CORPORATE

JAKS faces threat from Laksana

BY MARYANN TAN

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When the name Laksana Wibawa Sdn Bhd emerged from nowhere to claim a dominant position in the water-pipe industry in May, sentiments on the prospects of publicly listed pipe manufacturers turned predictably negative.

While analysts were left figuring out how best to forecast the earnings of pipe manufacturers such as Engtex Group Bhd and YLI Holdings Bhd, it was JAKS Resources Bhd position that seemed most compromised.

JAKS had gained market prominence on the notion that it had the privilege of being the exclusive pipe supplier to the Selangor state government for at least 10 years.

What did Laksana's appointment as sole supplier of mild steel and ductile iron pipes to Syarikat Bekalan Air Selangor (Syabas) mean for JAKS? Was its own contract with the state signed in disappearing ink?

Obviously taken by surprise themselves, JAKS executives would not comment on their position when contacted several times after Laksana's appointment.

Now it appears that Ang Lam Poah, managing director of JAKS, has been working hard behind the scenes to possibly salvage whatever rights it has left to the contract without resorting to lengthy litigation procedures.

JAKS announced last week that it had signed a memorandum of understanding to begin talks to acquire 70% of Laksana from its vendors. An acquisition will probably be satisfied with a combination of cash and new shares issued in JAKS.

"JAKS had a contract with PUAS [Perbadanan Urus Air Selangor] that was never honoured. Obviously, there's a lot happening behind the scenes and they are working out to reconcile everything," an industry member observes.

Industry sources add that when Syabas (70% held by Puncak Niaga Holdings Bhd and 30% by Kumpulan Darul Ehsan Bhd [KDEB]) took over PUAS' operations and liabilities last year, the JAKS-PUAS contract became vulnerable to breach.

With talks still at early stages, the value of Laksana is yet to be established although it is quite obvious that it is the contracts Laksana has clinched and will possibly clinch that will determine its price.

Of interest to observers is whether Laksana will be awarded more exclusive contracts from Syabas in subsequent phases of the non-revenue water (NRW) reduction project. Being allegedly linked to Tan Sri Rozali Ismail, chairman of both Puncak Niaga Holdings and Syabas, there is a high chance that it will.

It has not been revealed how much of the RM275 million expenditure on Phase 1 of the NRW project has been allocated for pipe procurement. The new pipes that will replace ageing asbestos cement pipes will be made of ductile iron, mild steel and PVC.

A producer hazards a guess that RM30 million may be spent on ductile iron pipes alone.

Records from the Companies Commission of Malaysia show that Laksana has a paid-up capital of RM10.8 million and unappropriated losses of RM14.6 million as at Dec 31, 2003. It had net liabilities of RM3.6 million.

In its press release, JAKS notes that the MoU will last two months or up to a date that will be mutually agreed upon. It is believed that both parties will drive hard bargains.

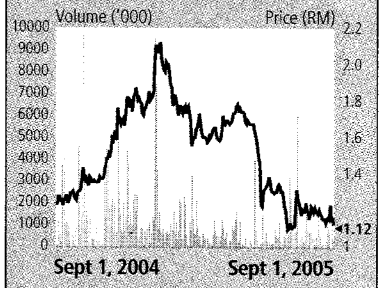
Sources say before Laksana's appointment, JAKS was one of several manufacturers that submitted price quotes to Syabas for consideration. Evidently, its quote was turned down, indicating that Syabas had snubbed JAKS, in spite of KDEB's 30% stake in the JAKS-KDEB consortium, which holds the contract with PUAS.

Still, there are enough safeguards in the terms and conditions in the contract to allow JAKS legal recourse although observers say it would not want to do so.

Thus any deal struck will take into account JAKS' 10-year supply contract, of which three years have already lapsed, and Laksana's contract with Syabas, which is believed to extend over several years.

Industry members are looking forward to the acquisition. Says one: "It will be good for everybody because things will finally get moving and Laksana will be able to leverage on a listed company's financing capabilities."

JAKS Resources



Net profit/(loss)	Oct 2004	RM32.4 mil
Share price	Sept 1	RM1.09
52-week high	Jan 14, 2005	RM2.12
52-week low	July 5, 2005	RM1.09
PE valuation	Historical (FY2004)	9.03 times
	Prospective (FY2005)	NA
Issued shares		398.5 mil
Dividend yield		Nil

It is quite crucial that JAKS reconcile issues with Syabas through this proposal since much of the company's growth was dependent on the guaranteed supply to Selangor where the bulk of water infrastructure spending will be.

It had constructed a plant in Pulau Indah, Selangor, in anticipation of increased orders from the state.

JAKS' share price has lost about 40% since its peak of RM1.78 in April. It closed at its 52-week low of RM1.09 last Thursday.

It reported profit after tax of RM8 million for the second quarter ended April 30, 2005. There are no previous year comparisons as it took over the listed status of Wing Tiek Holdings Bhd in July last year.

The group has had extensive experience in dealing with state governments and the construction of water supply infrastructure, having built sewerage facilities, reservoirs, and bulk transfer facilities. Ang is seen as an old hand in the pipe manufacturing business, long before the likes of Engtex and YLI came into the picture.

One of the concerns at the time of its listing was its dependence on PUAS as a major revenue source. It was believed then that the agreement was water tight. But Rozali and Syabas were one major leak that JAKS did not anticipate. E