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YTL powers on

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IT SEEMED like a done deal. A consortium of heavyweight British banks - Royal Bank of Scotland, Abbey National and Goldman Sachs - were firm favourites to win the bid for Wessex Water Ltd, the British utility arm of bankrupt US energy trader Enron Corp.

As newspapers unfolded across the world on the Monday morning of March 25, there must have been more than a few gasps of surprise - a Malaysian company had pipped the big boys with a last-minute marginal increase in bid to gain control of Wessex.

Though not unheard of before, the name YTL was suddenly all over the global press. YTL Group's managing director Tan Sri Francis Yeoh Sock Ping was inundated with invitations and requests for interviews by the media, local and foreign, all curious to know how he scored the STG1.24 billion (RM6.69 billion) coup.

Needless to say, the group's international profile has gone up more than a few notches.

As Yeoh said during the Wessex Press conference, 'I've registered myself as a player in Europe. This opens new ground for us.'

In fact, the YTL Group had been breaking new ground in recent years and growing from strength to strength, even during bad times. It took over debt-ridden Taiping Consolidated Bhd (now renamed YTL Land) in 1999, acquired a 33 per cent stake in a consortium managing South Australia's transmission network in 2000, helped complete the KLIA Express Rail Link (ERL) project and is poised to list YTL e-Solutions Bhd on Mesdaq next month.

There is also talk that YTL is eyeing listed Cement Industries of Malaysia Bhd, and that it is among the front-runners for the privatisation of Keretapi Tanah Melayu Bhd (KTMB or Malayan Railway).

What is the secret of Yeoh's success? A born-again Christian, he is always quick to give credit to God. As a former senior executive of the group puts it, 'I am sure the invisible hand of God is around the YTL Group.'

So with divine intervention, an uncanny sense of timing and sheer hard work, the group will have grown from a single listed entity in 1985 to a force comprising five listed companies by the end of next month. YTL Corporation Bhd, the holding company, was also the first non-Japanese Asian company to be listed on the Tokyo Stock Exchange in 1996.

The Wessex deal, held via 63 per cent-owned YTL Power International Bhd, is YTL Group's biggest foreign investment to date, and is believed to be the largest British investment by a Malaysian conglomerate.

According to sources close to the deal, YTL Power's bid pipped the likes of Royal Bank of Scotland as well as Hong Kong tycoon Li Ka-shing's Cheung Kong Infrastructure Holdings because it was simpler, more straightforward, faster and required the least amount of approvals. This augured well for Wessex's parent company, which needed the money fast.

Back home, shareholders had something to cheer about. For years, they had flocked to the company's annual general meetings to complain about the billions of unutilised ringgit sitting pretty in the bank, earning barely three per cent interest. While the latest acquisition would take only RM700 million cash from the RM3.7 billion in the company's coffers, it was money put to good use.

In past years, the group's growth has been at best sluggish. The

Compounded Annual Growth Rate (CAGR) of YTL Corporation's turnover between 1997 and 2001 was 5.3 per cent. Cash-rich YTL Power grew at a paltry 3.3 per cent over the same period while YTL Cement chalked up 5.1 per cent growth, thanks to increased demand for cement last year.

With Wessex, YTL Power has brighter prospects. Despite being in net debt position after assuming the utility company's debts, YTL Power's deal has been given the thumbs-up by analysts and market observers. Wessex is expected to contribute RM116 million net profit on the back of RM1.44 billion in revenue for the financial year ending June 30, 2003.

This would translate into a doubling of YTL Power's revenue to RM2.76 billion, while pre-tax profit is expected to expand 34 per cent to RM816 million. Probably the biggest boost to the YTL Group is the fact that they have proven, through Wessex, that they are able to make it big without 'connections'. The group's growth had sometimes been attributed to Yeoh's close ties with Prime Minister Datuk Seri Dr Mahathir Mohamad.

Yeoh often sings the premier's praises and would volunteer for projects others avoid, from luxury trains to marshland restaurants. When the Prime Minister announced his South-South Vision, YTL was one of the first companies to venture into Zimbabwe.

Thus, critics have been quick to cite 'connections' when YTL obtained contracts or deals, from its favourable power purchase agreements to a piece of Malayan Railway's privatised land in Brickfields. It's a perception Yeoh has constantly fought against. With Wessex, he has shown that YTL is a force to be reckoned with, even away from home turf.

Truth be told, Yeoh is not everyone's most favourite person. His self-assured demeanour and non-conformist style has rubbed many a shoulder the wrong way.

Take for example YTL's tussle with Tenaga Nasional Bhd in the 1997 financial crisis. Tenaga, which was exposed to foreign-denominated debts, was then faced with cash-flow problems and wanted to defer payment to independent power producers (IPPs), including YTL Power, which were then paid bi-weekly. Yeoh was reportedly unhappy and lambasted the national power company for inefficiencies in managing its finances. The IPPs relented after intervention by the higher-ups.

But even the harshest sceptic or green-eyed competitor would have to admit that if Yeoh were to be considered arrogant, he could very well afford to. Since taking over YTL Corp at a tender age of 24, Yeoh, now 48, has been instrumental in transforming the family business from a mid-sized contractor into a conglomerate with a renowned brand name. In Malaysian Business' Feb 16 issue, which profiled the 40 richest Malaysians, Yeoh was listed as the 13th richest with assets totalling RM431 million. His brothers Datuk Yeoh Seok Kian, Datuk Yeoh Seok Hong, Datuk Michael Yeoh Sock Siong and Datuk Mark Yeoh Seok Kah were listed 15th to 18th respectively. Their father, Tan Sri Yeoh Tiong Lay, was listed eighth with RM1.05 billion.

Does the YTL Group hold some closely guarded family secret to its success that other companies can emulate? Malaysian Business spoke to industry observers, sources and even managed to catch up with Yeoh himself after a YTL function to find out what makes the YTL Group tick.

Going against the flow

'YTL is a contrarian,' Yeoh often proclaims. 'Every time others don't want something, we want it.' This has been the pattern of growth through the years as the group expanded and diversified, be it in electricity transmission in Australia, water and sewerage business in the United Kingdom, or even an Internet company on Mesdaq.

Critics question the viability of YTL Corp's incubator arm, YTL e-Solutions, the company on its way to a Mesdaq listing. After all, the

Internet crash is still fresh in people's minds, and Mesdaq is often perceived as a dumping ground for languishing techie-wannabes desperate for exposure and funding. But this is exactly the type of challenge Yeoh seeks and he has proved time and time again that he can make the improbable happen.

`There is seriously a lack of long-term investors in the world,' says Yeoh. `When people "buy, polish and sell", we are crowded out, whether in infrastructure assets or IT assets. People pay too much, we can't.

`Now nobody is paying anything at all for anything,' he says, referring to the huge number of cheap Internet companies looking for investors. `This is our turn.' When everyone steered clear of the property market during the 1998 economic crisis, the YTL Group picked up a prime strip of property on Jalan Bukit Bintang - Star Hill Shopping Centre, Lot 10 Shopping Centre, and the JW Marriott hotel - for a modest sum of RM323 million, a fat discount from the properties' net book value of more than RM800 million.

`We can't pay RM800 million for a hotel because the market says RM800 million. Look at the numbers. At RM800 million, you have to pay RM800 a room,' Yeoh says. `Your aggressiveness in a business has to be calibrated with the risk of the business. So far, we've managed that balance quite well, and we'll continue to do that.'

The properties belonged to debt-ridden Taiping Consolidated Bhd, a company headed by Datuk Sulaiman Manan. Bidders from as far as Hong Kong were keen on Taiping Consolidated. But the balance, say sources, tilted in favour of YTL Group because its terms were better for the majority shareholders of the beleaguered company.

Right thing at the right time

`Francis Yeoh is the man of the hour,' says a source close to the company. `He knows when to seize opportunity, to seize the moment.' Being the first mover proved greatly beneficial for the group when they started their power operations.

It began way back in October 1992, following the three-day power outage throughout the peninsula, when the Economic Planning Unit invited proposals on ways to prevent future occurrences. The YTL Group was the first to present a concrete proposal on IPPs.

As the `pioneer', it had the advantage of making the rules along the way and came away with a winner - a 21-year pact to sell electricity to Tenaga at 15.5 sen per unit from March 1995. Its rates were one of the better ones. But the salient feature in the power purchasing agreement (PPA) is that Tenaga has to pay the IPPs based on their capacity, irrespective of whether demand for electricity increases or not.

Till today, folks at Tenaga are said to be sore about having let the YTL Group walk away with what is often seen as the better side of the deal. But for the group, it was a matter of meeting a need at the right time ... and price. Today, the power arm contributes more than 80 per cent to the YTL Group's bottomline, with a net profit of RM439.25 million on a turnover of RM1.32 billion for the financial year ended June 30, 2001.

In 2000, YTL Power ventured to Australia, investing in a 33 per cent stake in ElectraNet, an international consortium managing South Australia's transmission network. At that time, the move was questioned as YTL Power seemed to have its hands full and was in a good position to get its hands on one of the seven power stations Tenaga was divesting.

Once again, YTL's foresight proved infallible. As things turned out, Tenaga halted its divestment plans midway, affecting YTL Power's bid for the Pasir Gudang power plant. However, with ElectraNet, YTL Power not only gets an area of growth but also invaluable experience should it decide to move into the European market.

Ringgit only, please

In YTL's non-conventional style, YTL financed its two power plants, costing some RM2.5 billion, solely with the ringgit. It was not smooth sailing. YTL Power's equity and technical partner, British's National Power Plc, pulled out of the company because it couldn't agree on this matter. But Yeoh did not waver.

'How could you finance a long-term infrastructure with short-term deposits in US dollars? I can't,' Yeoh tells Malaysian Business. 'This is 21 years. It has to be in ringgit. We have to be different. It takes a little longer, but we don't get into trouble.'

Yeoh's insistence paid off in the 1997/98 financial crisis when YTL Power (and other players that followed its financing model) was shielded from the effects of the ringgit's depreciation. The offshoot advantages were numerous - as the loans did not require a sovereign guarantee, local banks and Tenaga were saved from having to pay higher loans and interest rates; consumers, in turn, did not have to deal with increased electricity tariffs.

'We always avoid a crisis because we have a philosophy that's very different: we believe in producing world-class products at Third World prices and the only way that can be done is through innovative financing,' says Yeoh. 'We financed the IPP in ringgit. If we financed it in US dollars, we would be bust today.'

At 15.5 sen, or US\$0.04, per unit of electricity, YTL's power purchasing agreement is still 25 per cent cheaper than that of regional IPPs. As Yeoh once pointed out, the company can still be profitable because its financing costs are lower than the others.

More than expected

The YTL Group has silenced critics more than once with its reputation for delivering projects in record time.

In 1982, the company won its first turnkey hospital contract - a 750-bed General Hospital in Kuala Terengganu - against stiff international competition. It completed the project in two years, five months ahead of schedule.

This has been the YTL Group's trait in several other undertakings. They include the nucleus concept project where 12 district hospitals were delivered together a year early; Bintang Walk, six months early; Power plants, seven months early.

The secret? Hard work, often round the clock. The company set a new record when it continuously poured 13,000 cubic metres of concrete for 54 hours for the 4.5-metre-deep raft foundation of the first tower of the Kuala Lumpur City Centre project. While a Japanese firm took 21 days to build a floor of the UBN Towers along Jalan Sultan Ismail in 1985, YTL took only seven days for each floor of the MAS building (on the same road).

'Doing things ahead of schedule and meeting your deadlines and fulfilling customer services is hard work, and more hard work,' Yeoh was once quoted as saying. 'You have to do better all the time and always look for things to improve.'

Perhaps one of the more daunting challenges facing the group is to find a way to make money out of the transportation business - the ERL. History shows that this is no easy feat as other transportation companies, from Putra and STAR's light rail transit to Malayan Railway, have not fared well in their bottomlines. Yeoh is unperturbed.

'The difference with the ERL is that we're the cheapest per kilometre in the world - RM35 million,' he tells Malaysian Business. 'Other people are doing it at RM157 million, five times our price. At RM157 million, how can they make money?'

The strategy, he says, was to decide how much customers should pay, then count backwards and construct it accordingly. At an affordable price, he points out, there would be a higher rate of success as the profitability of the train depends on ridership.

'We've priced the ride so that it's the cheapest in the world,' he says. 'We don't load the construction up front ... take the upfront profits of the construction and then get the consumer to support it. That's not YTL's way.'

'We have to think of the consumer; we have to price it to the consumer. And if you get that right, you won't have sleepless nights.' At the end of it all, it's a challenge Yeoh looks forward to. 'If we can make money out of transportation, then you must applaud YTL,' he says.

Eye to the future

A visionary, Yeoh often sees what others don't. Those close to the company would tell you that Yeoh did not go into Wessex by coincidence or convenience. With water privatisation being one of the biggest drives in Malaysia, word has it that Wessex would serve as a launch pad for YTL to gain Malaysian concessions in the future.

'I won't be surprised if Yeoh is already negotiating behind the scenes (for local water privatisation projects),' says a source. YTL will be retaining Wessex's current management, which is a good move as intensive technical know-how is required, but Yeoh will also be putting in his own people to learn and gain experience.

Even with YTL e-Solutions, Yeoh shows himself as one of the few corporate heads who understand and utilise the power of the Internet and information technology (IT).

'If you don't have IT, you can forget about being connected to the customer of the future who is going to be so orientated in IT,' he says. 'My children's generation is all about IT. I don't think you can offer to them any services or products without IT.'

Since then, the Internet and IT have become an increasingly integral part of the YTL Group, from its ERL and power plants to its community website. Today, whichever part of the world he is, Yeoh can track the cash flow of the group's restaurants by the hour, check which food was ordered and sieve through any customer complaints or comments with the click of a button.

The hand of God

And no matter how strong YTL's balance sheet is, no matter how wise management is, Yeoh attributes it to divine intervention. 'God is with YTL; God blessed my endeavours,' he said when the group won the Wessex deal.

In 1996, the group was bidding for a share in power company Consolidated Electric Power Asia (CEPA), 60 per cent-owned by Hong Kong businessman Gordon Wu's Hopewell Holdings, for US\$2.6 billion (then equivalent to RM6.5 billion). The deal would have turned YTL Power into Asia's largest IPP with power units in China and the Philippines. It would have spring-boarded YTL Power's listing on the Kuala Lumpur Stock Exchange.

However, Hong Kong's largest investment bank Peregrine Investment Holdings apparently advised Wu to sign an earlier agreement with America's Southern Company before the bidding ended. Sore, the YTL management reportedly contemplated suing Peregrine, but Yeoh decided to let the matter rest, saying 'God will take care of it'.

Yeoh went ahead to float YTL Power in April 1997, with private placements with institutional players in an innovative scheme that resulted in the company making an exceptional gain of RM769 million upon listing.

Months later came the East Asian financial crisis. Markets from

Indonesia to Hong Kong crashed. Local companies with foreign investments paid a heavy price as the ringgit depreciated. Interestingly, Peregrine also went bust in 1998. And through it all, YTL was almost unscathed.

YTL's investment in Wessex is the biggest thing that has happened to the company, post-financial crisis. Innovative financing has favoured the company so far. Its timing for picking up cheap ventures is almost perfect.

Analysts have been favourable of the company. 'The YTL Group is known for its ability to deliver well and to deliver timely, be it power plants, cement plants or beautification of the city,' reads an Affin-UOB research report. 'The true differentiating strength of the group is in its financial management. The time, effort and innovativeness in its financial management have truly made a big difference to the net worth of the group.'

Going forward, YTL's journey towards becoming a major utility player on the international stage is just beginning. From a net cash company, technically it is now in a net debt position, a fact YTL's investors would not quibble over. Everybody is on a high that YTL no longer has the problem of not utilising its huge cash pile. The perception is that the problems besieging the company are history.

But Yeoh, being the contrarian he is, would probably think otherwise. He probably is anxious to see the Wessex deal turn in actual numbers before returning a verdict. After all, that is the secret of YTL's success - cautious optimism.

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