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Special purpose vehicle to assume control of Renong? (HL)

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A SPECIAL purpose vehicle will be created to assume control of the Renong business empire and restructure its mountain of debts to shield local banks and investors from a potential collapse of the group, sources say.

A team of professionals is working out the plan which is likely to lead to the exit of Renong Bhd's controlling stakeholder and executive chairman Tan Sri Halim Saad from the group, they said.

"And it will all be done without tapping into public funds."

Translated, this could mean the special vehicle will raise funds for the takeover by issuing debt papers that are backed by the Government, with the entire exercise estimated to cost up to RM4 billion.

Pengurusan Danaharta Nasional Bhd's managing director Datuk Azman Yahya is assisting in the plan's implementation.

"Datuk Azman Yahya is not going to head Renong or United Engineers (Malaysia) Bhd (UEM) (as had been speculated by the market).

"He is however assisting a government agency, as part of his portfolio as the managing director of Danaharta, to take over the group which will lead to its eventual restructuring," said Nora Shah, Danaharta's assistant general manager of the communications unit.

The scheme is expected to be structured along the lines of a leveraged buy-out where the cost of acquisition will be less than the value of assets being purchased. And any debt incurred from the exercise would be repaid when the assets' value is realised.

It is understood that the team has started negotiations with Halim but it is not clear how his existing RM3.2 billion debt to UEM would be addressed under the plan, the sources said.

Contacted by Business Times yesterday, Halim said he had nothing to say. Officials of Khazanah Nasional Bhd likewise declined comment when asked if the agency was involved in the scheme.

"For the moment, no comment," said Khazanah's senior general manager Datuk Anuar Aji.

Bernamea meanwhile quoted Prime Minister Datuk Seri Dr Mahathir Mohamad as saying that the Government has been searching for a solution to Renong's financial problems.

"If people want to do something about this, then go ahead... if it is profitable to the Government, seronok juga (it's exciting).

"When you talk about debt, you have to talk about assets also. If its debt exceeds assets, then it is foolish to buy. But if the assets are undervalued... and if you can release the asset value, then it would be worthwhile," Dr Mahathir said in Putrajaya.

The Prime Minister noted that Renong's financial woes might have been weighing on the stock market, and if the company were to be removed from the market, "it might do something to help the KLSE".

Analysts have said that the Government would need to step in to untangle Renong's affairs as the group's collapse would have knock-on effects on the country's lenders and institutional investors.

In 1999, Projek Lebuhraya Utara Selatan Bhd (PLUS) issued RM8.4 billion worth of zero-coupon bonds in a back-to-back arrangement to repay creditors of Renong and UEM.

Renong and UEM now owes the toll highway operator this amount, which is growing at a compounded rate of 9.4 per cent a year. At the bonds' maturity in 2006, RM16 billion is due to PLUS.

The two companies had planned to raise funds from asset sales to meet its obligations, but have been slow in doing so, analysts have said.

PLUS itself would not be in a position to redeem the bonds as its cashflow for the next five years is committed to repaying money raised to finance construction the North-South Expressway, they said.

A default would impact banks and insurance companies, and other holders of the bonds. It is believed that Khazanah and Kumpulan Wang Amanah Pencen own a combined 20 per cent of the papers.

Shares of UEM and Renong were suspended from trading on Wednesday, and speculation has been rife that a takeover of the group was being engineered. UEM told the Kuala Lumpur Stock Exchange that a "major transaction" would be announced on Monday.

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