000 ordinary shares in Mamee, equivalent to a meager 1.1 per cent stake. Mamee managing director Pang Tee Chew reserves comment on the possible sell-out but adds that although Mamee does not give out much dividends, its shareholders are pleased as there has been a rise in the share price due to the company's expansion and growth. Mamee has been declaring an average dividend of eight sen gross per share yearly to shareholders. Its recent fund-raising proposal is proof of Mamee's appetite for growth. The exercise involves a bond issue with detachable warrants, which will see Mamee raising a whopping RM60 million if it is approved by the relevant parties. It is proposing to issue RM60 million five-year 2.5 per cent redeemable unsecured bonds with 24 million detachable warrants. The warrants will be offered to Mamee shareholders on the basis of two warrants for every five shares held. The proceeds from the warrants will be used to repay the bonds upon their maturity. According to Pang, this form of debt financing offers the company a cheaper way of raising funds than bank borrowings. 'It is also better than a rights issue because shareholders need only pay a nominal sum initially for their warrants and only later (after five years) pay the full share price when converting the warrants.

So what does Mamee plan to do with all that money? Pang says 30 per cent of it will go towards redeeming Mamee's outstanding bank loans comprising RM3 million in term loans and RM4 million revolving credit. Another RM18 million will be used as working capital and to cover the estimated expenses for the proposed exercise. The bulk of the proceeds - RM35 million - will go towards capital expansion.

Explains Pang, 'This money will be used to develop new products for the 21st century, which will have both the advantages of ease of preparation as well as more nutritious content.' He says this exercise will include phasing out the plastic packaging for its instant noodles and developing more healthy snack foods such as low salt variations and baked instead of oil-fried snacks. The plastic wrappings will be replaced by cup packaging, thereby providing more ease of use.

Some of the money will also be used to buy new equipment to automise more of its manufacturing processes. Analysts say Mamee lags behind rival Maggi, produced by Nestle (Malaysia) Bhd. 'Maggi's packaging line is fully automated whereas Mamee's isn't. Therefore Mamee's plans for automation is much needed,' says an analyst. Adds Pang, 'The automation is Mamee's way of dealing with a labour shortage problem.' The group employs 1,357 people in Malaysia, 30 of whom are foreigners.

Focusing on the food business in Malaysia may be a good idea. Pang says based on World Health Organisation's (WHO) figures, the Malaysian food market in 1995 was valued at RM21.5 billion. And due to an increasingly wealthy and urbanising population, Pang says the food market has been growing by about 10 to 15 per cent per annum, with Malaysian consumers spending about one third of their income on food. Of the amount, Pang says RM7 billion or 33 per cent is spent on processed food, RM6 billion on food consumed away from home and RM8.5 billion on fresh food.

In the processed food segment however, only 10.5 per cent is spent on snacks and confectionery, and a meagre 1.9 per cent on instant noodles. But this doesn't seem to be a hindrance to Mamee's sales and profits. For the year ending June 1996, Mamee reported a turnover of RM118.935 million, a seven per cent increase from the previous year, while its pre-tax profit rose from RM11.644 million to RM11.739 million.

In terms of market share, Pang claims Mamee enjoys a 25 per cent share of the local instant noodles market, losing out to Nestle's Maggi brand. As for local snack food, Pang says Mamee controls 28 per cent of the market and that makes the company the single largest player, with the others comprising largely of small manufacturing companies.

While analysts don't dispute Mamee's reign in the snack market, they differ in their estimates of its share in the instant noodles market. Their analysis: Mamee has only captured 12 per cent of the market, placing it behind Maggi (50 per cent) and the Cintan brand (18 per cent), which is manufactured by Singapore conglomerate Yeo Hiap Seng.

As the competition heats up in the instant noodle and snacks markets, Mamee is making its way into more profitable segments of the food market. Most of the money spent on processed food goes to purchasing dairy products (23 per cent or RM1.6 billion) and beverages (17.1 per cent or RM1.2 billion) and Mamee seems to have taken heed of this. The company's first dairy product, Nutrigen, a cultured milk drink hit the market in September last year. Industry sources say that while it faces stiff competition from more established brands, sales of Nutrigen has been exceptionally good. Adds Pang, 'One advantage Nutrigen has is that it has extra culture - we have A, B and C culture.'

He estimates the total cultured milk market to be worth about RM50 million and says it is growing fast. 'It will pick up as Malaysians become more health conscious. In fact, the current consumption of flavoured cultured milk drinks is only 10 per cent of what the Thais consume,' adds Pang. He says Mamee's aim is to capture 20 per cent of the market in Malaysia and it is pretty close to achieving the target.

Mamee has also set its sights on the local beverage market. Three years ago, the company acquired 52 per cent of East Coast Bottling Sdn Bhd (ECB) for over RM2 million and has subsequently increased its stake to 97 per cent. The reason: ECB's owner, an individual who once had the franchises to bottle Coca Cola and A&W Root beer beverages for Malaysia's east coast market, wished to retire from the business. Says Pang, 'Although it no longer has the franchises, this is a ready-made bottling plant which was offered at a very low price. We wanted to venture into the beverages market and were confident of success because of our already wide distribution network.'

After losing its franchises, ECB continued manufacturing and marketing its own brand of carbonated drinks, Cheer. It's this brand that Mamee has taken over, including even non-carbonated drinks under the label. Pang concedes the Cheer brand has not been that popular. 'This was because ECB has all the while been focusing on marketing its franchise products. But now that we've taken over, we have embarked on a strategy to aggressively market the Cheer beverage in the rural areas.'

Analysts say Mamee has been finding it difficult to export its products to regional countries such as Thailand, Indonesia and Philippines as the local products in these markets are priced low. Thus, Mamee is unable to compete in these markets. Pang does not deny this but adds that Mamee's sales in the Chinese and Myanmar markets have been more successful. In fact, with China accounting for a sizeable portion of Mamee's 30 per cent of exports, the company set up a joint venture plant in Suzhou, near Shanghai, three years ago. Mamee holds a 60 per cent stake in the company which manufactures mostly snack food such as prawn crackers and potato chips.

With a population of 1.2 billion, the Chinese market is huge and Pang says there are long-term plans to expand the Suzhou plant. However, he is cautious. 'Although it's a big market, one has to be careful when doing business there. We have faced difficulties in collecting monies due to us from wholesalers and retailers, making it high risk. Some operators there are fly-by-night and this has pushed us to deal only in cash. As a result, this has limited our sales there. There's no problem with the demand for our products, it's only a credit control problem.'

Despite such problems, the Chinese venture contributed RM1.2 million (or 10.6 per cent) to Mamee's pre-tax profit for FY1996. Pang forecasts a pre-tax profit of RM1.9 million from its Chinese operations for FY1997. Mamee has also set its eyes on Myanmar. In early 1996, Mamee teamed up with the Golden Star Group, a large diversified company in Myanmar, to set up a manufacturing plant there. However, the deal was aborted earlier this year. Explains Pang, 'The project was moving very slowly. Our joint venture partner was supposed to acquire the land for us but it didn't materialise.'

In place of a joint venture, Mamee has set up a wholly-owned company called Myanmar Mamee-Double Decker Ltd with an initial investment of RM10 million. Construction of the first phase of the plant, comprising one instant noodle manufacturing line and some snack food production, began in April this year. It is expected to be completed in June next year. Mamee projects a turnover of RM9.5 million for the first year of production to be followed by a RM15.2 million turnover in the second year.

But why set up a plant in Myanmar when it can continue exporting to the country? Explains Pang, 'Firstly it's the question of a high import duty, which in Myanmar's case is about 30 per cent. Secondly, we're looking at the possibility of tapping into the resources of Myanmar. For example, we may want to use the cheaper and more abundant supply of rice to make instant noodles in the Myanmar plant, which can then be sold in Malaysia. This will be especially strategic with the impending inception of the Asian Free Trade Area (Afta) where trade barriers will be removed.' Pang says Mamee plans to set up more plants in Indochina after its Myanmar venture takes off.

Most of Mamee's products are manufactured by its two wholly-owned subsidiaries in Ayer Keroh, Malacca. ECB in Kuantan bottles and distributes Mamee's Cheer and Orangina beverages while its Subang Jaya plant, Milk Specialities Sdn Bhd, makes its dairy products. There are plans to set up a central warehousing system. Mamee recently forked out RM7.45 million to buy a 90-year leasehold land in the Ayer

Keroh Industrial Estate from Daibochi Plastic and Packaging Industry Bhd. The land, measuring 13,984 square metres and which comes together with a factory complex, will be used as the central warehouse for its Malacca factories. Pang says, 'The land is adjacent to our factories and so will also be used for expansion plans in the future.'

The company also has a plantation arm. It owns 2,000 acres in Lahad Datu, Sabah, with 1,000 acres planted with cocoa and rest with oil palm. Since crude palm oil prices are better, Mamee plans to convert the 1,000 acres of cocoa into oil palm. However, it's obvious that the tiny plantation arm is not a major part of Mamee's activities. Plantations contributed RM56,600 (or about 0.4 per cent) to the company's total pre-tax profit for FY1996.

The company's property activities, handled by wholly-owned subsidiary Mamee-Double Decker Properties Sdn Bhd, also do not figure much - a 13-acre industrial land in the Ayer Keroh Industrial Estate. However, Pang says there are plans to convert it into commercial land for development. Mamee started off as a family company. Pang's father and its founder, Pang Chin Hin, still holds the post of executive chairman. Siblings Pang Tee Nam and Pang Tee Suan are executive directors of the company. Tee Nam also oversees the manufacturing departments of the group while Tee Suan is in charge of all sales and marketing activities. As at Oct 15, 1996, the Pangs collectively held 51.67 per cent of the shares. Another substantial shareholder is Puteh Talip who holds 12.36 per cent. Besides Mirzan, the two other directors of Mamee are also well-known personalities. Tunku Osman Ahmad is the cousin of the Sultan of Johor while Mohamed Nizam Razak is a son of former prime minister the late Tun Abdul Razak. Nizam is also chairman of Kuala Lumpur Mutual Fund Bhd, a director of Public Bank Bhd and Public Finance Bhd. He is also a director of listed London & Pacific Insurance Company Bhd and Sunway Building Technology Bhd. Tunku Osman is chairman of CHG Industries Bhd, Mancon Bhd and Pelangi Bhd and a director of Keck Seng (Malaysia) Bhd.

Mamee's earnings per share (EPS) was 25.8 sen for FY1996. At the current price of RM6.50, its shares are trading at a price earnings (PE) multiple of 25 times. The company forecasts a pre-tax profit of RM11.5 million for the FY1997. This gives its shares a prospective PE multiple of 20 times FY1997 earnings.