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Stepping out solo?

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BANK BUMIPUTRA Malaysia Bhd's aspiration to go public will break the hearts of a long list of suitors, mainly listed companies, who are vying for a reverse takeover or merger.

Bank Bumiputra's chief executive officer cum executive director Datuk Abdul Aziz Othman says that the bank has submitted a study to the government on the viability of going public. 'The management and staff of the bank are anxiously looking forward to the announcement by the government as to when the bank is going to be listed,' he tells Malaysian Business.

When pressed further, Aziz says the management is hoping to get a reply from the Ministry of Finance by this year. If this happens, as it is strongly expected to, it will end speculation as to whether Bank Bumiputra is being targeted for takeover or merger - at least, for the moment.

The candidates linked to the 31-year-old bank include Bank of Commerce (BOC) and the merged entity of DCB and Kwong Yik Bank which is expected to be known as RHB Bank. BOC, in particular, was seen as the prime candidate to merge with Bank Bumiputra as it is a well-balanced financial institution. Adding fuel to the speculation was the fact that Bank Bumiputra's chairman, Tan Sri Khalid Sahan, is a former director of BOC. Even individuals were not spared. Back in 1992, Datuk Samsudin Abu Hassan, then chairman of Landmarks Bhd, and Tan Sri Azmi Wan Hamzah of Land & General Bhd, were rumoured to be taking over Bank Bumiputra. Aziz brushes the rumours aside. 'As far as I know there is nothing official,' he says. But he does not dispel the possibility of a merger in light of the impending liberalisation of the country's financial services. 'Bank Bumiputra itself is already big. If there is an opportunity to get bigger, I feel the bank will consider that opportunity. This is in view of the stiff competition that is coming down the road.

'Now the number of Malaysian industrialists venturing overseas to tap business opportunities is on the rise. Therefore, Bank Bumiputra has to service its customers in their ventures abroad in addition to enhancing its competitiveness. And to do this it needs to get stronger and add depth to its capital base,' Aziz says.

The talk of mergers and takeovers seems strange given that Bank Bumiputra is already big, with assets in excess of RM45 billion and a paid-up capital of RM1.15 billion.

This, says an analyst, is due to the negative sentiments associated with the bank, through no fault of the present management. 'Once a financial institution is in trouble or suffers a run, it is difficult to win back investors' confidence. There are many examples, even in the local scene, where shares of financial institutions are trading at a discount because they have had problems before,' he says. 'In such situations, a takeover or merger will shore up the image of the bank in the eyes of the public,' adds the analyst.

Bank Bumiputra has had more than its share of financial upheavals since the BMF scandal of 1982 when unauthorised loans given to property companies in Hong Kong nearly caused the bank to go under.

Although the culprits have been brought to justice, the damage was done. The bank had to be bailed out by Petronas which bought a 90 per cent stake from the Ministry of Finance for RM2.26 billion.

Then in 1989, the bank was saddled with a huge percentage of non-

performing loans, mainly due to the prolonged recession which had hit Malaysia earlier. Petronas came once again to the bank's rescue and injected a further RM982.4 million, and received in turn, 100 per cent ownership of the bank. Petronas sold the bank back to the Ministry of Finance in early 1991 for an estimated RM1.15 billion.

However, Aziz says the bank has grown from strength to strength over the past few years and loan recovery has been strong; a fact that didn't escape Prime Minister Datuk Seri Dr Mahathir Mohamad, who cited Bank Bumiputra's turnaround when replying to questions about Perwaja Steel's insolvency. The prime minister said Bank Bumiputra's return to profitability is proof that the government is capable of turning around ailing companies.

Besides strong backing from the government, several other factors strengthen the case for Bank Bumiputra going public. Firstly, its profits have risen to commendable levels, especially since 1994, to justify a decent initial public offering (IPO) price.

The bank's percentage of non-performing loans has dwindled to 8.3 per cent, and is forecast to reduce to about five per cent - the industry average - in the current financial year. Based on its forecast pre-tax profit of RM480.8 million for FY1997 and a paid-up capital of RM1.15 billion, its earnings per share (EPS) is forecast to be about 41 sen. Given that a bank is allowed a price earnings multiple of between 10 and 15 times, Bank Bumiputra's IPO can easily be priced at between RM4 and RM6. This does not take into consideration any increase in its paid-up capital prior to listing.

Going public will enable the Ministry of Finance to realise the value of its assets to the tune of between RM2.5 billion and RM4 billion, depending on the percentage of shares the ministry divests.

Also by going public, the capital adequacy ratio of Bank Bumiputra will rise from its current 10.5 per cent to about 12 per cent. This will enable the bank to take on even larger financing and investment.

The bank also has some hidden assets which could contribute to its profits. For one, its provisioning is expected to be about two per cent in the current financial year compared to 1.5 per cent last year. This is above the market average, and bringing it down will increase profits. Going public would mean that the bank will have to perform. 'There are no two ways about it. The bank will have to meet acceptable standards as it will be under the scrutiny of shareholders and the public at large,' says Aziz.

'Moreover, to stay profitable, it has to be efficient. The banking public is more discerning and demanding now. They expect the best. They have no sentiments and if not satisfied, they will move to another bank,' he adds. Indeed, if its array of services is exploited carefully and efficiently, Bank Bumiputra will have all the ingredients to be a financial 'superhorse'.

Should Bank Bumiputra go public, its exposure to the Perwaja Steel project - Bank Bumiputra is the biggest local lender to the troubled steel mill - might be an issue of concern. Although Prime Minister Mahathir has said that the government will absorb all the losses of the steel plant to enable the new management (Maju Holdings Sdn Bhd) to start on a clean slate, it is believed that the loans will still have to be shouldered by the new controlling owners.

How would this affect Bank Bumiputra? 'In a worst case scenario, Bank Bumiputra may have to re-schedule the loan. But the important thing is that the profits of the bank will not be affected. The only thing is its interest-in-suspense may increase,' say industry sources.

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