

# Diversity bears fruit for Road Builder

BY NG KAR YEAN |

*The Edge 12/09/05*  
**A**bout 10 years ago, Road Builder (M) Holdings Bhd started diversifying away from the construction sector, which was its largest earnings contributor.

The company invested in property development, toll concessions and port operations as it foresaw the then vibrant construction sector experiencing a slowdown. That move is now beginning to bear fruit, as Road Builder's results indicate. For the financial year (FY) ended June 30, 2005, the operating profits of each of the three non-construction units outperformed the construction division.

In FY2005, the construction division's op-

erating profit declined 45% to RM37.96 million from a year earlier, mainly due to lower margins from projects nearing completion. Although it has enough jobs to keep it busy for the next two years, analysts doubt if margins will improve.

A company official says Road Builder's order book stands at RM1 billion currently. Its major ongoing jobs are the national sewerage project, road improvement in Pahang, and upgrading its New Pantai Expressway and Sungai Besi Highway. Road Builder also has two ongoing road projects in India.

In sharp contrast to its construction division, Road Builder's toll operations delivered a 40% increase in operating profit to RM77.62 million from RM55.09 million a year earlier. This was boosted by a full-year

contribution from the 19.6km New Pantai Expressway, which was opened in FY2004. This highway currently has a daily traffic volume of 100,000 vehicles.

Road Builder, meanwhile, is building five interchanges along the highway that will serve as access points. Three interchanges in the Subang area will be completed by the first quarter of 2006 while the Jalan Templer and Jalan Kuchai Lama interchanges will be completed in the second half of 2006. With more access points to the highway, traffic volume is expected to increase.

Daily traffic volume on the Sungai Besi Highway has declined slightly to about 110,000 vehicles because the toll rate was increased to RM1.30 from RM1 in August 2004.

Road Builder's property development di-

vision posted an operating profit of RM62.6 million (excluding a RM50.57 million exceptional gain from winding up a subsidiary), compared with RM42.2 million recorded a year earlier.

The company plans to launch properties worth RM400 million to RM500 million in FY2006. Its best-selling project is the Seremban 2 township, with some 10,000 houses handed over to buyers so far. A company official says Jaya Jusco Stores Bhd will open an outlet in Seremban 2 this month, which is proof that the township has been well-received by house buyers and retailers.

Its other ongoing projects are the Shah Alam 2 township and Boulevard Condominium in Subang. Road Builder has secured RM200 million in sales from these, which will be recognised in the next two years. The company is planning to launch two new property projects soon — a condominium in Segambut and a landed residential development in Kepong.

Operating profit from its port division, meanwhile, rose 54% to RM46 million from RM29.79 million previously although revenue only increased slightly to RM92.78 million from RM91.28 million.

PICTURES BY ABUL GHANI ISMAIL/THE EDGE



Shamsudin: By 2008, throughput at west wharf in Kemaman port will reach 12 million tonnes per year

However, the relatively flat revenue growth is likely to see a jump in the next three years because Road Builder has big plans to grow this division. It reckons that by 2008, the division will contribute up to 30% of the group's pre-tax profit from about 16% in FY2005.

## Plans to boost port business

A big part of Road Builder's port operation consists of Kuantan port, which was privatised to Road Builder on Jan 1, 1998 — the concession period is for 30 years until 2027. By 2004, the port's cargo throughput had risen 76% to 9.69 million freightweight tonnes from 5.49 million freightweight tonnes in 1998. Road Builder's wholly owned subsidiary Kuantan Port Consortium Sdn Bhd (KPC) runs the operation.

In Kemaman, Terengganu, the group owns the west wharf and a large plot of land in the port's vicinity. Although not many ships are calling at the west wharf now, the pace is expected to pick up soon.

"By 2008, throughput at west wharf in Kemaman port will reach 12 million tonnes per year," Road Builder's joint managing director Datuk Shamsudin Md Dubi tells *The Edge*.

Considering that Kuantan port's nine million tonnes of cargo throughput rakes in RM46 million for the company, it is safe to say that an additional 12 million tonnes of cargo will give the group's bottom line a significant boost.

Since acquiring the land near Kemaman port in 2001, Shamsudin says the company has been working at attracting cargo through the west wharf, which is 510m long and can

house two berths.

Because the port has a deep draft, it is capable of handling vessels of up to 150,000 deadweight tonnes. This means it is suitable for resource-based companies to set up their production plants near the port because raw materials such as iron ore need to be imported in large vessels.

In fact, Road Builder has managed to convince Australian mining company Grange Resources Ltd to build a US\$330 billion iron ore pellet plant on 150 acres of the land.

"It took us a long time to find a taker because the investment involved is huge," says Shamsudin.

Preliminary construction of the plant has begun and it is expected to commence operations by 2008. Shamsudin says Grange's presence in Kemaman is expected to generate 10 million tonnes of cargo throughput a year.

The availability of land for the plant, proximity to a deep-sea port, good infrastructure, access to regional markets as well as reliable power and water supplies are among the reasons why Grange chose Kemaman.

With the plant in place, Shamsudin says efforts are now being made to attract upstream and downstream players of the steel industry. This is to further boost cargo throughput at west wharf.

Road Builder has also managed to get Seloga Holdings Bhd to come onboard. A RM241.3 million specialised asphalt manufacturing plant will be up and running by 2008.

The plant will produce about 800,000 tonnes of bitumen a year for local consumption and export to Asia-Pacific. At present, Malaysia imports almost all its bitumen requirement.

#### Plans for Kuantan port

Kuantan port is capable of handling more cargo, says KPC's chief operating officer Wong Soon Fah. The company has invested RM272.8 million to develop the port, with the most significant development being the expansion of its harbour basin to accommodate another 20 wharves.

Wong says KPC made a conscious decision to stay away from containerised cargo. This is because Port Klang, Port of Tanjung Pelepas and Singapore Port are already competing for such business.

As Port Klang is near the Klang Valley, it can depend on local goods that need to be exported for business. But Kuantan's economy is more agricultural and petrochemical-based. Ports that focus on containerised cargo also need to invest billions of ringgit in equipment such as high-speed cranes to ensure the turnaround time is fast.

Hence, KPC has been positioning Kuantan port as a petrochemical and palm oil hub, says Wong. With ample land around the port, KPC is able to offer petrochemical and palm oil companies space to build their production plants.

"We cannot afford to think only like a port operator. Our aim is to fit Kuantan port in the supply chain network of companies and how we can make distribution more efficient," says Wong.

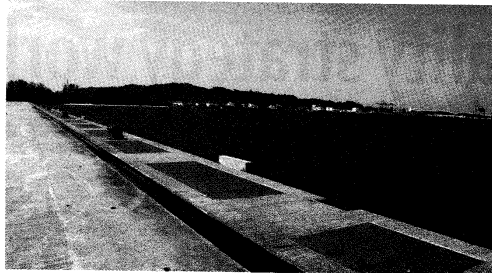
In the same line of thinking, Wong says KPC is working on plans to transform Kuantan port into Asean's automotive trade hub and the second national gateway for imported vehicles.

Currently, imported vehicles and components from East Asian countries such as Japan and South Korea come into Malaysia via Port Klang. As Kuantan port is nearer to these countries, car companies now have a cheaper and faster option. With the new East Coast highway, Wong says vehicles from Kuantan port could be easily transported throughout the peninsula. KPC is in talks with various

car companies on this matter.

Another plus point for Kuantan port is its proximity to Rayong, Thailand's automotive manufacturing hub, where major car companies such as General Motor and Toyota have built their regional plants.

KPC is also in discussions with car companies to entice them to assemble vehicles in Pekan, Pahang. If this materialises, completely knocked-down kits will be imported into Malaysia via Kuantan port. ■



Kemaman port's west wharf will see more activities in 2008