

All eyes on Renong group

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INVESTORS, dealers, investment analysts, bankers, financial reporters and anybody who has an inkling of interest in "the market are holding their breath to see the details of how Renong group's problems will be resolved.

The signs are clear. Even Prime Minister Datuk Seri Dr Mahathir Mohamad himself has acknowledged that the company is weighing down the market.

If one were to speculate based on the Prime Minister's remarks last Thursday, Renong Bhd may be delisted and in the process, Tan Sri Halim Saad may lose control of the sprawling empire which he has led for the past 11 years.

Other media reports have pointed out that the Ministry of Finance Inc's 100 per cent-unit, Khazanah Nasional Bhd, might be the one to take over United Engineers (Malaysia) Bhd (UEM).

Buying Renong's controlling 37.9 interest in LJEM will cost over RM1 billion, even with a 30 per cent premium given to the share price. Taking over UEM's 32 per cent interest in Renong would cost about RM750 million, taking into account the same premium:

Both entry points will give the buyer the driver's seat of the group as Halim will only be the second largest shareholder. Both avenues will also unwind the cross-holding structure that was created by UEM's controversial purchase of Renong shares in 1997.

But taking control of Renong is clearly cheaper. If the buyer also takes over Halim's 16.5 per cent interest and

Time Engineering Bhd's 22 per cent stake, the two blocks will cost RM696.05 million based on Renong's last traded price of 81 sen.

Turning Renong private will entail making an offer for the remaining 29.5 per cent stake and with a 30 per cent premium, the bill comes to RM691.36 million.

Hence, the total amount needed to take Renong private will be just over RM2 billion. And delisting Renong will have its advantages. UEM can use proceeds from its Renong stake sale to repay Projek Lebuhraya Utara Selatan Bhd (PLUS). UEM and Renong repaid its debt using the RM8.4 billion bonds that were issued in 1999.

Time can also use its sale proceeds to partly repay its bondholders.

Being a private company, Renong will also have the flexibility to dispose of assets quicker as it will not have to go through similar processes for listed companies to secure approvals from authorities.

With a lighter debt load, UEM can also expect the market to price its shares at a fairer value.

Prior to 1997, shares of UEM had always traded at a 25 per cent premium to its fair value. Since 1997, it has been trading at some 50 per cent dis-

count to its fair value.

For a group that has long been mired in controversies, particularly the Renong share purchases four years ago, a change in management is expected to immediately improve Renong's value as share prices of its listed companies can be expected to rise.

Investors have already perceived that the Government is trying to improve corporate governance by chasing up shares of companies related to the group.

Time surged 51 per cent last week while Intria Bhd rose 42 per cent to 75 sen. Commerce Asset-Holding Bhd also saw its share price rising 8 per cent to RM7.30.

But more importantly, how the plan addresses Halim's RM3.2 billion debt to UEM, will be closely watched by investors and market observers alike. It is undeniable that the market will be looking for some punitive elements in the plan.

Investors do not take corporate governance issues lightly nowadays. Studies have shown that good corporate governance pays as the stock market will ascribe greater value to shares of companies that practise it.

If the plan, which will be unveiled today, does indeed include signs that authorities are serious about tackling corporate governance issues, investors should not just focus on the Renong group alone.

The group may be the largest corporate debtor, but size should not matter when corporate governance is involved.