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Can KLB keep moving?

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TRANSFORM or perish. This is the catchphrase of most companies scrambling for survival in the competitive business world.

Konsortium Logistik Bhd, formerly known as Konsortium Perkapalan Bhd, is no different. The continued challenges in the shipping business, one of its core activities, hit its bottomline hard. Under the stewardship of group executive chairman Mirzan Mahathir, KLB responded quickly by disposing of its shipping business to Malaysian International Shipping Corporation Berhad (MISC) for US\$220 million in November last year and is now morphing into a logistics company.

'We have to transform ourselves,' says Mirzan. 'It is no good just doing the same things we did in the past. We are migrating our businesses as we do not want to be known only as a haulage and shipping company. By doing this, we hope the momentum for our services will continue to grow as we enter the new century.'

'One of our shareholders says it is good to change the name as the old one - Perkapalan - lacks feng-shui. Let bygones be bygones. No more shipping business for us. We learnt our lesson.'

Mirzan was speaking after the company's recent extraordinary general meeting. Its core focus now - logistics - involves the organised movement of goods from its place of manufacture to its markets, and encompasses transportation, warehousing, as well as ports and airports logistic services.

With the change of name and core activities, KLB is penetrating new market segments and applying new strategies. It will be focusing on delivering logistic services rather than investing in assets such as warehouses and trucks, and will be looking to work with partners.

'It was a wise decision considering that the number of home-grown companies involved in the logistics business is still very small,' says an analyst. 'We still depend on foreign players to handle the logistics business locally. KLB's venture into the business certainly gives new meaning in the industry.'

But observers caution that the 'big boys' in the business, such as Mayne Nickless Logistics, will put pressure on KLB. 'These are global logistics players that have been dominating the market for quite a while and they could certainly give KLB a hard time setting up their base,' says an analyst with a foreign stockbroking firm.

KLB, however, is optimistic about the future. 'We are aware of the challenges we will be facing,' says Mirzan. 'We have our strategies to compete with them. This includes better services.'

Adds a KLB shareholder, 'And don't forget, better networking too.'

Mirzan says the 'transformation process' would be complete by the year 2001, whereupon KLB would be in a position to compete against other logistics companies in the world.

Although he declines to disclose the investment involved in the transformation process, he says that for the current financial year, considerable time and money will be spent on retraining staff and on information technology.

KLB, says an analyst from K&N Kenanga, encountered financial difficulties in 1997 when the Asian currency crisis struck and the ringgit depreciated. 'Things were made worse as a result of its over-expansion programme and having to service its US dollar loans,' he says.

The disposal of its shipping business to MISC has put KLB on a better footing. The US\$220 million in cash KLB received from the deal improved its gearing ratio from 5.2 times at the end of financial year 1997 to 0.4 times at the end of fiscal year 1998.

In addition, KLB recently announced the sale of its stake in South Asia Port Ltd, a company in India, for US\$18.9 million. This netted KLB a gain of RM16 million, which will be used to further ease its bank borrowings. Coupled with a decline in interest rates, the company's interest cover is estimated by K&N Kenanga to be a comfortable 4.3 times its forecast earnings for fiscal year 1999. (Interest cover is a measure of the extent to which a company's earnings cover interest paid on its loan capital, and is expressed as the ratio of earnings to interest due.)

For the year ended Dec 31, 1998, KLB reported a group pre-tax profit of RM40.279 million. But after tax and extraordinary items, it suffered a loss of RM93.68 million

K&N Kenanga in its report is upbeat about KLB, expecting the company's net profit to grow by 90.3 per cent this year. The reasons it cites for its optimism include its belief that KLB will enjoy a 15 per cent increase in cargo volume handled; an 84.1 per cent reduction in net interest expense; a RM16 million gain from the sale of interests in its Indian port joint venture; and 1999's tax waiver. Given these positive indicators, an analyst expects KLB's pre-tax profit to increase by 2.8 per cent and 20.4 per cent in financial year 2000 and 2001 respectively.

KLB shares are currently trading at around RM3.18 on a price earnings (PE) multiple of 3.5 times earnings for fiscal year 1998. Based on K&N Kenanga's forecasted profits of RM53.3 million and RM41.4 million for 1999 and 2000 respectively, KLB shares are trading at a prospective PE multiple of, respectively, 10.6 and 13.8 times earnings for the two years.

A new chapter has started for KLB. 'It is now a new story, with a management that acts decisively and proactively to pare debt,' says an analyst. 'KLB is on the right track to recovery.'

Mirzan says the group's operating profit projections for this year are much better than last year's, with container haulage and depot services as main contributors.

Will new acquisitions be involved during the transformation period? 'It may happen if we feel the need to do that,' says Mirzan. 'It is something we should consider to speed up our growth in this business.'

KLB has to establish itself in a very wide geographical area to provide more comprehensive services to customers, he says. 'We could do that by partnering with somebody or having partners invest where we can provide expertise or acquire existing operations.' The group, he adds, is taking advantage of the economic recovery to plan and implement 'the necessary programmes' so that it will emerge from the economic turbulence 'different and stronger than before'.

Mirzan says KLB has identified partners who will operate trucking and warehousing facilities both in Malaysia and overseas. KLB is expected to announce one of them here shortly. 'We are also carrying out a due diligence exercise and hope to sign up a partner in India in the near future,' he says.

Although an equity stake is sometimes needed as a catalyst, Mirzan says KLB would prefer to have its partners in a logistics network rather than buying into their companies. 'We want to be ready to offer a comprehensive service to companies in the new globalised Internet-based economy.'

Mirzan says KLB has internally generated funds to meet the cost of implementing these measures and is also able to exercise a placement of up to 10 per cent of its share capital this year.

The company has enjoyed positive growth this year, with volumes having

picked up most significantly in Malaysia, he says. Container volumes have exceeded that of July 1997.

KLB currently has a 22 per cent market share of the local logistics business. 'KLB will operate like a virtual company,' says Mirzan. 'People will be dealing with KLB alone and not this or that subsidiary. The group is changing the logistics landscape and getting ready to compete in the regional market.'