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In good stead

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NOW THAT the Government has taken over United Engineers (M) Bhd (UEM), the question on everybody's mind will be whether the company will perform better than under its former supremo Tan Sri Halim Saad.

At this juncture, it is still a matter of conjecture as to how the Government intends to restructure UEM and its 31 per cent associate Renong Bhd. But one thing is for sure; taking UEM private will culminate in the eventual listing demise of the group from the Kuala Lumpur Stock Exchange. However, it will not spell the end of it as far as future prospects are concerned.

On the contrary, it will stand to gain. Having the Government as its major shareholder will open its doors to plenty of opportunities. Being a construction giant with diverse expertise and specialisation, the Government might use the group as a conduit for whatever infrastructure projects it has drawn up for the country.

One mega project which immediately springs to mind is the revived RM9-billion Bakun Hydroelectric Dam project in Sarawak. Earlier reports speculated that UEM is among more than 30 companies which purchased pre-qualification documents for the tender of the Bakun Dam's main civil works contract, estimated at RM3 billion.

The contract to build the coffer dam, which is part of Bakun Dam, is valued at RM74.2 million and was awarded to Global Uphill Sdn Bhd, a company reportedly linked to Sarawak tycoon Tan Sri Ting Pek Khiing.

With the Government behind it, it may not be surprising if UEM ends up getting the job. There is also a possibility that UEM and Tenaga Nasional Bhd, which is considering taking up a stake in Bakun, may go hand-in-hand in the massive project, says an analyst. 'Even if it does not have the expertise to build dams, it can be acquired by teaming up with a foreign outfit,' he adds.

It was also reported that a number of international construction giants such as Asea Brown Boveri, Alcatel and Siemens are joining the fray so as not to lose out a piece of the Bakun action. These foreign entities are said to be talking to local companies to form consortia to bid for relevant contracts.

Another potential contract that may land on UEM's plate are some road works in India. The company announced two weeks ago that it is likely to be awarded the RM626-million road works by virtue of it being the lowest bidder for the three contracts. The bid for the project was put up by the UEM-Assar joint venture, a 51 per cent UEM-owned unit.

Stockbroker MIDF Sisma Securities says the higher-margin jobs would contribute positively to UEM's bottomline in the next two to three years at least. An analyst says the company has already secured RM1 billion worth of projects.

UEM has another joint venture in India with GMR Infrastructure Ltd on a 26:74 equity ratio to bid for additional RM1.6 billion worth of road contracts there. Then, there is the RM3-billion pump prime stimulus package set up for infrastructure projects in anticipation of the adverse effects of a slowing economy in the United States. Out of the total allocated, only about RM200 million has so far been utilised, leaving a balance of RM2.8 billion up for grabs.

The Government is looking at other ways to utilise the allocation in view of its poor response from the private sector. With the biggest

construction group at its disposal, the Government may be able to channel the funds to hasten the pump priming activities.

In this way, UEM will be assured of work while the Government can achieve its objective of boosting the construction sector, which, in turn, will contribute to the country's gross domestic product growth.

An analyst says the market is now abuzz with talk of another RM1 billion off-budget economic stimulus package on top of the earlier RM3 billion. This supplementary package would be used to finance smaller-scale projects such as roads, mosques and other buildings which are able to by-pass the red tape that has caused the under-utilisation of the RM3 billion package. This is good news for construction companies, including UEM.

Last month, Prime Minister Datuk Seri Dr Mahathir Mohamad hinted at the possibility of introducing an additional pump-priming measure to counter any negative impact on the local economy in the aftermath of the terrorist attacks on the United States.

Although taking UEM private will not dent its prospects in any way, the Government has a gruelling task at hand, ie, restructuring the UEM/Renong group. For one, its priority would be to clean up its balance sheet and address its burgeoning debt estimated at RM18 billion.

But how will this be done?

Analysts hold mixed views on this. One analyst argues that the best way would be to sell its jewel - Projek Lebuhraya Utara-Selatan Sdn Bhd (Plus) - if the Government wants the debt revamp on a fast track and a clean slate. The Government can inject some privatisation projects later on. The question is who can swallow Plus amid the uncertainties in the economy?

The disposal of 100 per cent of Plus is the best solution to the UEM malady but only a foreign entity is capable of absorbing it, says an analyst. But he is quick to add that this possibility is highly unlikely as the Government would not want to give up its cash cow. At the same time, the sale of non-Plus assets under the UEM umbrella will not be enough to clear all the group's debts.

Another analyst anticipates a realignment at the construction giant which comprises 15 listed companies, including UEM and Renong, with activities ranging from infrastructure to plantations to pharmaceuticals.

Another possibility is the flotation of Plus, she says. UEM can retain 51 per cent interest and offer the remaining 49 per cent for sale. Plus is valued at RM14 billion. Proceeds from the sale will go a long way in settling both UEM and Renong's debts.

There is also talk that Telekom Malaysia Bhd is courting Time dotCom Bhd with the aim of acquiring the latter but it is unclear whose stake Telekom is after. The analyst reckons it is a logical move as Time dotCom cannot compete on its own and needs the mastery of another telco despite its cash-rich status.

As an option, UEM may dispose off its other assets which are not synergistic to its core operations of construction, infrastructure and engineering such as Commerce Asset-Holding Bhd, Park May Bhd and Pharmaniaga Bhd.

At the time of writing, Syarikat Danasaham Sdn Bhd, the company set up to take over UEM, is in the midst of appointing a new board and management team to spearhead and drive the financial and operational revamp of UEM/Renong. It is crucial who is appointed to helm the group as UEM's revamp must be transparent to uphold good corporate governance, says an analyst.

In a positive development, it was reported that UEM plans to convert the failed RM1.8 billion Islamic bond to 11-year, long-term loans in an effort to refinance a RM980 million loan that its unit Elite (Expressway Lingkaran Tengah Sdn Bhd) defaulted on. If this goes through, then it

could be the first step in resuscitating UEM's balance sheet and will help relieve bad loans in the banking system in the wake of the default by Johor Corporation.

In its RM3.8 billion cash bid for control of UEM, Danasaham had amassed 90.72 per cent acceptance of its shares and 60.45 per cent of warrants. The offer has been extended for another 14 days until Oct 2 to mop up the rest of the remaining shares and warrants. Shareholders who did not take up the offer earlier will have no choice but to liquidate their investments since UEM would be taken private eventually. There could be some sentimental value attached to UEM, once the blue chip of construction plays.

The positive outcome from all this is that after having been a drag on the market for quite a while, and a discredit to corporate governance, the Government's intervention would once and for all rid UEM of its charades. Still, the market would keep a close watch on how the UEM/Renong revamp crystallises.

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