

Jury out on UEM-Renong revamp

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Analysts hope latest restructuring will bring forth a new era of change

By Patrick Chalmers

KUALA LUMPUR, Fri: Malaysian government efforts to quarry through infrastructure group UEM-Renong's debt mountain, while affordable, may not be enough on their own to boost wider corporate confidence, according to analysts.

"Will the UEM-Renong restructuring herald a new corporate environment? The jury is still out on that," the Standard & Poor's ratings agency said in a statement dated August 16.

S&P's, which rates Malaysia's foreign currency sovereign credit at BBB/Stable/AS, saw a new tack in the government's RM3.8 billion (US\$1 billion) bid for United Engineers (LJEM) and plans to revamp UEM-Renong group.

It said the exercise, through consolidation, would inflate Malaysia's gross public sector debt by five to nine percent of 2001 GDP to between 85% and 88%.

The estimate was made without knowing full detail of the plan, or if lenders may have to forgive some UEM-Renong debt.

"Despite this, Malaysia's fiscal flexibility is not materially hurt," it said, adding sales of the UEM-Renong stable's financial and non-strategic operating assets might offset the government's up-front cost.

Morgan Stanley's Daniel Lian welcomed the actions of Prime Minister Mahathir Mohamad's government in tackling problems both at UEM-Renong and Malaysian Resources Corp Bhd (MRCB), another big debtor.

"This is a marked departure from the relative inaction on corporate reform' from 1997 to mid-2001," the Singapore-based analyst said in a market commentary. But he warned uncertainty remained.

"Whether Dr M (Mahathir) is for real on the present round of corporate restructuring is a million-dollar question for the investment community that is still

keen on the Malaysian market," he wrote in a note to investors.

S&P's was cool on whether resuscitation attempts on UEM-Renong would quell concerns about banks' unwillingness to roll over current exposure, sluggish corporate reform, slowing foreign investment or any Renong-related equity market weakness.

"Standard & Poor's has repeatedly highlighted the potential costs inherent in the Malaysian economic and business model."

Malaysia has an affirmative action programme favouring its majority Malays in business and state privatisations. S&P's said this policy had benefitted many firms.

"But these efforts at times have fostered regulatory forbearance, non market-oriented approaches and the practice of favouring selected individuals and corporate entities."

While the UEM-Renong move would clear a portion of contingent liabilities factored into S&P's Malaysia rating, it left in place risks posed by other politically well-connected companies. - Reuters