

16/08/1999

Make or break

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WHEN the economic downturn hit the country in mid-1997, Kuala Lumpur Industries Holdings Bhd (KLIH) was among the corporate companies to feel the heat.

KLIH's 60 per cent-owned subsidiary, Malaysia Electric Corporation Bhd (MEC), which harboured dreams of becoming a major electrical appliances player, found itself in the hands of Special Administrators. After months of scouring the local electrical appliances industry, the Special Administrators finally decided on a white knight; an unlikely one at that. Anggun Permai Industries Sdn Bhd, a medium-sized electrical appliances manufacturer, is taking the lead role in reviving MEC's fortunes. Anggun Permai, together with Fiamma Holdings Bhd, a main-board listed company, signed a conditional memorandum of understanding with the Special Administrators to take over the operations of MEC last month. The memorandum provides for the two companies to assume control of its manufacturing operations upon completion of a workout proposal. Anggun Permai has stated that its immediate task is to revive the manufacturing operations of MEC in Gambang, Kuantan. Towards this, the company issued a statement calling on small- and medium-sized vendors to participate in a vendor programme to support the manufacturing operations in Gambang.

The vitality and drive shown by the young entrepreneurs of Anggun Permai are encouraging. But can the company revive the flagging fortunes of the financially beleaguered MEC?

Anggun Permai is headed by 32-year-old Tengku Ngah Putra Tengku Ahmad Tajuddin who established the company five years ago with his 28-year-old brother, Raja Ariffadhila Tengku Ahmad Tajuddin.

The task ahead is no child's play. MEC is the biggest ever venture undertaken by a local company in the competitive electrical appliances industry. KLIH's 60 per cent stake in MEC was at one time valued at RM450 million. The other shareholders are Khazanah Nasional with 30 per cent and the Pahang State government with 10 per cent.

Sources say MEC is saddled with liabilities of about RM700 million. And to start its operations in Gambang, about RM30 million is needed. This includes the possibility of upgrading its production line.

The changes in the electrical appliances industry are so volatile, especially for audio visual appliances that manufacturing equipment need constant upgrading. For instance, MEC's plant in Penang was shut down last month and its equipment, with a book value of more than RM4 million, was offered for sale at only RM100,000 because it was obsolete!

MEC's two other plants outside Gambang have been closed. Both plants were located in Selangor.

For Anggun Permai, it's a colossal task, even with Fiamma's support. Financially, the resources of both companies are likely to be stretched at best, or insufficient at worst, in reviving the Gambang plant.

According to documents obtained from the Registry of Companies, Anggun Permai has a paid-up capital of RM1.5 million. Besides Tengku Ngah and Raja Ariffadhila, the other director is Ahmad Kamal Yeop Kamaruddin. The company recorded a turnover of RM3.91 million for the financial year ended December 1997. Its profit before tax was barely RM30,000.

As for Fiamma, the company was listed on the main board two years ago with a paid up capital of RM42.12 million. For the financial year ending

Sept 30, 1998, the company saw its turnover reduced by 23 per cent to RM95.54 million. Its pre-tax profit fell even further from RM12.69 million in 1997 to RM2 million last year.

Industry sources feel that Anggun Permai and Fiamma will have difficulty reviving the operations of MEC unless there is some aid from the government. 'Alternatively, the liabilities of the manufacturing operations must be absorbed by the government so as to allow the new management to start on a clean slate. All trade creditors must be paid off,' they say. 'The new management cannot afford to be bogged down by supply constraints.'

Besides manufacturing, Anggun Permai also has the unenviable job of rebuilding the MEC brand. 'In the electrical appliances industry, brand name is like the DNA of the product,' says an analyst. 'It spells out the culture, quality and background of the company behind the product.' The months of closure has eroded MEC's market share. Before its troubles, MEC used to command a respectable market share for rice cookers. But now the market share has dwindled. Anggun Permai, though, can take comfort in Fiamma already having a chain of retail outlets which distribute electrical goods.

Anggun Permai will have to compete with established names like National Panasonic, Sharp and Pensonic who have been in the business for the past 30 years. Moreover, the market for electrical appliances is so competitive that margins are razor thin. In recent years, many local electrical appliances assemblers and distributors have run into problems or closed shop.

Among them is Neico Bhd, a Taiping-based company previously known as Sanyo Bhd. Taiping Super Bhd's Low Bok Teck and his brothers took over the company from its Japanese owners with the intention of establishing a new line of electrical appliance products under the brand name of Neico. However, even before it could be launched on a grand scale, the company ran into difficulties, and has now been taken over by Lim Kim Hong of Sumurwang. Lim has renamed Neico, I-Bhd.

As for brand building, this will take time and require a huge effort from Anggun Permai and Fiamma. Tengku Ngah knows how difficult it is to build up a brand name. Although his company has been assembling and marketing television sets under the Nikom brand name for the past five years, it still has a long way to go before it is wholly accepted by the domestic market.

Owing to the difficulty in penetrating the local market, most of Anggun Permai's products are for the export markets, mostly third World countries and former USSR member nations (now independent, and regrouped as the Russian Federation, the Commonwealth of Independent States and the Baltic Independent States). Anggun Permai has substantial interest in manufacturing plants located in Russia, Uzbekistan and Croatia in particular.

The company also does some contract manufacturing for local assemblers of electrical appliances. MEC used to be one of its clients. Tengku Ngah and Anggun Permai were largely unknown until 1996 when Tengku Ngah was part of Prime Minister Datuk Seri Dr Mahathir Mohamad's entourage to Croatia. His company also took part in an exhibition in Zagreb.

Sources say he caught the eye of the authorities during the delegation's trade trip to Croatia. Some in the industry were impressed by Tengku Ngah's boldness in venturing out in countries like Russia and Croatia which are viewed as new and uncertain markets. Tengku Ngah could not be reached for comment.

As for Fiamma, the company is principally involved in the manufacture

and distribution of household electrical appliances under the Elba brand. The company imports the bulk of its products and is sensitive to fluctuations in the exchange rate. Fiamma was scheduled to construct a washing machine plant in Nilai last year but it shelved the project due to the economic downturn.

The company is venturing into the information technology field through a subsidiary. It plans to be involved in the business of providing value-added network data services.

Many suitors vied for the opportunity to revive MEC's flagging fortunes. Before settling for Anggun Permai, the Special Administrators had approached Pensonic, the most successful of the local electrical appliances players. It is learnt that the Penang-based company was prepared to take over MEC's operations but not its liabilities. The Special Administrators also had preliminary talks with Neico, headed by Kim Hong, but no deal was done.

The jewel in MEC is not the manufacturing plant but the 1,400 hectares of land that comes along with it. The Pahang state government set aside the vast tract of land for the development of MEC City at a cost of RM4 billion. It was supposed to have been the one-stop international trade centre for made-in-Malaysia electrical appliances. MEC City was also supposed to have sparked off the development of the Eastern Corridor. KLIH is said to have been keen on developing the land in Gambang, a move which would have filled up the company's order books for the next 10 years. When the project was mooted in 1996, KLIH's earnings were projected to grow at about 72 per cent per annum.

Analysts say that this was one of the reasons that KLIH ventured into the electrical appliances sector although there were no synergies with its core activity of property development.

KLIH was badly hit by the recession and is now undergoing a restructuring process. Even if the company hits the comeback trail, it is unlikely to play a role in the development of MEC City.

As for Anggun Permai and Fiamma, sources says both companies have to prove their ability to revive MEC before they can get a slice of the pie in the development of MEC City.