



## NSTP-Utusan Merger Courts Controversy

While the proposed merger between media stalwarts The New Straits Times Press (M) and Utusan Melayu (Malaysia) has been put on hold, it could still go ahead if the powers that be wish it so. What's worrying, besides the financial and social implications of the deal, is the absolute power that the person behind the new entity will eventually wield.

COMING, AS IT DID, SOON AFTER THE ANNOUNCEMENT OF THE MEGA merger involving three Permodalan Nasional Bhd's plantation-based companies, the proposed merger between The New Straits Times Press (M) Bhd (The NSTP) and Utusan Melayu (Malaysia) Bhd, not surprisingly, caused a sensation.

What the proposed media marriage lacks by way of size is made up by the implications it's likely to bring to the media landscape and the political scene.

Compared to the RM31 billion Sime Darby-Kumpulan Guthrie-Golden Hope merger, the NSTP-Utusan merger is small — something in the region of RM800 million based on the market capitalisation at the time of writing.

But it is certainly not child's play. In fact, it attracted a swifter and more spontaneous reaction from shareholders and the general public. The Umno Supreme Council rejected the initial merger proposal by a big margin.

It was reported that out of the 40-over members, only five, including the President Datuk Seri Abdullah Ahmad Badawi and Deputy President Datuk Seri Mohd Najib Abdul Razak, supported the deal, forcing the official announcement of the plan to be postponed.

The Umno Supreme Council's decision was crucial because the party and its nominees are said to control as much as 50% of Utusan Melayu's shares. The NSTP, on the other hand, is 'linked' to Umno via proxies.

Originally, the merger was to be between Utusan Melayu, the publisher of *Utusan Malaysia*, and Media Prima Bhd, which is the controlling shareholder of The NSTP.

According to a non-executive director of Utusan Melayu, the company's management, led by its Executive Chairman Tan Sri Hashim Makaruddin, told a hastily called board meeting that the merger was between Utusan Melayu and Media Prima. It is not

clear who or which company originated the idea, but when pressed, the Utusan Melayu management told the worried board members that it was to be a merger among friendly parties.

The Utusan Melayu board was told that the Prime Minister, in his capacity as Umno President, had given his consent. Hashim and Utusan Melayu's Group Executive Director Mohd Nasir Ali told the board that they had briefed Mohd Najib and he too had agreed.

The Utusan Melayu board was told of the plan just days before the Umno Supreme Council was to hold its monthly meeting, and the merger was most likely to be a hot topic. It was.

The unhappy members of the Utusan Melayu board must have tipped off the council members. It is noteworthy to mention that most members of the Utusan Melayu board are Umno appointees.

The only board member who is distinctly not an Umno-appointee is Datuk Ismail Yusoff. He is believed to be representing the interest of Tan Sri Syed Mokhtar Albukhary, who holds a stake in Utusan Melayu.

The Supreme Council's objection had clearly put a spanner in the works. The parties were forced to abandon an announcement planned for Dec 4, with the suspension of Utusan Melayu and NSTP shares being hastily lifted.

At the time of writing, there were indications that the merger proposal was back on the drawing board. A Bernama report suggested that the marriage would now be between Utusan Melayu and The NSTP.

But the controversy is not likely to dissipate easily. Under the so-called new framework, the smaller Utusan Melayu would be making a reverse takeover on the much larger NSTP.

While it is not impossible or extraordinary for a smaller company to gobble up a larger rival, such a development would almost certainly raise a few hackles among the minority shareholders of The NSTP.

A recent example that comes to mind is when the smaller privately-controlled ECM Libra Bhd swallowed up the larger government-controlled Avenue Capital Bhd.

If indeed Hashim and Nasir are leading the charge, as alluded to in the Bernama report, then political consideration must certainly feature prominently on the minds of the architects of the merger.

Why Hashim and Nasir and not Datuk Abdul Mutalib Mohamad Razak, the chairman of Media Prima, and Datuk Kalimullah Hassan, the deputy chairman of The NSTP, who are known to be more closely associated with Abdullah?

Mutalib and Kalimullah, who are both from Abdullah's home state of Penang, are the real powers behind the group of media companies under the Realmild Sdn Bhd empire, which includes Media Prima and The NSTP. Another major investment of Realmild is the diversified Malaysian Resources Corporation Bhd (MRCB).

While Utusan Melayu can make do with any deal that would enhance its market value and consolidate its operations, it is Media Prima and The NSTP that stand to benefit more from any confidence-building exercise.

Since it was created in 2003 to take over the listing status of Sistem Televisyen Malaysia Bhd (STMB), the operator of private free-to-air TV3, Media Prima has been on a takeover trail. In the last two years or so, it has acquired three money-losing free-to-air TV stations (NTV7, Channel 8 and Channel 9) and two radio stations (Fly FM and Hot FM). Except for TV3, the other operating units are either unprofitable or providing insignificant income flow.

It needs something big quickly – although not necessarily profitable – to buttress its position. While The NSTP and Utusan Melayu are not hugely profitable, their iconic status would be tremendously useful to the little-known Media Prima.

For the financial year 2005, Utusan Melayu recorded a group net profit of RM21.1 million, The NSTP RM12.4 million and Media Prima RM56.25 million.

Hashim and Nasir could have been chosen to lead the merger (or rather the acquisition) to make it more palatable, especially to Umno and the staff of the two companies.

Hashim, whose last job was as special assistant to Tun Dr Mahathir Mohamad when the latter was Prime Minister, is not a corporate figure. He was Bernama's Editor-in-Chief before joining Tun Daim Zainuddin as his press secretary in the mid-1980s. When Daim resigned as Finance Minister in 1993, he joined Dr Mahathir.

Nasir is a low-profile business executive who once represented Daim in a number of business ventures and has been with Utusan

Melayu since 2000. He holds a Bachelor of Economics (Honours) degree from University Malaya and a Masters of Science (Finance) from the University of Strathclyde in the United Kingdom.

According to the Bernama report, Nasir, who is Utusan Melayu's group executive director, might be appointed chief executive of the new entity that would take over The NSTP and Utusan Melayu.

This lends credibility to a second theory that the merger was sparked off by Utusan Melayu. According to a well-placed industry source, the merger idea came about when Utusan Melayu approached Umno for additional capital to upgrade and expand its printing capacity. Whether Umno was incapable or unwilling to lend the money – said to be about RM100 million – the merger with The NSTP was proposed as a way out.

Whatever structure the M&A may finally take, several key factors and considerations must be on the minds of those involved in putting it together and those affected by it.

FINALLY, AND POSSIBLY THE MOST CRITICAL OF ALL, IS THE NATURE OF CONTROL UMNO AND ITS PRESIDENT WOULD HAVE ON THE MERGED ENTITY. WHOEVER BECOMES THE ULTIMATE OWNER AND BENEFICIARY OF THE NEW COMPANY WILL HAVE UNPRECEDENTED POWER AND INFLUENCE ON THE CORPORATE AND POLITICAL ARENAS. HIS POWER WILL HAVE TO BE RESPECTED, IF NOT FEARED.

First, who is to become the controlling shareholder of the merged entity? For the time being, the principal shareholder of Utusan Melayu is Umno. Umno and parties linked to it are estimated to own 50% of Utusan Melayu.

The NSTP, on the other hand, is 43% owned by Media Prima, whose ultimate controlling shareholder is Realmild. Umno is not known to have direct holdings in Realmild.

Since it was created in the early 1990s as the vehicle for the management buy-out (MBO) of The NSTP and TV3 by four senior executives of The NSTP, Realmild has been 'linked' to the Umno President. (The MBO team started to move out of the group in 1998 following the sacking of Datuk Seri Anwar Ibrahim as Deputy Prime Minister, and was completed in 2000 when the last member resigned.)

Second, while the merger may not affect the structure and independence of the editorial department of The NSTP and Utusan Melayu, the public's perception may not be favourable.

They may reject the papers published by the combined entity, or rethink their expenditure with the group. This could also apply

to advertisers.

We have witnessed the Chinese readers' rejection of the *Nanyang Siang Pau* newspaper in protest against its acquisition by Huaren Holdings Sdn Bhd in 2001. Huaren is the investment arm of the Malaysian Chinese Association (MCA). Huaren is also the controlling shareholder of the hugely successful Star Publications Bhd, the publisher of *The Star* newspaper, the largest English language newspaper in the country.

Acknowledging that its ownership was a burden to Nanyang and having caused discord among party members, the MCA recently announced the sale of its Nanyang shares to a private company linked to the Sarawak timber tycoon Tan Sri Tiong Hiew King.

But the Nanyang saga does not look like ending soon. The Chinese are now protesting the purchase by Tiong, who already owns the hugely successful *Sin Chew Daily*, fearing that the concentration of the Chinese newspapers in the hands of one person would have negative implications on the Chinese language press, in particular, its ability to fight for the interest of the community. The Chinese have always treated the diversity of voices as the best way of protecting and advancing the interest of the community. It is not a secret that the Chinese newspapers are also the most competitive, free and sensation-oriented in the country.

Third, to the investors, a merger is not seen as attractive without the promise of strong capital appreciation, rationalisation and consolidation of business activities, cost savings and greater profitability.

Except for English language newspapers, The NSTP and Utusan Melayu are direct competitors. They both produce mass-circulating Bahasa Malaysia newspapers. *Utusan Malaysia*, the Utusan Melayu flagship newspaper, competes head on with The NSTP's *Berita Harian*. The two papers had regularly traded places as the highest-circulating Bahasa Malaysia newspaper until a year ago when they were overtaken by The NSTP's tabloid *Harian Metro*. In 2004, Utusan Melayu launched *Kosmo!* as an answer to the runaway success of *Harian Metro*.

So, what kind of corporate restructuring can Nasir or anybody else who is appointed to lead the merger adopt to ensure that the positions of these competing newspapers are not affected, and the future of their staff is not jeopardised? It won't be an easy task.

Last but not least is the timing of the exercise. Is this the ideal time to carry out the merger?

The capital market (as reflected by the performance of Bursa Malaysia) may be showing some signs of improvement but the publishing industry is not. On the contrary, recent statistics do not speak well of the industry.

It is facing pressure in both its principal income streams – circulation and advertising. Although advertising expenditure (adex) is rising, the yield is falling, as media companies compete for adex by offering generous discounts.

This could be one of the key elements of any rationalisation

exercise involving the two Umno-linked media companies. But it can be argued that this can be done through simple understanding rather than a full-blown merger.

What is even more challenging is arresting circulation and readership decline due to competition from television and radio, and to a lesser degree, Internet-based news sites. Then, there are problems associated with the lacklustre performance of the economy.

The latest readership figures (Oct 2005-Sept 2006) compiled by media reach firm, Nielsen Media Research, shows that the readership of *Utusan Malaysia* has fallen by 13% to 1.2 million and *Berita Harian* by 21% to 1.15 million. *Harian Metro*, on the other hand, rose by 24% to 1.8 million.

In the English language segment, the readership of *The Star* rose 9% to 1.14 million and the *New Straits Times* 0.3% to 319,000, while the free newspaper *The Sun* fell by 12% to 171,000. The recently re-launched *The Malay Mail* fell 36% to 78,000.

The Audit Bureau of Circulations' (ABC) statistics confirmed the trend.


The possibility of readers who are now subscribing to *Utusan Malaysia* and *Berita Harian* dropping one or both of the papers cannot be lightly dismissed. *Utusan Malaysia* is the money earner for Utusan Melayu and *Berita Harian* is the second largest money-spinner for The NSTP.

Even if they shift to *Harian Metro* in the case of The NSTP and to *Kosmo!* in the case of Utusan Melayu, the financial impact could still be disastrous. Although *Harian Metro* is the largest Bahasa Malaysia newspaper, its adex is lower than *Utusan Malaysia's* and *Berita Harian's*.

Additionally, there is always the possibility that those opposing the merger will drop Umno-linked newspapers in favour of those published by other publishers. This could pave the way for Star Publications to finally launch its long-delayed Bahasa Malaysia newspapers.

There is also the likelihood of those objecting the Utusan Melayu-NSTP merger opting for the smaller independent newspapers, the Internet news websites and the blogs.

This mega-media merger may yet happen in the near future despite objections from the Umno Supreme Council, as the President can instruct those putting together the merger to offer sweeteners or to provide guarantees that the unique position of Utusan Melayu will not be adversely affected.

Finally, and possibly the most critical of all, is the nature of control Umno and its President would have on the merged entity. Whoever becomes the ultimate owner and beneficiary of the new company will have unprecedented power and influence on the corporate and political arenas. His power will have to be respected, if not feared. 

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