

17/05/1999

Analysts now see merit in tripartite deal

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INVESTORS and investment analysts are having a fresh look at one of the biggest corporate exercises last year involving Petroliam Nasional (Petronas), Malaysia International Shipping Corp (MISC) and Konsortium Perkapalan Bhd (KPB).

Those who called the deal a bailout for KPB owners last year are starting to see the merits of the deal.

Analysts contacted by Business Times contended the deal was perceived as a bailout due to the personalities involved and also because of the generally gloomy atmosphere of the local economic and political environment last year.

Under the two-part deal, Petronas gained control of 62 per cent in MISC through share swaps. MISC bought Petronas Tankers Sdn Bhd from Petronas for US\$1.56 billion (US\$1 = RM3.80) which was satisfied by an issue of 859.91 million new shares of RM1 each in MISC at RM6.96 per share.

MISC also bought over the shipping assets of KPB, including the two small liquefied natural gas (LNG) carriers for US\$220 million, in which Encik Mirzan Mahathir owns a substantial stake.

The move thus placed the country's maritime carrier in a position to strengthen its hold on transportation of LNG.

The deal helped KPB reduce its net debt to between RM100 million and RM150 million from a debt position of RM2.63 billion as at July 31 1998. At that time, the deal was described as a bailout for KPB, with some analysts saying that it would stretch MISC's business and financial base too far.

Petronas president and chief executive officer Tan Sri Mohd Hassan Marican had then said, "Call it what you want, but it's an arms-length deal as far as Petronas is concerned."

KPB also managed to keep itself in the black albeit a lower group pre-tax profit of RM41.17 million for 1998 against RM51.65 million previously. MISC, on the converse, steamrolled most of its counterparts on the Main Board of the Kuala Lumpur Stock Exchange to post one of the highest pre-tax profits. The shipping giant posted a group pre-tax profit of RM893.95 million for the financial year ended December 31 1998 against a pre-tax profit of RM729.8 million in the previous corresponding period.

In a research done a by a foreign wire agency, 60 per cent of brokerage houses interviewed gave MISC a "Buy" rating while 20 per cent each gave a "Sell" and "Hold" rating respectively.

MISC, whose shares were traded at RM6.05 per share at the close of trading on May 5 1998, has seen its share prices improve to RM6.80 at the close of trading on May 12 this year.

"The deal, if brokered during the good times when the KLSE was at the 1,000-point level and minus the personalities involved, would have been just another good corporate manoeuvre," a transportation analyst from a foreign brokerage house located here contended.

He said it was good because KPB was deep into debt, and with MISC acquiring KPB's shipping and business interest, it was a good deal for both parties.

"It was a win-win situation for both of them, with KPB slashing its debts and keeping a keener focus on its business while MISC took hold of KPB shipping interest which enabled it to strengthen its position in the

LNG business".

"With Petronas coming in, it also gave MISC the financial cloud and confidence to expand its business focus on the LNG transport sector," the analyst said.

Another analyst said the deal has put MISC in a position to dominate the LNG business like never before because it has become a subsidiary of Petronas (MISC is a 62 per cent subsidiary of Petronas) and in Malaysia "there is no bigger player in the LNG business than Petronas".

An analyst said the tie-up with Petronas and acquisition of KPB's shipping business contributed to some 20 per cent increase to MISC's overall rise in turnover. MISC turnover for the year ended December 31 1998 was RM4.61 billion compared with RM3.52 billion previously.

Hence, "MISC was given a gold mine but as a result of this, the flagship's commitment as the national carrier has often been brought to question".

Subsidiaries like MISC Haulage has been in the red for many years, the analyst said, adding that on the converse, with MISC keeping hold of its loss-making business, it is also a good thing.

"MISC needs most of its existing business, loss-making or otherwise, if it wants to be a complete logistic player and maintain its superior position in the local transportation industry," he said

The analyst added that the undercurrents in the industry are that Petronas wants MISC to be a total logistic player because in the bigger picture it would work to Petronas' favour.

Petronas may eventually make a bid for a stake in Malaysia Airlines, based on its previous corporate manouvres, the analyst said, adding that when "Petronas got itself a car engine not many people thought that they would eventually make a bid for Proton".

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