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Coming clean

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TONGKAH Holdings Bhd's shares sank to an all-time low of 12 sen at end-April. This is not surprising, given that the company is one of the affected issuers under the Kuala Lumpur Stock Exchange (KLSE)'s Practice Note 4/2001 (PN4) requirement.

In fact, the ailing company was already reclassified under 'PN4' in the Industrial Products sector of the main board in early March, with its securities being placed under trading restrictions.

But of late, Tongkah has been a talking point among investors, and its shares have been attracting a considerable amount of interest. Could it be that the company is about to resolve its financial misfortune? Is a rescue scheme already on the cards?

This may as well be the case as according to market sources, investment banking group Morgan Stanley has been mopping up Tongkah shares from the open market on behalf of its client.

The speculation was that this could be the harbinger of a possible takeover of the beleaguered company. A white knight would certainly stop the haemorrhaging in the group and give it a much-needed lifeline. At the time of writing, Morgan Stanley had yet to respond to queries from Malaysian Business.

But now Tongkah is staring at the spectre of having its shares suspended and may even face delisting as the deadline of May 5 given by the KLSE for it to put its house in order has lapsed.

Three days before the deadline, Tongkah said in a routine monthly announcement that it was negotiating a rescue scheme with interested parties and major creditors to restructure existing debts of the group. This was an improvement compared to its disclosure a month earlier.

However, on May 3, Tongkah's adviser, Public Merchant Bank Bhd, said the company was unable to make the requisite announcement by May 5 and subsequently asked for a further two-month extension.

So, what happens now?

The ball is obviously in the KLSE's court, but will the exchange crack the whip and penalise the group for its mistakes?

Tongkah's statistics illustrate its sorry state of affairs. For the financial year ended June 30, 2001, its net loss ballooned to RM422.6 million from RM118.4 million in 2000. The massive loss was mainly due to colossal exceptional items of RM300.1 million, the bulk of which was for provisions for diminution in value of investments in associates and quoted shares and losses on partial disposal of investments in associates.

Its deficit in shareholders funds as at end-June amounted to RM279.4 million and its deficit in net tangible assets (NTA) was RM2.

The next six months saw an astonishing improvement. Net loss for the quarter ended Dec 31, 2001, shrank to RM13 million, deficit in shareholders' funds was reduced to RM255.5 million while deficit in NTA was RM1.59. Group borrowings, however, was still massive at RM663.6 million.

The improved scenario was due to the disposal of loss-making Tongkah Electronics Sdn Bhd and Tongkah Mouldings Technologies Sdn Bhd. Among others, Tongkah has also proposed to dispose off its entire 75 per cent interest in stock brokerage Kestrel Securities Sdn Bhd to Allied Avenue Assets Securities Sdn Bhd.

Indeed, Tongkah has been aggressively pursuing a rationalisation of

group activities to stamp its burgeoning losses and put the group back on a profitable path. The results have been somewhat encouraging, but is it enough?

Not according to an analyst. To clean up the big hole in the group, the analyst reckons Tongkah will need to implement a painful revamp scheme to boost its viability. After the sale of its core activities, the group is sorely in need of new income-generating businesses to ensure its survival.

The group previously owned 33 per cent of Pantai Holdings Bhd but its interest in the healthcare specialist has dwindled, following several disposals last year. Tongkah sold a 12.3 per cent stake in Pantai at a huge loss a day after its former owner Datuk Mokhzani Mahathir made his exit from the corporate world last April.

Tongkah, which now owns a 14.7 per cent stake in Pantai, paid an average of RM13.50 per Pantai share between 1997 and 1999. The healthcare group has since ceased to be an associated company. Incidentally, Pantai is a major shareholder of Tongkah with a 13.1 per cent stake. The new owner of Pantai, Datuk Lim Tong Yong, does not hold any post in Tongkah.

Meanwhile, Tongkah says its investment in Pantai is part of a disposal programme to redeem its RM463 million bonds due in 2004. To aggravate its predicament, it has been slapped with a string of material litigation, the latest being a writ of summons as a second defendant in relation to a RM27 million loan default by Tongkah Electronics.

With such heavy financial woes, can Tongkah pull it off? Only time will tell. But even if it were suspended, the company would still be able to proceed with its revamp and come out a revitalised entity.