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Water services to provide wave of business opportunities

Kamarul Yunus

WATER-related activities are expected to provide the next big wave of business opportunities in the country but economists caution that massive capital investments will be needed.

Prospective players will have to have huge resources ready, said Rating Agency of Malaysia manager for economics and market research Dr Yeh Kim Leng.

"We would not want history to repeat itself where the Government has to take back control of privatized companies, for example Malaysian Airline System Bhd (MAS), the light rail transit operators and Indah Water Konsortium.

"The players must ensure that they have the required financial resources and their operations are viable in the long run," he told Business Times.

Yeh was asked to comment on the Government's plan to privatize all water departments in the country.

Works Minister Datuk Seri S. Samy Vellu had last month said that the Government is looking into the possibility because of rising costs maintaining the utility.

Yeh said among the first issues to be sorted out is to determine if the private sector can offer the same level of service, or better, at a cost bearable to the public.

"We need to take into consideration after privatization whether there will be escalation of water tariffs that is commensurate with sufficient water supply," he said.

If subsidy pricing is still needed, the quantum will have to be weighed against companies' profitability and consumers' willingness to pay.

But there is no question that private infrastructure investment in water services could contribute to higher economic growth," Yeh added.

"It will generate higher demand for machines and equipment for the water-related services," he said.

In any case, some water authorities, like those in Selangor and Penang, are managing their services well and efficiently.

"Others can learn from them."

The Penang authority is even en route to a listing on the Kuala Lumpur Stock Exchange (KLSE) this month through PBA Holdings Bhd, the holding company of Perbadanan Bekalan Air Pulau Pinang Sdn Bhd.

For the financial year ended December 21 2000, it recorded a net profit of RM39.35 million on a revenue of RM105.22 million. Last year, it made an estimated net profit of RM40.9 million.

The company has forecast a profit of RM50.2 million and revenue of RM45.1 million for this year.

News that all water supply departments may be privatized has triggered much excitement among water-related companies, although no final decision has yet been made.

But Prime Minister Datuk Seri Dr Mahathir Mohamad, in a news conference last month, said people should not be sceptical of the country's privatization programme, just because of the problems faced by MAS.

"Look at Swiss Air and Sabena... several airlines in the US are also bankrupt. Almost all airline companies are facing problems due to the global economic slowdown.

"If we are afraid to privatize, then the country will be undeveloped," he had said.

The Government spent RM1.79 billion last year to buy back a controlling stake in MAS from Naluri Bhd.

Dr Mahathir had also said that one should look at the success of Telekom Malaysia Bhd, Tenaga Nasional Bhd and the North-South Expressway as well.

"If Telekom had not been privatized, we wouldn't have the kind of services that we have today. It would take years for a government department to introduce any innovation. By that time, new products would have come out.

"Because Telekom was privatized, it is now making almost RM2 billion (annually). Last time, we used to give the telecommunications department RM200 million every year, but now we don't and instead collect tax which is used for the benefit of the people," he said.

Regardless of whether privatization of water services proceed or not, a substantial amount of funds has already been allocated for the sector under the Eighth Malaysia Plan (2001-2005).

On top of the RM4.3 billion set aside to ensure efficient water supply services, 62 major projects, including 47 dams, under a masterplan costing RM51.9 billion have been approved.

The developments are expected to benefit the bigger water-related companies most, analysts said. Puncak Niaga Holdings Bhd, for one, is already pursuing the privatization of the Selangor and Negri Sembilan water departments.

Gamuda Bhd, IJM Corp Bhd, Ranhill Bhd and Loh & Loh Corp Bhd are also in a good position to ride the wave, they said.

And YTL Power International must surely count as a frontrunner as well, having just acquired Britain's Wessex Water for STG1.24 billion (STG1 = RM5.53), beating out a Hong Kong company and a British-led consortium in the process.

So far, water supply in Johor, Pahang and Kelantan has been privatized while that of Selangor and Terengganu have been corporatised.