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More surprises may be in the offing for Phileo

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MARKET observers are reserving judgement on Phileo Allied Bhd's unexpected purchase of Pos Malaysia Bhd, reacting to speculation that more surprises may be in the offing for the high-profile company.

The abrupt shift in the company's direction last week has made industry observers wary, following so soon on a sudden change in Phileo's ultimate owners in late April.

At the same time, market players believe other strategic investors will come on board in the future which could reduce the clout of Pantai Holdings Bhd and Avenue Assets Bhd, Phileo's ultimate and immediate holding companies respectively.

Market talk has it that the country's largest fund manager, Permodalan Nasional Bhd (PNB), may eventually emerge with a substantial interest in Phileo, given its previous investment in Pos Malaysia. Until last year, PNB owned 40 per cent of Pos Malaysia.

"Things are so fluid at Phileo that it wouldn't be surprising anymore if PNB does turn up," said a local institutional dealer.

"Pos Malaysia's a real gem in the rough. But the market is waiting to see what will happen next.

"Events involving Phileo have been unpredictable over the last few months to say the least, and investors may not be comfortable until they know what they are getting into," said another institutional dealer. Phileo shares lost 5 sen to RM1.79 yesterday.

Only a month ago, businessman Datuk Mokhzani Mahathir puzzled the Malaysian corporate world when he suddenly left the helm of Pantai, through which he indirectly controlled Phileo.

Mokhzani, a son of Prime Minister Datuk Seri Dr Mahathir Mohamad, cited "unfounded" criticism from his father's political opponents as the main reason for leaving.

Earlier this year, plans to sell Phileo were blocked by a controversial condition which the Securities Commission (SC) imposed as part of its approval for Phileo's sale of its bank to Malayan Banking Bhd.

Under the regulator's requirements, "certain" substantial shareholders of Phileo must get prior approval before they are allowed to sell their Phileo shares.

This condition was widely understood to apply to Avenue Assets, which apparently scuttled plans to sell Phileo to Hong Kong-based Malaysian businessman, Lee Ming Tee.

Analysts believe this is partly why Mokhzani decided to sell his controlling stake to little-known Datuk Lim Tong Yong, the founder of soapmaker Paos Holdings Bhd, for just RM60 million.

Then last Thursday, Phileo said it is buying all of Pos Malaysia from the Government for RM800 million, of which RM550 million will be paid in cash.

Most observers agree that Phileo is buying Pos Malaysia cheap.

With more than RM6 billion flowing through its coffers every year, and a large cash hoard, Phileo is getting one of the few remaining lucrative privatizations, they added.

Analysts said Phileo is getting Pos Malaysia "very cheap" if the cash hoard comes intact. According to Pos Malaysia's accounts, its fixed and short-term deposits have averaged almost RM470 million between 1996 and 1999.

If that cash stays in the national postal service's pockets, Phileo will effectively pay only RM330 million for a huge network of 624 post offices and mini-post offices around the country and a monopoly over stamp sales and mail delivery.

It also gets an enormous stream of cash, which consists of bill and rate payments and licence renewals made at Pos Malaysia's counters. Cash receipts totalled RM5.8 billion last year and RM7.4 billion the year before. Pos Malaysia's 2000 cashflow statement and balance sheet were not available.

Phileo is paying about 15 times Pos Malaysia's historical 2000 earnings of 54 sen a share, but its strong cashflow may put its value much higher.

Analysts believe Pos Malaysia could easily use its cashflow as a springboard to offer financial services.

"With a money-lending licence, it could become a huge finance company. Its network would be hard to beat," said a financial consultant.

"That makes it a steal for Phileo, although taxpayers who have been funding the postal system for years may not see it that way," said a local analyst.

Much needs to be done, however, before the full value of Pos Malaysia's assets can be unlocked, other analysts point out.

"The investment needed may be in the order of RM1 billion, maybe more. It's hard to say, but that could be why the price is so low," said another local analyst.

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