Will 2006 Turn Out?

COVER STORY

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We provide you with some insights into the people, companies and industries to watch.

By Gurmeet Kaur

THE movers and shakers of corporate Malaysia are often well liked by the stock market. After all, without their manoeuvres, the market would be a dull place.

While Bursa Malaysia has remained relatively quiet throughout 2005, there was no dearth of significant developments in the corporate sector.

Be it a hostile takeover or the removal of a long-serving chieftain or a sector coming into vogue because of a new technological finding, these developments added spark to an otherwise lethargic market for 2005.

The first major corporate battle, which incidentally is still ongoing, first surfaced in May 2005. A handful of new directors were added to the boards of QSR Brands Bhd and its 32.8% subsidiary KFC Holdings Bhd.

From then, a protracted and well publicised corporate tussle began for the prized assets of fast food operator, KFC, with a number of high profiled and seasoned corporate players allegedly involved.

Last year will also go down in history as the year for a major development in the media business. Media Prima Bhd, through a series of acquisitions, had secured a monopoly of free-to-air TV in the country.

Market analysts are still trying to understand the wide-reaching implications of this deal, while Media Prima says it has a lot of synergies and other advantages to reap from the move.

In the later part of 2005, another massive corporate battle started, namely an attempt by CIMB Bhd to take over Southern Bank Bhd (SBB). This saga has had many twists and turns, with the SBB chairman resigning and the central bank axing a deal by SBB to acquire a Singapore-based insurance firm.

In this fight, the high-profile names are even bigger than those in the KFC battle, and had hogged the business pages of newspapers in the last few weeks of the year.

In what is believed to have been an unavoidable attempt at reengineering the ailing Proton Holdings Bhd, we saw the unceremonious exit of Tengku Tan Sri Mahaleel Tengku Ariff from the helm.

If that wasn't spicy enough, the auto industry was rocked by revelations about the controversial way in which approved permits (APs) for the importation of cars had been dished out in the country.

Meanwhile, state investment arm Khazanah Nasional Bhd's efforts at revamping government-linked companies (GLCs) took a hit when the huge quarterly losses at Malaysian Airline System Bhd (MAS) and Proton hit the market.

On a more positive note, the biofuel development did spark a small rally in plantation stocks.

So how will 2006 turn out?

The CIMB-SBB saga is likely to garner interest, with the two contending parties likely to resume talks. Will SBB's Tan Sri Tan Teong Hean be able to fend off CIMB's Datuk Nazir Razak's aggressive move to take over SBB, which may be coming on the back of a second round of liberalisation of the banking sector?

Then we have the KFC saga, which seems to have put Kulim (M) Bhd in a tough spot, even though it owns more than 50% of QSR shares after making a mandatory general offer (MGO). Kulim still does not seem to have control over the board of the company.

Datuk Azman Mokhtar and Khazanah will also be put in the spotlight this year as he spearheads the company's overseas investment expansion.

Also expected to be closely watched will be Idris Jala, who takes over MAS, and Syed Zainal Abidin Syed Mohd Tahir, who will head Proton. Idris has a formidable competitor in the form of Datuk Tony Fernandes, whose company AirAsia Bhd has set many new benchmarks in the last few years and is poised to set more in 2006.

In the banking sector, Datuk Noorazman Aziz would be watched on how he plugs the massive losses at Bank Islam.

This year will likely see a shake-up of the country's water sector. The National Water Services Commission is expected to be set up as early as April to better manage the country's unregulated and fragmented water sector.

The Islamic financial sector is also in for interesting times with the authorities issuing four new takaful licences.

Malaysian Business takes a look at these personalities, companies, sectors and industries. Please note that the stories appear in no particular order of importance. mb

DATUK AZMAN MOKHTAR

Taking Khazanah abroad

WITH over RM60 billion worth of assets under its management, choosing the right person to head Khazanah Nasional Bhd is a crucial task. And not many can find fault with the person picked – Datuk Azman Mokhtar, who was made managing director of the government investment arm last year.

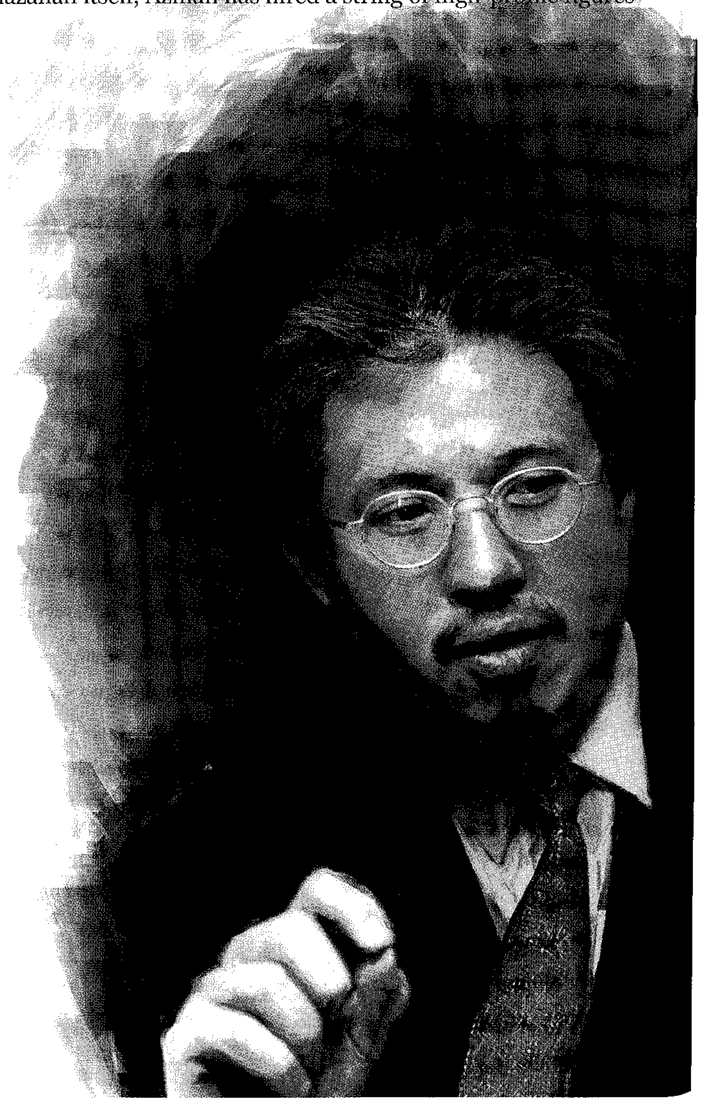
As if to assure the public that he was under no illusion as to the gravity of his task ahead, Azman, upon joining Khazanah, quipped to the media that he would have to 'execute or be executed'.

So far, Azman, who previously helmed corporate finance consultancy BinaFikir, has spearheaded an attempt to revamp government-linked companies (GLCs).

The 44-year-old has introduced performance-linked compensation to help the often-staid Khazanah firms unlock greater value.

Khazanah holds stakes in about 25 local companies in sectors from healthcare to finance to auto. These companies make up a third of the capitalisation of the Malaysian stock exchange.

In Khazanah itself, Azman has hired a string of high-profile figures



to help widen the company's perspective. Khazanah's staff, numbering 34 a year ago, is expected to swell to 180 by the end of 2006.

Under Azman's stewardship, Khazanah has ventured more aggressively abroad. Observers say Azman has been trying to emulate the kind of success achieved by Singapore's state investment arm Temasek Holdings Pte Ltd, which has made several successful forays overseas.

This means that while a substantial part of Khazanah's portfolio features local companies, the number of foreign investments is expected to grow steadily to the point of balancing domestic ones.

For Khazanah, the second half of 2005 had proved exciting. It bought a 13.2% stake in India's largest private hospital group, Apollo Hospitals Enterprise Ltd, and now controls Indonesia's ninth largest lender PT Bank Lippo. Khazanah and Telekom Malaysia Bhd (where Khazanah is a substantial shareholder) also upped their stakes in Singapore's smallest mobile phone company, MobileOne Ltd, to 24.04% last October.

Khazanah's recent purchase of a 9.9% stake in Hong Kong-listed Parkson Retail Group, one of the larger foreign operators of department stores in China, is seen as its first major investment in that country.

However, Khazanah's attempts at revamping GLCs at home has had mixed results. Azman also has to figure out how to extract value from the non-performing Time Engineering Bhd and Time dotCom Bhd group of companies. There is also a string of smaller capitalised GLCs that need to be looked into.

But Khazanah's biggest challenge for now has to be in relation to Malaysian Airline System Bhd (MAS) and Proton Holdings Bhd. The huge first-quarter losses turned in by both companies have placed more pressure on Azman. Indeed market observers say that should Proton and MAS not buck up and deliver more palatable results soon, the GLC revamp story may be too worn-out a theme to spin this year.

With such huge challenges in store, it is needless to say that Azman has a lot more executing to do. Or else...

– By Gurmeet Kaur

DATUK TONY FERNANDES

No more the underdog

IN the last four years, the well-liked Datuk Tony Fernandes has made his way from underdog to top dog in the airline business. He and his company AirAsia Bhd, which have become synonymous with each other, have continued to set new benchmarks for air travel in the country and the region.

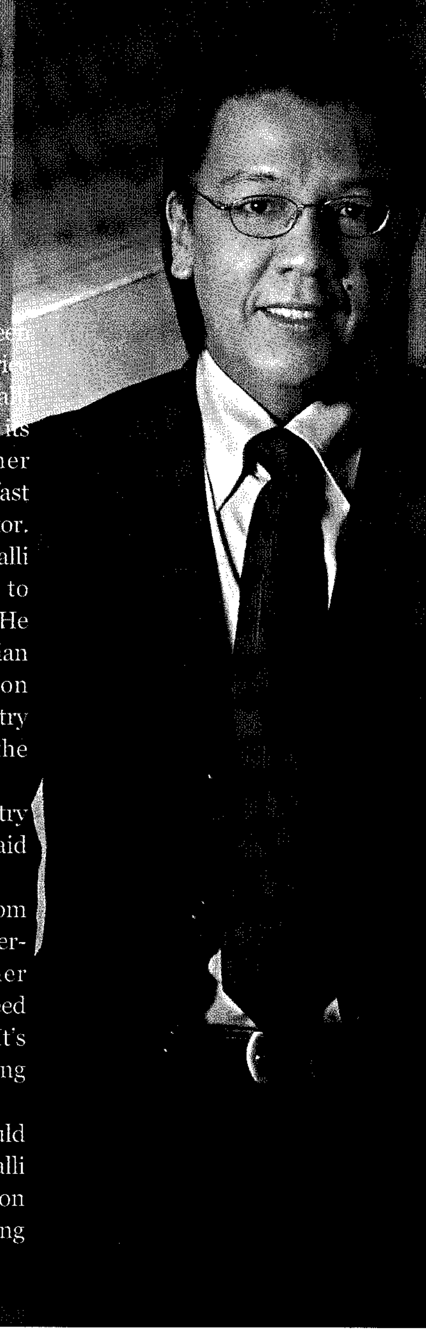
The low-cost carrier has kept on capitalising on its strengths in efficiency and productivity. Airline analysts are also impressed with AirAsia's ability to navigate through the industry's most trying times, caused largely by rising fuel prices.

AirAsia has overtaken Malaysian Airline System Bhd (MAS), the country's national carrier, as the largest capitalised airline stock on Bursa Malaysia.

AirAsia is the fastest-growing airline in the region and has been attracting hordes of passengers with its low rates and strong marketing campaigns. When it comes to marketing yourself and your product, Fernandes has hardly any rival. Always wearing his trademark AirAsia cap, T-shirt and jeans, Fernandes is the kind of CEO that has mass appeal.

Fernandes also demonstrated how AirAsia successfully used marketing to change distribution channels. The company deliberately put its lowest price on the Internet and implemented different payment channels. Today, 65% of the company's

DATUK MOHD SHAZALLI RAMLY



THE latest entrant to the sizzling telecommunications sector, Datuk Mohd Shazalli Ramly looks more an advertising executive than a seasoned corporate player. But maybe that's exactly what the sector needs – someone with fresh and perhaps even unconventional ideas to compete in an increasingly competitive market.

The 44-year-old Shazalli assumed the role of chief executive of Celcom Bhd after a very successful seven-year stint heading terrestrial TV station, ntv7. Since he was made CEO, Shazalli helped ntv7 secure 28% of the television advertising market. ntv7 has also been recognised for its strong branding of television programmes, innovative media campaigns and new media products.

To be sure, Shazalli is no newbie to marketing. In all, he brings with him 18 solid years of experience doing that. He had worked with a number of major fast-moving consumer good companies both at home and abroad before joining the broadcasting industry.

Prior to his ntv7 position, Shazalli was the director of marketing at Asia Broadcasting Network (Astro) for two years, where he was involved in the launch of the satellite pay TV service to the Malaysian market.

Before that, Shazalli had earned a reputation as a savvy marketer when he directed a revision of the Benson & Hedges global brand strategy, which propelled the latter's brand growth tremendously.

But with his latest posting, Shazalli has to brace himself for managing a company that has been seen as a laggard in a sector known for its cut-throat price war and high market penetration. While Shazalli should have little problem helping Celcom grow its branding, he could face challenges in other operational issues, especially in relation to the fast changing technological advances in the telco sector.

But in a recent interview with the media, Shazalli said that even while at ntv7, he was exposed to different technologies such as broadband and 3G. He said he was also the vice-chairman of the Malaysian Communications and Multimedia Commission (MCMC) content forum, a body formed of industry players to provide input on how they want the industry to take shape.

'I do keep abreast of developments in the industry so I must say I am very much attuned to it,' said Shazalli in the interview.

In any case, Shazalli reckons that steering Celcom to success is going to be more about being customer-centric. His strategy: understand consumer behaviour and desires and fulfil that. If there is a need for technology, find one that will fill the vacuum. 'It's not technology that's going to drive us but being consumer-centric,' he has told the media.

If that's the case, then Celcom's leadership should be in good hands with a marketing whiz like Shazalli at the helm. All eyes will be on him as he takes on the two giants, Maxis and DiGi. Will his marketing skills alone be enough? **– By Gurmeet Kaur**

DATUK CHE KHALIB MOHAMAD NOH

Tenaga sees the light

TENAGA Nasional Bhd's President and Chief Executive Officer Datuk Che Khalib Mohamad Noh has come a long way since he started in July 1, 2004 to improve the utility company's costs and productivity.

An accountant by training and armed with years of managerial experience in various sectors, Che Khalib has managed to steer Tenaga to greater heights in not just costing but also in employee skills and customer service.

He also sits on Tenaga's tender board committee, board of finance & investment committee and board of disciplinary committee.

MIDF Sisma analyst S Sharath says Tenaga has been reducing costs, which resulted from a boost in efficiency and productivity at all levels of the company.

Tenaga underwent an aggressive cost management exercise to improve its financial situation. Efforts were made to improve the debt-collection process, reduce technical losses and losses from electricity theft, as well as bring down general and administrative costs.

For the year ended Aug 31, 2005, Tenaga was able to achieve a marked reduction in transmission and distribution losses – to 10.5% from 12.8% the previous year – and reduced general and administrative expenses by RM101 million.

However, Sharath says the cost-cutting measures were not able to significantly halt Tenaga's profit erosion in 2005 due to the big jump in fuel cost of 29%. The higher fuel cost is Tenaga's main argument for its tariff hike proposal to the government. The decision is expected to be out by the early part of this year.

The other argument is that higher revenue is needed to help Tenaga finance its capital expenditure (capex) and pay off its massive debt.

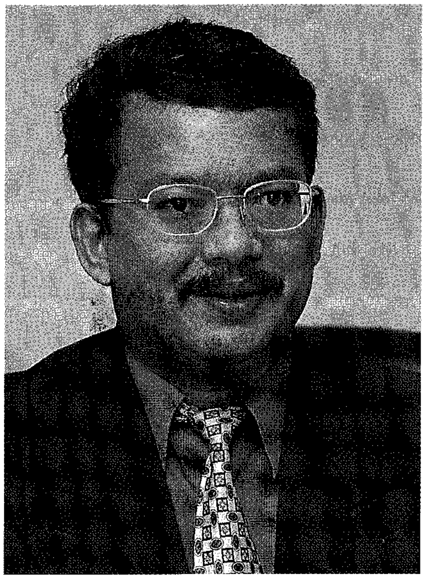
As of Aug 31, 2005, Tenaga's debt stood at RM29.6 billion, down 7.7% from RM32.4 billion the previous year. The removal of the ringgit peg in 2005 also helped, as the appreciation of the local currency led to the company making a forex gain of RM141.8 million.

Tenaga's yearly capex has risen from RM200 to RM300 million. Sharath estimates that Tenaga needs a tariff hike of between 5% and 10% to stave off profit erosion and help it improve its cash flow position.

He says this is important as the profit erosion, if allowed to continue, might cause Tenaga having to pay higher financing cost in the future.

SJ Asset Management Sdn Bhd's chief investment officer Meor Khairi Bazid says the tariff hike is always a sticky issue as it never goes down well with the public.

'This is not limited to Malaysia but elsewhere as well because utilities' tariff rates affect both the masses and businesses,' he says. 'For instance, the initial public offering of the Electricity



Generating Authority of Thailand was postponed twice in the last two years due to legal issues.'

In the Philippines, Meralco's electricity tariff rate hike proposals were rejected year after year as higher cost of electricity was not a popular decision for the government to take.

'Even though Meralco was saddled with debts and rising operating costs, the Philippine Government still abstained from granting a tariff rate increase,' he says.

Currently, Tenaga has the capacity to generate operating cash flow to the tune of RM1 billion-RM1.2 billion a year. On the other hand, its financing cost (excluding repayments) for its RM30 billion outstanding debt is estimated at RM1.5 billion a year.

On top of this, Tenaga also has plans for between RM200 and RM300 million capex to improve its electricity distribution network.

'The phrase "GLC restructurings and improved efficiency and profitability" has begun to sound like a broken record,' says Meor. 'Now Tenaga's stock is trading at its pre GLC-restructuring levels and this may indicate that investors are giving a lower vote of confidence on the progress of the GLC restructurings.'

But despite these uncertainties, Meor says he expects investors to continue favouring Tenaga and the IPPs due to their earnings resiliency.

– By Ishun P Ahmad

IZHAM YUSOFF

Just the tonic for KUB

IZHAM Yusoff may not yet be a familiar name in corporate circles but the 38-year-old accounts graduate is determined to repay the trust put in him by the government to revive ailing KUB Malaysia Bhd.

Eighteen months into his job as management head of the education, ICT (information and communications technology) and quick service restaurant group, it looks like Izham is set to replicate the success he achieved at his previous employer, Amanah Raya Bhd (ARB).

In a two-year stint as ARB managing director, Izham was instrumental in mapping out strategies to make the country's oldest will custodian and trust services firm a viable and profitable concern, while increasing its corporate profile and visibility.

For certain, more people are now aware of ARB's services following its promotional exercise and participation in exhibitions.

Izham's aggressive approach in his strategies may just be the tonic KUB needs as the loss-making entity has been in the doldrums for a good many years. But Izham is fortunate in that he is taking over KUB from another of the government's turnaround managers, Datuk Che Khalib Mohd Noh, who began putting the house in order from late 2002.

It is now Izham's job to take KUB to a higher level.

Indeed, KUB is now widely seen as a turnaround stock as it continues to augment its businesses after an internal restructuring in 2003. The group is set to be on a firmer financial footing to seek new ventures in core activities including ICT, education and training, energy and food and beverage under the A&W restaurants.

Izham does not have much time as his appointment in KUB will expire in June next year.

The market would be eager to check the report card of the corporate planning and finance specialist, who was formerly the special assistant to the managing director of EON Bhd and financial controller of Citibank Bhd. KUB needs to show some improvement this year.

So far, the revamp scheme put in place in the last three years is bearing fruit. KUB managed to trim its group net loss to RM18.1 million from RM29.6 million a year earlier.

Izham was reported to have said the

company was looking to break even for the financial year ended Dec 31, 2005, and return to the black in 2006.

The end result is the yardstick as KUB is now a GLC (government-linked company). The government emerged as a major shareholder after the Minister of Finance, Inc (MoF) bought a 23.6% stake from Pengurusan Danaharta Nasional Bhd in March last year. This has fast-tracked resuscitation of the group.

Another interesting development is KUB's proposed acquisition of a substantial stake in Avenue Capital Resources Bhd (Avenue Cap), which could firm up this year. KUB said in March last year that it was in preliminary discussions with the government over the purchase of MoF's stake in Avenue Cap. Nothing has materialised since then. As at May 31, 2005, MoF owned an indirect stake of 29.53% in the financial services group.

As part of its restructuring, KUB is selling its 32% stake in listed Computer Forms (M) Bhd to a company owned by its ex-chairman Datuk Hassan Harun for RM8.3 million or 63 sen a share to realise its investments.

Izham is determined to expand the group's regional footprint following the group's involvement in the energy sector in Pakistan, ICT in Indonesia and education in Bangladesh.

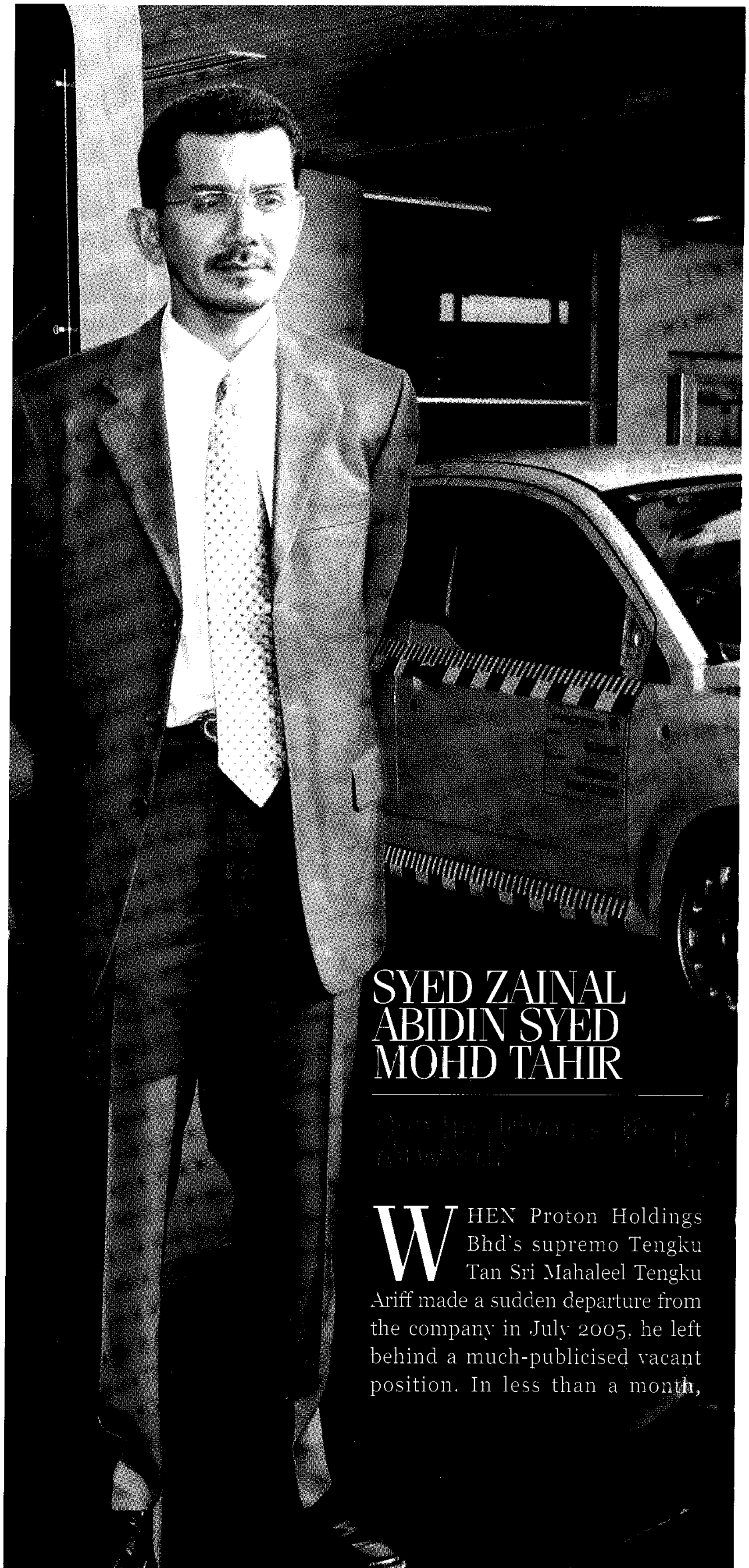
Next up is Thailand where it hopes to collaborate with Thai companies in ICT, education and training and energy. KUB is also exploring opportunities in environmental services and business process outsourcing in the Thai market.

Going forward, KUB is looking to list some of its healthy subsidiaries. Potential candidates include Tele Dynamics Sdn Bhd, a company that provides office automation and ICT solutions and services.

The group has also restructured its education & training division by integrating Institut Teknologi Tun Abdul Razak with Universiti Tun Abdul Razak to form a leaner and more efficient unit.

It also sees the potential in its A&W quick service restaurant business and has put in efforts to upgrade its image, and refurbished some of its main outlets.

– By Norsiah Nurani



SYED ZAINAL ABIDIN SYED MOHD TAHIR

WHEN Proton Holdings Bhd's supremo Tengku Tan Sri Mahaleel Tengku Ariff made a sudden departure from the company in July 2005, he left behind a much-publicised vacant position. In less than a month,

entity. Noorazman could not be reached for comments on his plans for BIMB. Would he bring a new work culture to BIMB and diversify its product and loan portfolio?

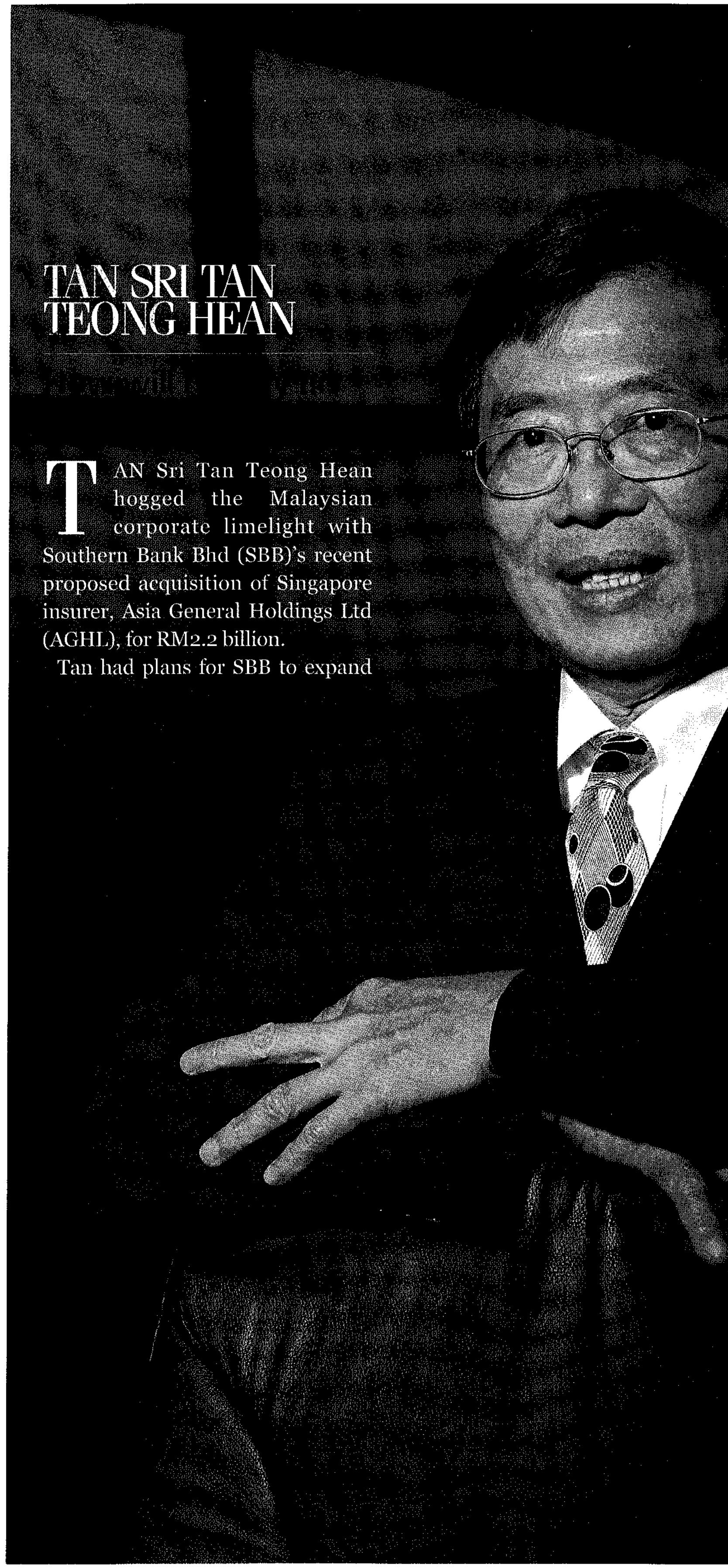
How does he expect to improve the performance of the banking operations such as the loan to deposit ratio that is at about 50%, well below conventional banks that hit the 80% level?

These are major challenges and Noorazman may be the banker to keep an eye on in 2006. The man is a career professional who has held some high-profiled positions in the local corporate scene. He was the senior vice-president of Citibank Malaysia from 1985 to 2001 before joining the Labuan Offshore Financial Services Authority as director-general in 2001.

He then left to join Bursa Malaysia Bhd as chief operating officer in 2003 before returning to Citibank as managing director and head of corporate banking in 2004.

Noorazman was also senior corporate services executive at Pernas International Holdings Bhd from 1982-1985. He is also the president of the Association of Islamic Banking Institutions Malaysia. He has a degree in Finance from Louisiana State University in the United States.

– By Bhupinder Singh



TAN SRI TAN TEONG HEAN

TAN Sri Tan Teong Hean hogged the Malaysian corporate limelight with Southern Bank Bhd (SBB)'s recent proposed acquisition of Singapore insurer, Asia General Holdings Ltd (AGHL), for RM2.2 billion.

Tan had plans for SBB to expand

regionally and into new fields such as life insurance and bancassurance. He also had a vision that this Penang-founded bank would become a regional player.

But in an interesting twist of events, Tan's SBB group has also become the target of a merger by the CIMB-BCHB group, but all this is still in the early stage.

In 2006, Tan will be a man to watch for his plans and vision to steer one of Malaysia's smallest and most efficient banking groups. As its chief executive director, will he be able to retain SBB's lead in its niche areas such as credit cards, SME banking and wealth management?

More importantly, can Tan and SBB go ahead with the plan to acquire AGHL, a move rejected by Bank Negara Malaysia? Or would Tan purchase merely the company's life assurance business? All these make Tan's every move closely watched by bankers and analysts.

The major question is whether Tan will be able to retain SBB's cherished independence. Or will he succumb to the pressures of market consolidation, resulting in this banker cashing out his stakes?

A voracious reader of Chinese war classics, business and strategy gameplans, Tan will have to plan his strategy carefully for 2006. He may be adamant about selling his stakes – if it comes to that – in SBB and holding companies Killinghall (M) Bhd and Ramuda Sdn Bhd only at the right price, but for now at least, the right price may be too high for any potential buyer.

Tan, incidentally, is the son-in-law of gaming tycoon Tan Sri Lim Goh Tong.

On the other hand, his business partners, Datuk Syed Yusof Syed Nasir and Sultan Sharafuddin Idris Shah of Selangor, seem keen to sell their stakes to Malaysia's largest investment banking group, CIMB Bhd. For the record, Syed Yusof has resigned as SBB chairman and his sale seems imminent.

Would this mean Tan would now have to find a new business partner at SBB or would it be a completely new start with CIMB? How Tan plays his cards will determine the future of this banking group.

– By Clarence Y K Ngui

KFC HOLDINGS BHD, QSR BRANDS BHD AND KULIM (M) BHD

Still squawking

THE acrimonious battle going on in KFC Holdings Bhd makes it an interesting company to watch. There has been a protracted tussle to control the fried chicken retailer since early last year.

The saga involves two other companies, namely QSR Brands Bhd – which owns 32.8% of KFC – and Kulim (M) Bhd, which is trying to take over QSR and KFC.

There are also some well-known corporate personalities behind this battle, such as KFC's former managing director Datuk Ishak Ismail and another corporate player, Datuk Soh Chee Wen. Another personality, Datuk Johari Abdul Ghani, the company's MD for the last few years, has been ousted from both QSR and KFC.

At the time of writing, Kulim has conducted a mandatory general offer (MGO) for QSR shares at RM3.20 per share. Kulim already has slightly more than 50% of QSR, buying large blocks of those shares from companies believed to be linked to Ishak. Some 1.3% of QSR shareholders accepted the MGO, giving Kulim 52.04% post-MGO.

The group in control of QSR (and KFC) is led by Tan Sri Nik Kamil Ibrahim. He is also believed to have the support of Soh. This group however is showing no signs of conceding defeat as there are two large blocks of QSR shares which are stuck in the courts. As such, the voting power attached to these blocks – a 20% and a 12.2% block – isn't clear.

So it's left to be seen if Kulim will be able to assume control over QSR and KFC.

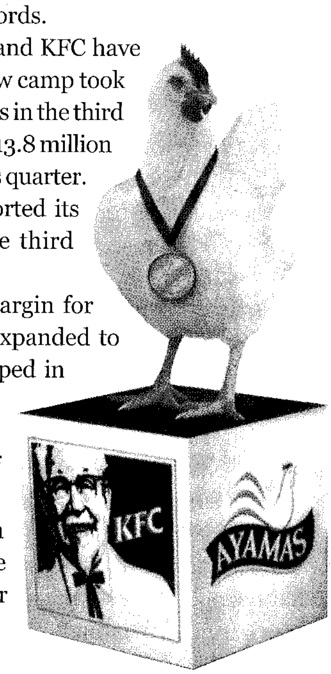
KFC is much sought after because of the RM1 billion or so in annual cash flow the company records.

To be sure, operationally, QSR and KFC have shown improvements since the new camp took over. QSR reported operating profits in the third quarter ended Sept 30, 2005 of RM13.8 million from RM5.11 million in the previous quarter. QSR's 32.8% associate, KFC, reported its strongest profit ever in the same third quarter.

In addition, operating profit margin for KFC's fast food restaurants has expanded to 11.1% in Q3 from 7.6% in Q2, helped in part by the management's efforts at cost efficiencies and the streamlining and rationalising of retail stores.

Which camp will be successful in staying in control or will Kulim be able to muscle them out? The answer should become clearer in 2006.

– By Gurmeet Kaur

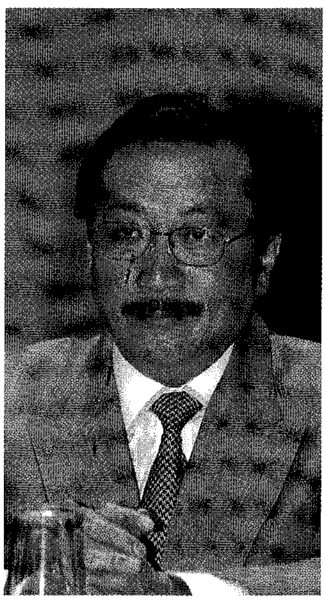


MITV CORP SDN BHD

Joining the race

THIS year is expected to be a challenging year for the country's second pay-TV operator, MiTV Corp Sdn Bhd, and its major shareholder Tan Sri Vincent Tan Chee Yioun. The company is seen to continue attracting interest from the market following its grand launch in September last year.

However, this time the stakes are even higher for the fledgling pay-TV operator as it has to compete for a slice of the lucrative pay-TV market not only with satellite-based network Astro, run by Astro All Asia Networks plc, but also with the nation's third pay-TV station, Fine TV Sdn Bhd.



The signs are already showing that MiTV may not find it a breeze to make its concept a success. Barely three months after its official launch, the pay-TV operator slashed the retail price of its Internet Multimedia Terminal or set-top box from RM1,188 to RM799, in a move to make it more affordable to a wider spectrum of households.

It also cut the monthly subscription fee from RM68 to RM30, a rate that will not be reviewed until Dec 31, 2007. The operator also threw in a carrot in the form of free subscription for four months for new subscribers.

Some see the price cut as an effort to lure new subscribers due to the lukewarm reception to its services from the public after the launch. MiTV also probably intended to lock in as many subscribers as it could before Fine TV entered the fray.

MiTV currently offers 41 channels featuring three major vernacular bouquets for Malays, Chinese and Indian channels plus international, news and entertainment channels and plans to increase this to 50 by early this year and 70 after that.

Astro, controlled by T Ananda Krishnan, has an eight-year head start and a subscriber base of 1.7 million out of the estimated 5.5 million households in the country. It now offers 55 channels and plans to increase this to 100 with the launch of Measat 3 by Ananda's satellite operator Measat Global Bhd.

As for Fine TV, the pay-per-view network has recently begun transmission to the Klang Valley, offering 18 channels initially. Subscribers need only pay a one-time registration fee of RM388 for Internet access, a set-top box and installation and monthly subscription is RM38.

Clearly MiTV has its work cut out for it and is unperturbed by the challenge. Recently, Tan shot down doomsayers of the pay-TV channel's future, adamant that it will deliver what it promised. 'MiTV Corp will deliver, and it will be a successful pay-TV operator,' he was quoted as saying to the Press.

MiTV Corp has also bid for a 3G (third generation) licence and expects to launch the initiative in partnership with Redtone Telecommunications Sdn Bhd and Nasioncom Sdn Bhd. MiTV Corp projects to spend up to RM1 billion within three years to set up its 3G network.

It intends to roll out a high-speed wireless service that can reach 80% of the Malaysian population by end-2009 if it secures the 3G licence.

As the 3G businesses take off, the major shareholders of MiTV Corp intend to float the company so as to give the public an opportunity to participate in the infrastructure project.

– By Norsiah Nurani

MEDIA PRIMA BHD

Working the media giant

MEDIA Prima Bhd and its boyish looking managing director Abdul Rahman Ahmad have pulled off a coup in the free-to-air (FTA) television business.

Through a series of deals ending with the purchase of the ntv7 group in late 2005, the company has garnered a virtual monopoly of all private FTA channels. In other words, except for the government-owned TV1 and TV2, all other FTA TV belong to the Media Prima group.

Needless to say, Abdul Rahman and team are in an enviable position but what are their plans and will they

BOUSTEAD HOLDINGS BHD

Daunting task ahead

BOUSTEAD Holdings is tasked with the daunting responsibility of reviving beleaguered PSC Industries Bhd (PSCI), which it took control of last year following the failure of the shipbuilding group to deliver the first two OPVs (offshore patrol vessels) to the Ministry of Defence under the previous management led by major shareholder Tan Sri Amin Shah Omar Shah.

Boustead is set to face tough challenges in cleaning up PSCI although the former has promised to give undivided focus on resolving the problems besetting the shipbuilding and construction concern.

For certain, PSCI's financial

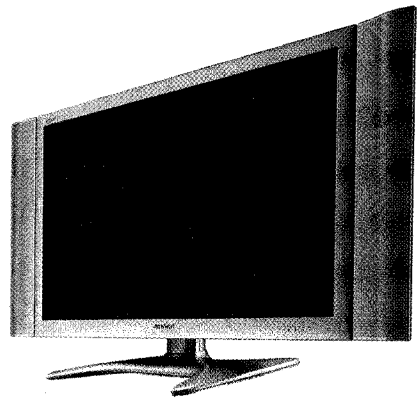
execute them well? Media Prima, which had already owned TV3, acquired 8TV in 2003 for RM57 million. In 2005, it bought Channel 9 for RM40.6 million and ntv7 for RM90 million.

A lot of work needs to be done. Abdul Rahman has set a goal of growing the viewership and advertising revenues of the four channels. The plan is also to better 'segmentise' the market.

TV3 will focus on the mass market, 8TV on the young urban and Chinese market, Channel 9 on the traditional Malay market while ntv7 is targeted at the young-urban family segment.

Analysts who cover the sector say that by owning all four stations, Media Prima is in a position to eliminate disruptive competition, thus enabling it to be more focused in creating suitable content for specific market segments.

Indeed, Media Prima plans to spend RM200 million in 2006 on content and programmes for its TV networks. Media



Prima is also in a position to rationalise operations among the stations and reap benefits from economies of scale.

Already, a voluntary separation scheme for ntv7 has taken place and more similar measures are expected.

Media Prima has other media concerns as well. It now owns radio stations such as FLY.fm and WAfm. Abdul Rahman says radio adex is low at only 4% of total adex but it is growing at a rate of 20% per year. While Astro's radio stations dominate with about 74% market share, Media Prima is planning to grow its share to 5% by end-2006.

Media Prima also has in its stable The New Straits Times Press Bhd publishing group, which is struggling to revive its fortunes.

From a financial standpoint, Media Prima's balance sheet may be a little stretched after all the acquisitions and there may be a drag on earnings in the next two years.

In any case, that is the standard gestation period before a TV station starts to make money. Hence Abdul Rahman and Co have their work cut out into rationalising and enhancing the media assets they own.

Analysts are keeping a keen eye on the company to see how well it digests all that it has consumed.

– By Gurmeet Kaur.

quagmire may put off any discerning turnaround manager. Adding to its woes, the company was placed under Practice Note 17 recently. Reason: the company has a deficit in its adjusted shareholders' funds of some RM376.7 million as at Sept

30, 2005, due mainly to losses resulting from high financing costs, provision for doubtful debts and revision of profit margin for the OPV project.

PSCI, in which Boustead owns a 32.7% stake, incurred a wider group net loss of RM481 million for the nine months ended Sept 30, 2005 from a loss of RM15.3 million in the same period a year earlier.

The market would be anxious to see the strategies put forth by Boustead, led by its group managing director Tan Sri Lodin Wok Kamaruddin, in tackling the issues at hand, including the numerous legal suits faced by PSCI and its subsidiaries for loan defaults. PSCI is estimated to carry massive debts of RM600 million as of November last year.

Recently, Affin Bank Bhd, a unit of Boustead Holdings, sold its 27.7% stake in PSC-Naval Dockyard Sdn Bhd (PSC-ND) to Boustead as part of its loan foreclosure.

PSC-ND was awarded the contract to build six OPVs worth RM5.4 billion in 1998 but failed to meet the deadline to deliver the first two OPVs, prompting the Public Accounts Committee to describe the privatisation as a gross failure in July last year, leading to the intervention by the government. Boustead received a shot in the arm when the government said two weeks ago that it would help PSCI meet its financial commitments to its contractors.

Besides focusing on PSCI, Boustead will have a busy year ahead with its recently acquired BP Malaysia Sdn Bhd. It would be interesting to see how the petrol stations fare under the new management. A rebranding exercise is already in place.

The property and finance group, controlled by LTAT (Lembaga Tabung Angkatan Tentera), could also take the spotlight if the next round of banking consolidation gathers pace this year. Its banking subsidiary, Affin Bank, which is among the smallest banks in the country, could be a target for takeover although it is steadfast in becoming an anchor bank.

– By Norsiah Nurani

BIODIESEL

Fuelling the next growth?

WHILE 2005 will be remembered for the spike in oil prices and higher pump prices of petrol and diesel, 2006 could be the year when local companies, especially plantation-owners, begin producing biodiesel for the global market.

Many proposals have been featured in the media but none will be more significant than the Malaysian Palm Oil Board (MPOB)'s joint venture with Golden Hope Plantations Bhd, Kumpulan FIMA Bhd and Carotino Sdn Bhd to build three biodiesel plants costing RM40 million each in the country to produce the 'green' palm oil-based fuel.

Each plant, when completed this year, is expected to produce about 60,000 tonnes per year, which is expected to be sold abroad. The MPOB biodiesel plan attracted 10 bidders and the unsuccessful bidders like IOI Corporation Bhd, Federal Land Development Authority (Felda), and Kulim (M) Bhd have announce their own plans to build such facilities either locally or abroad in locations close to the biodiesel markets, namely Europe.

There are probably more questions than answers to the biodiesel plan. The local market's potential for biodiesel is unclear. There is a lot of uncertainty about how local users will accept biodiesel as fuel, who would distribute the product – will it be the petrol stations and if so how will the petroleum companies gain from the exercise? Will the project enjoy tax incentives?

The promoters have not said anything about measures by groups abroad to counter palm oil-based biodiesel. Will vegetable oil producers in Europe and the United States offer incentives to biodiesel producers to use locally grown oil? Will governments abroad support the respective agricultural sectors at the expense of Malaysian biodiesel?

Industry sources suggest that the biodiesel projects are economically viable if crude oil prices stay above the US$50 per barrel level and palm oil prices remain below RM1,400 per tonne.

What if the reverse happens - oil demand drops and a bad crop season sees a palm oil price rally? With so many parameters to consider, a great deal would depend on what the government offers under its national biodiesel policy.

MPOB chief executive Tan Sri Dr Yusof Basiron expects the country to make its first biodiesel shipment by September to Europe.

– By Bhupinder Singh

ISLAMIC FINANCE

Making good progress

THE Islamic financial sector should see some interesting developments in 2006 to complement the country's effort to become an Islamic financial hub.

For one, Bank Negara Malaysia (BNM) will be issuing four new takaful (Islamic insurance) operators licences this month. And according to a BNM statement, there could also be more Islamic banking licences for interested foreign financial institutions.

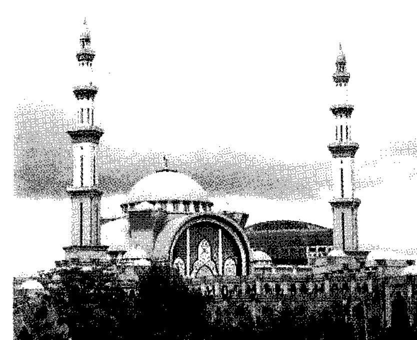
As for the takaful licences, what yardstick BNM will use to pick the four new operators is hard to define but many have bet on leading bank-backed groups emerging as the major beneficiaries.

There are currently four takaful operators. Syarikat Takaful Malaysia Bhd (STMB) is primarily controlled by BIMB Holdings Bhd whose substantial shareholder is Permodalan Nasional Bhd (PNB).

Takaful Nasional Sdn Bhd is held by MNI Holdings Bhd whose substantial shareholder is Skim Amanah Saham Bumiputera (SASB), which is run by PNB while Mayban Takaful is 70% controlled by the Maybank group that is majority held by SASB and PNB.

Takaful Ikhlas Sdn Bhd is under MNRB Holdings Bhd, which is also majority held by SASB.

All current licensed operators have a



strong government tilt but will the next batch follow the same pattern? Incidentally, Maybank is in the process of taking over MNI, which would strengthen its market share of the takaful business.

Who ever gets the licence would have a

growth market to tap. Market penetration for life takaful is a mere 5.1% as compared to 31.7% for conventional life policies. Growth of the industry has been phenomenal since takaful operations began in 1985 under STMB.

Contributions and assets have on average grown about 50% annually since 1986. Annual contributions in 2004 were RM1.1 billion while total takaful assets hit RM5 billion in mid-2005 or 5.6% of the total insurance industry.

Return on equity in the past five years has been an impressive 23% and BNM is hoping to see total assets of the banking and takaful industry hit 20% of the respective markets by 2010 – one reason why the licences are being given.

Market entry won't be cheap. BNM has set a minimum paid-up capital of RM100 million for a takaful operator. The offer has attracted local insurance and banking entities as well as foreign players.

BNM allows 49% foreign participation in the industry. In line with this, Malaysian Assurance Alliance Bhd has formed a joint venture with Bahrain-based Solidarity to bid for the licence.

Southern Bank Bhd and its partner Takaful International of Bahrain are another party bidding for a licence. Leading contenders will likely be banking groups with Islamic banking operations like Bumiputra-Commerce Holdings Bhd, the Arab Malaysian group and Affin Holdings Bhd which already have the financial and institutional capability to roll out takaful services relatively fast.

On the Islamic banking front, about 11% of the financial system in the country uses this mode of service. BNM has offered three licences to Middle East-based financial institutions to conduct Islamic banking business but they have not started operations in an aggressive way.

The three institutions are Al Rajhi Banking & Investment Corporation, Kuwait Finance House and a consortium consisting of Qatar Islamic Bank, RUSD Investment Bank Inc and Global Investment House.

BNM Governor Tan Sri Dr Zeti Akhtar Aziz recently said that more foreign banks have submitted bids for Islamic banking licences. She didn't reveal any names.

– By Bhupinder Singh

AUTOMOTIVE

Waiting for the NAP

ALL eyes will be on the automotive sector and the announcement of the government's National Automotive Policy (NAP). So far, only the policy framework has been announced.

The NAP is expected to strengthen the industry, especially in the eyes of foreign car manufacturers, and boost confidence in Malaysia as an emerging automotive hub of Southeast Asia.

Will the NAP provide the panacea the industry needs? What about national carmaker Proton? Its new CEO Syed Zainal Abidin Syed Mohd Tahir would have the task of regaining Proton's market share and returning the company to profitability after two consecutive quarters of losses.

But that's not all for Syed Zainal. Surely market expectations are high for him to strike a deal with Volkswagen AG of Germany. Can 2006 herald a new Proton-Volkswagen collaboration? Is Syed Zainal moving closer to bringing Volkswagen, or at least VW quality, to Malaysian roads?

Yet, there are still more changes expected in the automotive industry. For instance, the eventual phasing out of the Approve Permit (AP) system for completely-built-up (CBU) cars in Malaysia.

This year, Bumiputera-controlled listed companies such as Sime Darby Bhd and DRB Hicom Bhd can directly apply for APs for CBU cars. They will be the biggest beneficiaries of the NAP, bypassing the AP monopolies held by former 'AP Kings' like Datuk Mohd Haniff Abdul Aziz and Datuk Seri Syed Azman Syed Ibrahim.

It seems the Malaysian automotive industry will now have to engage to a higher gear to catch up with Thailand. The question is, can the Malaysian automotive sector move beyond Proton and Perodua?

For the first time ever, in terms of number of vehicles distributed, it is believed UMW Holdings Bhd has surpassed Proton with its distribution of Perodua and Toyota vehicles in Malaysia. Staggering sales of Perodua MyVi and Toyota Avanza have kept UMW's order books filled for months to come.

What about the other players such as assemblers and auto-parts and component manufacturers? For now at least, there is still hope for Malaysia. It seems South Korean manufactures like Hyundai and Kia are still planning to make Malaysia their automotive hub for Southeast Asia via local partners Sime Darby, the Naza group and Oriental Holdings Bhd.

The final question remains whether the NAP can lay the foundation for a competitive Malaysia as well as give Thailand a good run for its money as the Detroit of Southeast Asia. Only time will tell if the NAP can finally put Malaysia on the automotive road map of the world.

– By Clarence Y K Ngui

TRANSPORTATION

Fuel gets things moving

IF there is one lynchpin of the transportation industry, it must be fuel. It is not an exaggeration to say that without fuel, the transportation industry would come to an abrupt halt.

This was clearly seen in April 2005 when a diesel shortage crippled the country's transport sector after the government introduced a quota system in an attempt to curb smuggling of the heavily-subsidised fuel to neighbouring Thailand.

Fuel prices have been rising steadily since 2004 due to robust global demand especially from energy-hungry countries like China and India. In 2004, crude oil prices rose by more than 30% and shot up by a whopping 50% in 2005. Since then, it has hovered at the US$60 per barrel level.

The rise has seen the government increasing the pump price a number of times in 2005 to reduce the government burden of escalating fuel subsides. Subsidies for petroleum cost the government RM4.8 billion in 2004 and are estimated to have been RM8.9 billion last year. This was due partly to the government's decision in the later part of 2005 to halt fuel price hikes, which had increased costs for lorries, school buses, taxis, forwarders and shippers.

Malaysia Airlines, for example, has been forced to raise fares and slap fuel surcharges due to the higher cost of fuel. The airline reported a net loss of RM367.7 million in the quarter ended September 2005, compared with a net profit of RM132.7 million in the previous corresponding period.

At the time of writing, fuel prices were stable. Still, according to analysts, they are expected to rise again due to an expected further reduction of fuel subsidies by the government.

SJ Assets Management Sdn Bhd's chief operating officer Meor Khairi Bazid says road toll concessionaires are expected to face some difficulty due to lower-than-expected growth in traffic volumes.

Despite record high new passenger car sales in Malaysia, Projek Lebuhraya Utara Selatan (PLUS) reported only a 1.6% year-on-year traffic volume growth. However, this could also be due to PLUS' average 10% toll rate hike and higher fuel prices.

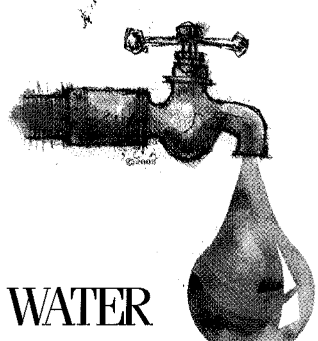
Meor says MISC Bhd remains the core holding among many institutional investors. He says besides having a huge cash pile, MISC also has locked-in earnings in the form of contracts with Petronas, and a strong presence, with a 10% market share in global LNG & petroleum shipping.

He says MISC has the potential to improve its earnings further due to increasing fleet size and ability to secure new contracts outside of Petronas.

Meor says buying interest in other transportation-related counters depends on the direction of global crude oil prices.

'After briefly trading at US$70 per barrel in the aftermath of Hurricane Katrina, global oil prices have retreated. If they continue to soften, we could see stronger buying interest in stocks like Transmile and AirAsia, whose prices have been pinned down by unfavourable oil prices in the last 12 months,' he says.

– By Ishun P Ahmad



WATER

Tariff increases soon?

WATER, besides being essential to human life, is also a key component in industries from food to electronics. Only in the last few years has water grabbed the news headlines, covering issues on water quality and the need to increase water tariff to finance the capital-intensive industry.

These issues were prompted partly by the privatisation of certain areas of the water industry to improve service and water quality and more importantly, to address escalating cost of providing clean water to consumers.

As with other utilities, water has been a very sensitive issue and the masses are never in favour of price hikes. However, tariff hikes are inevitable and increases are expected.

The Energy, Water and Communications Minister, Datuk Seri Dr Lim Keng Yaik, had said the price of water might rise by around 15% beginning this year to finance the upgrading and installation of new water supply infrastructure.

Lim said Malaysia plans to spend RM11.73 billion over the next 30 years for the replacement of water supply infrastructure facilities in Selangor and the federal territories of Kuala Lumpur and Putrajaya.

He said the review of water prices would be carried out every three years and would be subject to the approval of both state and federal governments.

Water supply and treatment operations in Selangor are run by Syarikat Bekalan Air Selangor Sdn Bhd (Syabas), which is 70% owned by Puncak Niaga Holdings Bhd and 30% by Kumpulan Darul Ehsan Sdn Bhd.

Since water is important for the socio-economic development of the nation, the Federal Government provides soft loans to state governments for public water supply infrastructure, and grants for rural water supply development.

To date, the government has provided a RM8.3 billion loan to state governments for the water supply sector. The federal government provides grants for sewerage infrastructure development in the cities and towns, and the provision of sanitation facilities in rural areas.

Analysts say the water industry is expected to see more services being privatised to improve service and raise capital. One of the main investments would be the changing of old pipes to improve water quality and arrest the problem of lost revenue from leaky pipes.

They say Syabas, since the initiation of its water pipe replacement programme last year, has identified 6,000km of asbestos cement pipes requiring immediate replacement at a cost of RM1.2 billion. Overall, analysts say, the water industry offers great promise for industry players like Syabas and Ranhill Utilities Bhd, the latter operating in Johor.

– By Ishun P Ahmad

OIL & GAS

All fired up

OSK Research believes the oil and gas industry will soon be back in the reckoning of investors. The research house anticipates 2006 to see reality matching the hype on the sector, with more tangible deliverables by players within the sector over the next 12 months.

Note that the euphoria over the sector was triggered by the discovery of the

Kikeh oil field about four years ago, which saw frenzied play on the sector. However, the play died down about two years back.

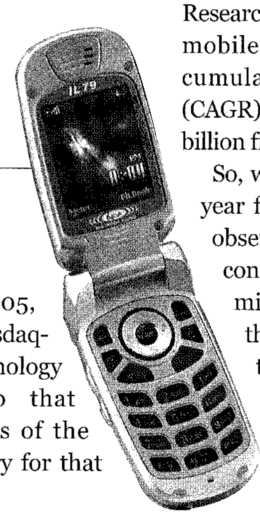
The research house believes that with prevailing high crude oil prices at US$55-US$60 a barrel, global activities within the industry would intensify, thus translating into potential contracts.

In relation to stock picks, OSK Research is putting its bets on those players with overseas exposure and greater earnings visibility such as the KNM group, MISC, Scomi Marine and Dialog.

– By James S

MOBILE MESSAGING

The challenges multiply



IN end-November 2005, the share price of Mesdaq-listed mTouche Technology Bhd staged a run-up that exemplified the fortunes of the mobile messaging industry for that year.

First it was an imperceptible upward jerk, then the floodgates opened and before long it was a relentless sprint. Between Nov 23 and Dec 16, 2005, mTouche's share price rose from RM1.76 to RM2.95.

The reason for the uphill charge? Market buzz that mTouche was at an advanced stage of negotiations with a company in China to acquire it. The acquisition, if formalised, would pave the way for it to establish operations in Beijing and Guangzhou.

mTouche's case perhaps epitomises the market's perception of the local messaging players in 2005, which is likely to be carried forward to 2006. They have become the darlings of Mesdaq, often posting decent financial results and promising good future showings.

For example, mTouche's third-quarter net profit of RM3.11 million has overtaken the RM3.03 million it registered in the first six months of the year. The other players in the business are AKN Mtech Bhd, M-Mode Bhd, MNC Wireless Bhd and Nextnation Communications Bhd. And of course there are the telcos such as Maxis Communications Bhd and Celcom Bhd, which are also strongly involved in the industry.

The market cannot be faulted for the feel-good sentiments. It is estimated that currently, the local SMS (short message service) business is worth about RM1.6 billion.

Numbers from the Malaysian Communications and Multimedia Commission (MCMC) indicate that Malaysians sent 9.5 billion SMSes in 2004, translating to 26 million SMSes a day. Research outfit Frost & Sullivan reckons mobile data revenue will grow by a cumulative annualised growth rate (CAGR) of 26.9% per annum to RM4.104 billion from end-2004 to 2008.

So, will 2006 be an equally smashing year for the industry? Some industry observers say that while growth will continue, the breakdown of the pie might change somewhat. For one thing, expect the non-telco players to have a hard time in 2006. They point out that increase in competition coupled with lower margins and stiff competition could prove decisive.

As such, it will become increasingly critical for market players to start innovating and moving beyond reliance on low margin SMS-type services. The bottom line is consumers can expect innovative products as companies strive to keep growth figures up and fend off new entrants.

The other red flag is the overt confidence over overseas forays. There is still a question mark if such moves can reap the kind of returns that many seem to predict. Challenges include the need to understand the spending habits of a new breed of consumers, especially in less developed countries such as China and Pakistan, as well as the inherent battle to overcome red tape and local competitors.

The 400 million potential subscribers in China that most of the local messaging players are salivating over could be harder to get than many might be willing to admit.

Interestingly enough, some industry observers feel that it may be a slow year for SMS but not mobile data as a whole. The rationale is that the wide introduction of 3G services across the nation could help drive the messaging market, with demand from the business segment expected to lead the pack.

This is especially so as mobile computing becomes pervasive in corporate Malaysia as busy executives increasingly find it critical to stay online wherever they are.

The option of scouring for Starbucks or other convenient WiFi hot spots might not prove to be a viable option anymore. Furthermore, 3G services are currently only cost effective for the business crowd considering the relatively high price per MB of downloads.

But expect prices to topple once uptake picks up over the next 12 months.

Then there is the question of content. SMS as a killer application will continue to ring in the profits. But questions about higher-end content which telcos need to rely on if subscription numbers for 3G services is to pick up might still prove elusive. This is because while 3G is an interesting technology offer, pure mobile content is still severely lacking.

'All dressed up with no place to go' is how one industry observer explains it. For example, Celcom has been touting mobile television as one of its core 3G products. Yet it remains doubtful if anyone would want to watch football on a 2.5-inch screen when even identifying the ball could be an issue.

This being the case, it is likely that the traditional Internet/WWW access will remain as the key driver for 3G traffic for 2006. However, improvement in 3G coverage in the next 12 months could be an important catalyst for the industry.

Celcom's 3G services are already available nationwide, while Maxis' 3G services, earlier confined to the Klang Valley, are now also available in Penang.

All in all, expect the messaging landscape to be as exciting in 2006 as it was in 2005. And the telcos, by virtue of their ownership of key infrastructure as well as their position as toll-collectors as far as messaging gateways are concerned, will continue to rake in the dough.

So, the real excitement will come from the second line messaging players as they battle it out to conclusively prove to shareholders' that their confidence is not misplaced.

– By S Jai Shankar