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Khazanah sees good returns from bid for UEM (HL)

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GOVERNMENT investment arm Khazanah Nasional Bhd expects good returns from its proposed RM3.71 billion takeover and delisting of United Engineers (Malaysia) Bhd (UEM).

Describing the exercise as an attractive investment opportunity, Khazanah managing director Tan Sri Mohd Sheriff Mohd Kassim said the agency is confident of succeeding in its bid, which is conditional upon acceptances by shareholders amounting to at least 90 per cent of UEM's equity.

The Government's investment arm is offering RM4.50 for each of UEM's 815.30 million ordinary shares and 40 sen for each of the company's 98.05 million warrants through wholly-owned Syarikat Danasaham Sdn Bhd.

Mohd Sheriff was speaking at a media briefing in Kuala Lumpur yesterday which was called to detail Khazanah's voluntary offer for UEM. Also present were Danasaham directors Datuk Azman Yahya, Datuk Anwar Aji, and Salmah Sharif, as well as its chairman Abu Hassan Kendut.

It will be Khazanah's biggest investment to date and involves taking UEM private to expedite restructuring of the group and unlocking of the value of various assets through disposals as well as flotation of certain units.

Analysts said under the scheme of things it is not inconceivable, for example, for construction unit Ho Hup Construction Co Bhd and project manager Kinta Kellas Plc to be disposed of as a group.

Pharmaceutical unit Pharmaniaga Bhd is likewise a possible candidate for divestment, they said.

Khazanah may also refinance the RM8.4 billion bonds issued by UEM's toll highway unit Projek Lebuh raya Utara-Selatan Bhd (PLUS) in 1999. The agency holds about RM2 billion worth of the bonds.

"UEM's current market valuation does not reflect its inherent worth... Khazanah is not bailing out anyone... the assets are worth much more if the group is broken up," said a foreign analyst.

UEM shares were last traded at RM3.56, which means Khazanah is offering a 26.4 per cent premium for them.

On the other hand, the offer for the warrants represents a 52 per cent discount on their last traded price of 83 sen each, which is to be expected given the strike price of over RM6.00 and huge out-of-the-money position.

Khazanah stressed that the offer is final and will not be revised under any circumstances. It will provide Syarikat Danasaham with initial financing, which will later be refinanced through the sale of bonds or preference shares to market participants and institutions.

"It is quite clear what will happen if investors do not accept the offer. The company in its present state is not good for shareholders... the low share price will continue and the prospect of a delisting is a possibility," Mohd Sheriff said.

The takeover bid has been viewed as an effort by the Government to address corporate governance issues that were cited as a factor for the stock market's recent sluggish performance.

"The UEM-Renong saga has continued for so many years, obviously it needs to be resolved. We've been told that one of the reasons why investors have shunned the market is that they want to see its resolution," Azman said.

"The Government realises that only it has the resources to carry out a comprehensive restructuring... and address the concerns of the market in

respect of the group," he added.

And Prime Minister Datuk Seri Dr Mahathir Mohamad has said the Government would not waste public money to restructure the Renong group.

Khazanah currently owns 1.77 million shares or 0.22 per cent of UEM, and also 1.15 million units or 1.16 per cent of the company's warrants.

UEM's largest shareholder is at present Renong with a 37.92 per cent stake, followed by the Employees Provident Fund with 8.98 per cent.

UEM in turn owns 32 per cent of Renong, which means if Khazanah's bid succeeds, the agency will emerge as the latter's controlling shareholder ahead of Tan Sri Halim Saad which holds 16.5 per cent of Renong's equity.

The briefing had been widely expected to shed light on how the Government intends to deal with the RM3.2 billion debt Halim owes UEM, but Mohd Sheriff said it is too premature to comment on the issue.

"The first priority for us is to go through this exercise.

"We believe we can make it successful. Then we will attend to other issues.

"We will look at how best to enhance value of our investment including what to do with the put option," he said.

At the end of the exercise, the boards of both UEM and Renong Bhd will be revamped, and Halim will not have a role in the restructured group, Mohd Sheriff said.

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