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Revamp to put Tongkah on firmer footing

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TONGKAH Holdings Bhd (THB) group gearing is expected to be very minimal once its current restructuring exercise is completed next year.

THB has proposed a restructuring exercise whereby the assets of Hospital Pantai Bhd (HPB) are to be sold to THB resulting in the company having a direct interest in healthcare services.

The restructuring exercise will involve THB buying HPB's entire healthcare assets for a total RM190 million cash while HPB in turn will purchase the entire stake in Kestrel Securities Sdn Bhd for RM300 million cash.

HPB, which has RM500 million in cash reserves, is expected to change its core business from healthcare to financial services with the completion of the exercise.

THB via HPB is also to acquire Utama Merchant Group's 88 per cent stake in Perdana Finance Bhd for RM84.48 million.

THB executive chairman, Encik Mokhzani Mahathir has this to say on the restructuring exercise: "At the end of the day because HPB has a cash surplus at the moment, both companies (THB and HPB) will be on sound financial standing with minimal (gearing)..."

"HPB (will) definitely (have) no gearing ...THB (gearing) will be very very minimal...as a group.

"Because the cost of Kestrel Securities to HPB is a lot higher than buying over the entire healthcare business from HPB, so it's net positive at THB's level.

"And because we have got the proceeds from the sale of Parkway Holdings Pte Ltd (Singapore) earlier in the year, we are able to do it.

"It is a matter of utilising funds most efficiently...it is a win-win situation for both groups (THB and HPB) and the shareholders, of course," Mokhzani told Business Times.

Touching on the core businesses of THB, Mokhzani said that the group will concentrate its core activities in just three areas namely healthcare, finance and manufacturing while everything else is a support to the core businesses.

Under its manufacturing division, THB's soon-to-be-listed THB Industries Bhd (THBI) specialises in high precision tooling, machine automation and sheet metal works.

It exports its highly specialised products to the US, Japan, Thailand, Singapore and the Philippines.

THBI has targeted between 20 and 25 per cent of its overall sales for export in the next financial year.

Locally, the company mainly supports multinational corporations comprising semiconductor and consumer electronic industries based in Penang, Kuala Lumpur, Malacca and Ipoh.

In conjunction with THBI's listing on the main board of the Kuala Lumpur Stock Exchange (KLSE), the company is to make an offer for sale of 12.26 million shares of RM1.00 each priced at RM2.50 or 23.01 per cent of its enlarged issue capital.

THB via its 100 per cent owned subsidiary, Tongkah Equity Sdn Bhd is to receive RM22.66 million in proceeds from the offer for sale of shares.

The proceeds of RM22.66 million accruing to THB via the offer for sale by Tongkah Equity of RM9.06 million shares of RM1.00 each in THBI will be used to repay THB's bank borrowings. This repayment is anticipated to

result in interest savings of about RM2.27 million per year.

THB's foray into the Internet arena began in 1996, when THB was the second firm in the world to sign with Microsoft Corporation of the US to develop software for use on the global computer network - Internet - via its 70 per cent subsidiary, THB Asia Connect Sdn Bhd.

THB Asia Connect uses Microsoft's expertise to develop computer application for the PenangNet project - a Penang State Government privatization initiative to wire up the island's economy and the Government.

Applications using Microsoft's technology will be rolled out for the use of the PenangNet project, starting with at least 20 applications for both the State Government and commercial use.

This Microsoft technology underpins THB Asia Connect's other major projects such as the 1998 Commonwealth Games and the Utusan Malaysia electronic newspaper.

In June this year, THB had proposed to sell THB Asia Connect to Utusan Melayu (M) Bhd for RM20 million but the deal was aborted, according to Mokhzani. He added however, that it is still THB's plan to sell THB Asia Connect.

In line with the country's policy to promote the use of locally produced products, THB, has also entered into a joint venture with Otto Holding International of Germany via Tongkah-Otto (M) Sdn Bhd to manufacture garbage bins.

The RM35 million venture has set up a manufacturing plant in Penang to produce two-wheeled and four-wheeled garbage bins for domestic and export markets.

The joint venture has assisted another subsidiary, Tongkah Medinvest Sdn Bhd to obtain the contract to transport clinical waste from hospitals for further processing and treatment at its plant.

The RM13 million plant equipped with state of the art anti-pollution equipment, is capable of processing six tonnes of clinical waste per day and provide waste treatment service for 19 hospitals in the Klang Valley, Negeri Sembilan, Malacca and Johor.

Tongkah Medinvest is among the three consortium members awarded a RM7.5 billion concession for the privatisation of medical support services of hospitals by the Government for 15 years.

Tongkah Medinvest together with Faber Medi-Serve Sdn Bhd and Radicare (M) Sdn Bhd are to upgrade and modernise services under the world's largest healthcare privatization exercise.

In today's competitive environment, THB is aiming for organic growth in the coming years, and will continue to build on its strengths to stay ahead of the competition, and upon the completion of its restructuring exercise, this seems all the more possible.