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Utama in a spot over merger deal with RHB

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UTAMA Banking Group Bhd's merger deal with Rashid Hussain Bhd (RHB) may end up leaving Utama with a big hole in its account, or worse, losing its banking business completely.

The board members of Utama are believed to have met Sarawak Chief Minister Tan Sri Abdul Taib Mahmud last Friday night to decide on the fate of the merger deal with the nation's third-largest bank.

The announcement of the result is expected to be made as early as today.

According to a source close to the deal, the meeting was to determine whether Utama would proceed as planned and acquire RHB's stake from Malaysian Resources Corp Bhd (MRCB) and RHB executive chairman Tan Sri Abdul Rashid Hussain or completely cash out of the banking business.

The latter choice means Utama will be selling its stake to RHB group and cede control of the bank completely.

"The two banks would have to merge, by hook or by crook," said the source.

Utama is the only bank yet to merge with an anchor bank, having missed the Bank Negara Malaysia deadline to increase its shareholders' capital to RM2 billion by the end of last year. The bank's shareholders' funds currently hover around RM1 billion.

The bank had earlier conducted talks with Arab-Malaysian Bank Bhd and EON Bank Bhd before starting negotiations with RHB last April.

Recently, Prime Minister Datuk Seri Dr Mahathir Mohamad had, in a way, put pressure on the two banks to conclude their talks, saying that he hoped the deal could be settled as soon as possible, preferably last week.

Talk was rife in the past few weeks on the unraveling of the negotiations between Utama and RHB following the disagreement in pricing and management issues.

Abdul Rashid was reported to fix on a selling price of RM6 per share while MRCB increase its price by RM1 to RM4.80 per share.

Last week, Utama was said to have had a board meeting but failed to reach to a decision over valuations.

If Utama were to proceed with the merger as planned, it would need at least RM1.74 billion to fund a general offer triggered by its acquisition of the combined 46.6 per cent stake from Abdul Rashid and MRCB.

This would be achieved by selling its shares to RHB Capital Bhd, the parent company of unlisted RHB Bank Bhd, in order to raise the cash.

"But the (Utama's) shareholders are not very keen on this plan as it would leave the bank with a very large liability, while Abdul Rashid will walk off clean," the source said.

However, the other alternative should be equally painful, if not more, as it would see Sarawak losing its only banking arm as the shareholders cash out and sell Utama to the RHB group.

Utama is 51.8 per cent-owned by Cahya Mata Sarawak Bhd, the investment arm of the State Government of Sarawak.

Analysts said if the merger does happen, one way or the other, its impact on RHB's operations is not expected to be as substantial as seen in the merger of Bank Bumiputra (M) Bhd and Commerce Bank Bhd, or the Arab-Malaysian group and MBF Finance Bhd. This is despite the merger being completed more than a year later than the others.

"It is not going to be as big a merger. Utama is small, and there is not much overlapping of operations," said a head of research at a foreign

research house.

Interestingly, the source said Utama may also contemplate converting its operations to an Islamic unit in order to retain its banking activity.

Unlike commercial banks, Islamic banks like Bank Islam (Malaysia) Bhd and Bank Muamalat Bhd are not required to merge.

Utama shares closed higher by 1 sen last Friday to RM1.61. The counter has lost 29 per cent in 14 days as nervous investors sold off their stocks. Meanwhile, RHB closed unchanged at RM2.31 and RHB Capital fell 1 sen to RM2.58.

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