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Tongkah looking good

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SECURITY guards still outnumber employees at the spanking new group headquarters in leafy residential Jalan Damansara Endah, but the big boss has already moved in and made himself comfortable. Although short of support staff, the executive chairman cum chief executive officer of Tongkah Holdings Bhd (Tongkah) seems quite at home in what will soon become the nerve centre of his business empire.

Within months the low but long building, called THB Satu, will be home to hundreds of employees, although the corridors may be empty now, the reins of power over several public listed companies firmly wind their way to the huge and tastefully appointed office of 37-year-old Mokhzani Mahathir.

He is in a surprisingly good mood, considering that the day's papers carried 'inaccurate' reports about the state of his financial health and that of his elder brother, Mirzan Mahathir, who controls the Konsortium Perkapalan group.

'Unfortunately it seems the reporters got carried away,' he explains. 'I can assure you that we are no fools, we know what we are doing.'

Speculation over the financial health of the two sons of Prime Minister Mahathir Mohamad, and that of many other corporate big shots, rose following the sharp falls in share prices on the Kuala Lumpur Stock Exchange in recent months.

In Mokhzani's case, who is estimated to own 15% of Tongkah, the value of his shares has at times dipped more than 55% from the year's peak of RM272.2 million, while his personal 35.5% stake in Hospital Pantai Bhd (HPB) is now estimated at around RM409 million compared with RM657 million earlier.

The former petroleum engineer however dismisses talk of a cash crunch at Tongkah Holdings.

He says an ongoing restructuring exercise involving Tongkah and HPB, in which Tongkah itself owns a 21% stake, will leave both companies debt-free and with positive cash balances.

The exercise in question involves some confusing name swapping. HPB is to transfer its entire healthcare assets to Tongkah for RM190 million in cash, and to return the favour, Tongkah will sell its subsidiary Kestral Securities to HPB for RM300 million. At the same time HPB will also acquire an 88% stake in Perdana Finance Bhd for RM84.48 million from the United Merchant group.

At the end of the day HPB turns into a finance and stockbroking outfit while Tongkah will get a hospital chain to join its healthcare division - which already includes hospital support services company Tongkah Medinvest. However as far as the employees on the ground are concerned, there will be no visible change to their working environment.

The money that is paying for all this complex corporate manoeuvres comes from the sale of HPB's 20.1% stake in Singapore-listed healthcare group Parkway Holdings in May this year.

HPB is believed to have earned a handsome profit from the sale. Buyer DBS Land reportedly paid S\$391.2 million (about RM686 million), compared with the S\$179.2 million originally paid by HPB for the stake in Parkway less than two years ago.

'We looked at how to maximise the utilisation of proceeds from the sale of Parkway,' said Mokhzani, 'so this whole restructuring exercise

distributes the cash between Tongkah and Hospital Pantai, and at the end of the day both companies will be streamlined and focused, with no gearing and still in the cash positive side.'

Besides putting Tongkah and HPB 'on a very sound financial footing', Mokhzani says the restructuring will also provide him an opportunity to build up a strong healthcare base in Malaysia.

Which explains the reason he sold HPB's stake in Parkway Holdings. Parkway runs the Mount Elizabeth and Eastshore hospitals in Singapore, as well as the Gleneagles hospital chain which operates in several regional countries including Malaysia, Singapore, Indonesia, and India.

HPB's stake in Parkway was thought to be a feather in Mokhzani's cap, besides giving him a toehold in the regional healthcare scene.

'From a corporate point of view it would have made more sense for Parkway, which is a regional player, to own Hospital Pantai but it was the other way round,' said Mokhzani. 'Then when I got involved in Hospital Pantai, I felt rightly or wrongly that the group was losing ground in Malaysia to the competition and Gleneagles was part of the competition.'

This led him to certain conclusions. 'I didn't feel comfortable in my own home market so I didn't want to expand overseas until I fortified my position here. So I turned the priority into wanting to be a solid player in the forefront of healthcare in Malaysia before I go overseas.'

In the meantime healthcare services, while important to Tongkah's bottomline, are not expected to be as profitable as its interests in manufacturing and the newly set-up financial services arm under HPB.

At present manufacturing activities contribute the most to Tongkah's turnover, but in terms of net profit Mokhzani believes finance and stockbroking may match the profit contribution from manufacturing.

'We are convinced finance and stockbroking will contribute far more than healthcare, but the healthcare business will be more of a steady income flow. Like someone said, it's recession proof, in fact in this kind of stock market a lot more people are coming to the hospital,' he laughs.

The restructuring of Tongkah and HPB has thus far proceeded smoothly, and the full benefits of the exercise are expected to be seen by the end of the next financial year ending Jan 31 1999. Tongkah's profits are projected to grow by 30% while HPB, benefitting from the change in business, is expected to register a three-fold increase in profits.

While the restructuring places Tongkah and HPB in the enviable - or risky depending on how one looks at it - position of being debt-free and cash-rich at a time when share prices are low, the exercise nonetheless also marks the beginning of a consolidation stage for Mokhzani.

He says that for the next two years, Tongkah and HPB will just concentrate on their existing businesses, and will not be in the market for buying companies.

'We are very cautious and very careful about what's happening, especially in this market condition. I think the best thing to do is consolidate and not indulge in any spending spree.'

That dashes the chance of a bank or insurance company joining HPB's finance and stockbroking business anytime soon. Mokhzani says rather than turning HPB into a 'financial supermarket', he'll be satisfied with just having a 'financial mini market'.

'Just between the finance company and the stockbroking company itself we should be able to do most of what we want to do, short of deposit taking capabilities. So for the moment, we're just looking at this two,' he says.

By the end of the year employees of Tongkah and HPB would have joined their boss in the new group headquarters, but by that time, Mokhzani's portfolio would have expanded to include a third public listed company.

A Tongkah subsidiary, THB Industries Bhd, is scheduled for listing on

the KLSE main board by end 1997. The Penang-based company is a manufacturer and distributor of high precision tools and dies, moulds, jigs and fixtures, with a customer base of mostly multinational semiconductor and consumer electronic companies.

The present bearish sentiments on the KLSE are not expected to have much of an impact on THB Industries's listing exercise.

'We have plans for THB Industries, so if we can get a reasonable subscription for the public offer there's no reason not to go ahead with it. The public offer is very small anyway so I don't think it will be very difficult to get it fully subscribed,' explains Mokhzani.

Of the total offer for sale of 12.26 million shares at RM2.50 each, only 4.2 million shares are available for public subscription. Another 5.34 million shares have been reserved for government-picked Bumiputera investors while 1.8 million shares go to the company's existing Bumiputera shareholders. The balance of 912,000 shares is divided between the directors and employees of THB Industries.

Mokhzani comes across as being very confident on the business outlook of THB Industries.

'THB Industries is a very very high tech company, specially geared towards supplying and supporting multinationals especially in the electronics sector. Looking at what the government wants, this is exactly the type of industry they like. We don't employ many people, in fact all of them are highly skilled, in terms of productivity their contribution to the company's bottom line is very high,' he adds.

'As for the currency crisis, I think a lot of multinationals will take this opportunity to invest further in their plants here; in fact we are already seeing some new projects,' Mokhzani says, adding that THB Industries is also pretty much insulated from the effects of a weak ringgit.

On the face of it, it appears Mokhzani has most of his bases well covered. Security guards may yet outnumber employees at the new group headquarters, but by this time next year, the visitors' book might well show a roll call of corporate big shots calling on Mokhzani Mahathir's huge office on the second floor of THB Satu.

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