

ROYAL ASPIRATIONS

The Melewar group went on an acquisition spree and added five listed companies to its stable of one. Its next move? To achieve global standards and competitiveness.

BY NORSHAH NURANI

FOUR years ago, the Melewar group controlled only one listed company – insurer MAA Holdings Bhd (MAAH) – its flagship for over two decades. However, it is a different corporate animal now. Thanks to an aggressive investment stance taken since 2002 via Melewar Equities Sdn Bhd, it has added five listed companies to its stable to form a formidable Bumiputera group ready to take on the world. Apart from MAAH, which spearheads the group's financial services division, the other listed companies are Melewar Industrial Group Bhd (MIG), Mycron Steel Bhd, M3nergy Bhd, Malaysian Merchant Marine Bhd (MMM) and Mithril Bhd. Analysts dub them the '6Ms'.



MAA Holdings' headquarters in Kuala Lumpur

Put together, the latest figures show the two divisions (financial services and industrial) have assets worth RM8.6 billion, revenue of RM4 billion, pre-tax profits of RM231 million and staff strength of over 4,300.

While the acquisition of stakes in the six listed companies was done without much fanfare, sceptics were quick to throw accusations that they are not synergistic with the group's mainstay – the non-banking financial services sector.

The purchase of MIG (formerly Maruichi Malaysia Steel Tube Bhd) in early 2002, led to the leadership and management capabilities of the new owner being called into question. The resulting change in perception prompted analysts to drop the one-time favourite stock from their radar screens.

Melewar Equities managing director Tunku Datuk Ya'acob Tunku Tan Sri Abdullah is unperturbed. 'My philosophy is to do business via listed companies as they are very much easier to run, have

FACT FILE

MAA HOLDINGS BHD

PAID-UP CAPITAL	
RM152.2 million	
BOARD OF DIRECTORS	
Tunku Tan Sri Abdullah Tuanku Abdul Rahman (chairman)	
Tunku Datuk Ya'acob Tunku Tan Sri Abdullah (group managing director/CEO)	
Yeoh Took Keat (executive director)	
Tunku Datuk Seri Iskandar Tunku Tan Sri Abdullah	
Maj Gen (rtd) Lai Chung Wah	
Datuk Iskandar Michael Abdullah	
Gen (rtd) Datuk Seri Suleiman Mahmud	
Datuk Razman Md Hashim Che Din Md Hashim	
HIGHEST-PAID DIRECTOR	
RM2,250,000 – 2,300,000	
SUBSTANTIAL SHAREHOLDERS	
Melewar Equities Sdn Bhd	– 34.10%
Amanah Raya Nominees (T) Sdn Bhd – Skim Amanah Saham Bumiputra	– 7.15%
LATEST RESULTS	
Net profit of RM7 million for the first quarter ended March, 31, 2006	

Source: Annual Report

FIVE-YEAR FINANCIAL HIGHLIGHTS

FYE Dec 31	2001	2002	2003 RM mil	2004	2005
Turnover	-	-	-	2,247	2,887
Pre-tax profit	47.0	49.9	72.9	63.1	43.0
Net profit	17.1	19.6	82.7*	42.3	44.2
Total Assets	4,356	4,705	5,550	6,164	6,603
Earnings per share (sen)	11.5	12.9	54.3	27.9	28.8
Life Insurance					
- Gross premiums	1,781	857	1,147	1,290	1,423
- New Business Premiums	1,348	419	778	800	898
General Insurance					
- Gross premiums	347	433	460	407	460

* Tax write-back 2003 RM28.5 million

better corporate governance practices, and management controls are all in place,' he says.

The acquisition of unrelated businesses is part of the group's earnings diversification, where it seeks to enter viable and promising sectors as well as the so-called 'sunrise' industries. This is part of the bigger scheme of things for the group to forge ahead.

After the short burst of expansion, Melewar Equities is ready to consolidate its businesses and augment the various units. 'Our vision is to strengthen both the core assets and businesses and we aim to become the foremost non-bank financial services and industrial group,' Tunku Ya'acob tells *Malaysian Business*.

With an 80% stake, he is the major shareholder of Melewar Equities. The balance is held by Melewar Group Bhd, the family company started by Tunku Ya'acob's father Tunku Tan Sri Abdullah Tuanku Abdul Rahman.

Tunku Ya'acob is also group managing director and CEO of MAAH.

Royalties in business

Melewar Group has come a long way from its inception in 1963 as a construction company which later ventured into a beverage blending and bottling outfit. It has gone through the ups and downs of economic cycles of the past three decades



Tunku Ya'acob: *The key is to appoint the best people*

but still stands tall among other family business groups in the country.

Today, the group comprises over 40 companies spanning financial services, travel and tours, construction supplies, education and leisure.

At different points in its corporate life, the group held major stakes in several other listed units including MBf Holdings Bhd, Granite Industries Bhd and PWE Industries Bhd. The group rose to prominence when it acquired Malaysian American Assurance Bhd, later renamed Malaysian Assurance Alliance Bhd (MAA) after the disposing of its interest in MBf.

After years of helming the group, Tunku Abdullah relinquished his business interests to his children under what he described as the satellite system. Currently, the six listed companies are placed under Melewar Equities controlled by Tunku Ya'acob, while Melewar Group, which groups the private businesses, are managed by his brother Tunku Iskandar.

Incidentally, the Melewar group is one of two big corporate names linked to the Negri Sembilan royalty. The other is Syarikat Pesaka Antah Sdn Bhd, the family business of Tunku Abdullah's brother, Negri Sembilan ruler Tuanku Ja'afar, whose flagship listed unit is Antah Holdings Bhd.

Often, there is a misconception that the two business groups are linked.

Looking beyond the shores

In the 20 years that it has been under the Melewar group, MAA has grown by leaps and bounds. When the group took control of MAA in 1986, stewardship of the company was entrusted to Tunku Ya'acob, who was instrumental in its growth from a smallish insurer with 200 agents and RM2 million in premiums to what it is today.

MAA now operates 75 branches, employing 1,300 employees and 21,000 agents. With a total premium income of RM1.4 billion recorded last year, the group is said to be the largest local life insurance group in the country. For the financial year ended Dec 31, 2005, MAAH recorded a healthy net profit of RM44.2 million on an operating revenue of RM2.89 billion.

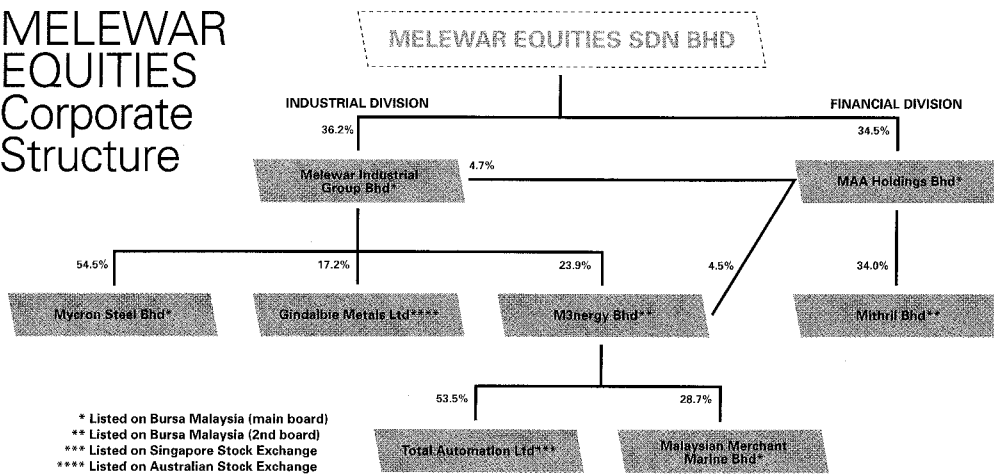
The uniqueness of MAA is its ability to combine a wide range of financial services tailored to clients' needs. Indeed, MAA has won several accolades like the Life Insurance Company award at the Asia Insurance Awards in 2001, and was the top life insurance company in Malaysia in terms of new business premiums for two years running in 2000 and 2001.

What is the strength of the group? Manpower, says Tunku Ya'acob.

'The key is our people... open-minded,

MELEWAR EQUITIES

Corporate Structure



* Listed on Bursa Malaysia (main board)
 ** Listed on Bursa Malaysia (2nd board)
 *** Listed on Singapore Stock Exchange
 **** Listed on Australian Stock Exchange

hard working people who enhance the camaraderie and team spirit. That's what made MAA the strong institution it is today,' he says. 'No one person can do everything. There are professional managers who can run the business, so let them do it. My role is for the bigger picture; making strategic decisions.'

According to him, the key is to appoint the best people regardless of their ethnic background. 'Doesn't matter whether they are Malays, non-Malays or foreigners... the bottom line is to get professionals to run the business although we are a Bumiputera group.'

Along this line, MAAH has proposed Muhamad Umar Swift to be its new managing director, pending approval from Bank Negara Malaysia. Tunku Ya'acob is also looking for an MD to replace him at MIG.

Despite its billing as a top insurer, MAAH is not resting on its laurels. As a business associate observes, 'Tunku Ya'acob is a visionary and he's never satisfied with the performance of the group. He's always aiming at bigger goals.'

'When you buy shares in any Melewar group of companies,

you're not buying into the company but buying into the vision of a man. He did that with MAAH and he will apply the same principles to MIG.'

Having a meaningful regional presence is next on MAAH's agenda. 'We want to be the insurance king of Asia,' says Tunku Ya'acob.

Over the last few years, the group has stamped its footprint regionally with operations in the Philippines, Thailand and Indonesia. 'We plan to go global, but slowly,' he adds.

MAAH has also bought a 15% stake in Hatton National Bank Ltd (HNB) in Sri Lanka to act as a springboard into the huge Indian market. HNB holds a controlling stake in a listed life and general insurance company with a branch in India.

'Our intention is to get a direct stake in the insurance company but there's not much development yet. We are monitoring the situation,' Tunku Ya'acob says, adding MAAH will treat the acquisition as a strategic investment.

The takaful sector is a prospective area MAA is venturing into in a big way. It has teamed up with a Bahrain-based

MARKET RANKING – GENERAL INSURANCE (TOTAL GROSS DIRECT PREMIUMS)

Rank	Company	Gross Premium Income				9 mths Growth Rate (%)	9 mths Market Share (%)
		12 mths 2003	12 mths 2004	9 mths 2004	9 mths 2005		
1	Kurnia	959	1,140	856	883	3	12.4
2	MNI	526	438	340	391	15	5.5
3	AMAssurance	301	359	269	356	32	5.0
4	Allianz	466	450	343	347	1	4.9
5	Commerce Assur	398	399	275	309	12	4.3
6	American Home	360	377	276	302	9	4.2
7	MAA	418	358	249	294	18	4.1
8	Uni Asia	336	308	231	264	14	3.7
9	Oriental Capital	301	285	246	255	4	3.6
10	Lonpac	260	277	219	263	16	3.6
11	Hong Leong Assur	319	324	235	251	7	3.5
12	Mitsui Sumitomo	254	280	215	244	14	3.4
13	AVIVA	267	291	225	240	7	3.4
14	Tokio Marine	239	273	212	235	11	3.3
15	Jerneh	190	225	171	203	19	2.8
16	P&O	223	203	154	191	25	2.7
17	Berjaya General	180	198	151	180	19	2.5
18	AXA Affin	228	232	174	179	3	2.5
19	Mayban General	208	220	162	177	9	2.5
20-35	Others	1,753	1,897	1,458	1,571	8	22.0
	Total	8,185	8,532	6,461	7,126	10.3	100%

MARKET RANKING – LIFE INSURANCE (ANNUALISED NEW BUSINESS PREMIUMS)

Rank	Company	Annualised New Business Premium		Growth Rate (%)	Market Share (%)
		2004	2005		
		RM mil			
1	Mayban**	716	834	17	17.2
2	MAA	732	818	12	16.8
3	Great Eastern*	499	689	38	14.2
4	Prudential*	451	490	9	10.1
5	AIA*	594	433	(27)	8.9
6	MNI**	759	420	(45)	8.6
7	Allianz*	336	253	(25)	5.2
8	ING*	191	228	19	4.7
9	AM Assurance	166	178	7	3.7
10	UniAsia	175	173	(1)	3.6
11	Hong Leong	97	103	7	2.1
12	MCIS Zurich	68	79	16	1.6
13	Asia Life*	75	79	5	1.6
14	Manulife	66	72	10	1.5
15	Tahan	10	6	(43)	0.1
16	Comm Life	1	1	(23)	0.0
	Total	4,935	4,856	(2)	100

Note:

* Foreign Companies

** Number of Life Insurers will be reduced to 15 (after the Mayban and MNI merger)

company, Bahrain Solidarity Co, to generate investment-linked takaful products for the local and West Asian markets.

With its large pool of Bumiputera agents, MAA can leverage on its existing infrastructure. The group expects to launch its first takaful plan by year-end. MAA has also converted its successful life insurance unit in Indonesia into takaful business.

For the West Asian market, Tunku Ya'acob says MAA will offer its Malaysian investment funds to its partner, to utilise the latter's established distribution network. MAA and Solidarity also aim to penetrate the markets in Pakistan and Bangladesh.

The other area MAA hopes to tap is the private pension and retirement fund, but he says the government needs to formulate the strategies before the industry can be developed.

On consolidation in the insurance sector, Tunku Ya'acob says there seems to be a shift in government policy. 'I don't think they're talking about consolidation

anymore... after all they're issuing new takaful licences.'

Asked whether MAA could take the lead (in consolidation), he says, 'If you want us to acquire those that are not very strong, it would not be attractive enough for us to buy them. Also, most local insurers are bank-owned. So there's no candidate to acquire.'

MAAH also owns a 35% stake in listed poly-chemicals company Mithril Bhd. This entity doesn't fit into the insurer's corporate structure and will be disposed of once it has achieved the desired financial performance.

Diversification strategy

After forging a stronghold in insurance, Melewar Equities embarked on its diversification plan in earnest in September 2002. It acquired a 32% stake in Maruichi, one of the leading local manufacturers of steel products.

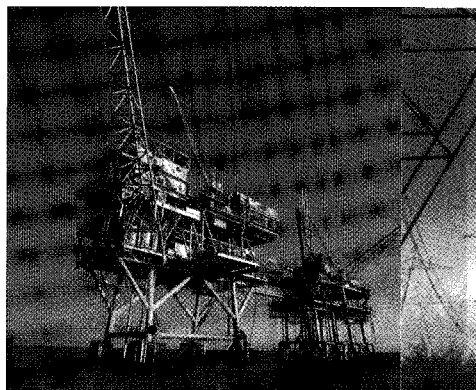
Melewar's purchase didn't go down well with the investing community, more so when Maruichi put up a controversial bid for a controlling block in MMM just three

months later. The outcry was too much for Melewar and it backed off ignominiously.

Maruichi caused another stir six months later when it declared a bumper dividend payout, creating the notion it was using its cash hoard to enrich the new shareholder. It was a move seen as bordering on poor corporate governance and transparency.

That is all in the past now. Today, Maruichi, or MIG, has a different business profile. Because of the cyclical nature of the steel business, MIG has looked to diversify its earnings base while maintaining its focus on its traditional steel operations, its mainstay for over three decades.

Early last year, MIG bought a 16% stake in Trenergy (M) Bhd (now called M3nergy Bhd). MIG later upped its interest in the oil and gas-related group to 23.9%. Sister



company MAAH also has a direct 4.5% stake in M3nergy.

'Oil and gas is a sunrise industry in Malaysia and we see much growth in this sector in future years. We want to be a part of this exciting industry,' Tunku Ya'acob says. Ironically, just a few months before MIG bought into M3nergy, the latter acquired a major stake in MMM, thus emerging as the single-largest shareholder in the shipping outfit.

Asked if there was a feeling of déjà vu as MMM is now part of the Melewar group, he says, 'It was probably not a good thing to buy a direct stake in MMM at that time as the shipping industry went

through a volatile period.'

MIG intends to exert some changes in M3nergy and MMM. The strategy now is for M3nergy to focus on oil and gas exploration and production. In other words, to be an oil producer and an FPSO (floating, production, storage and offloading) operating company.

MMM will thus be an owner and provider of FPSO, and shipowner.

A consortium, 30%-owned by M3nergy, was awarded a service contract for the development of proven offshore marginal fields known as 'Cluster 7', off Mumbai in India. The development period will take up to three years and the oilfield is expected to produce 18,000 barrels per day.

Tunku Ya'acob says it's a natural progression for M3nergy to move into oil production. Another reason is that the

450MW combined cycle gas-fired power plant in Rayong, Thailand. The first stage for 150MW will cost US\$150 million to build.

'What makes our power venture in Thailand attractive is that we've got an average selling price of US\$0.0614/kwh,' says Tunku Ya'acob.

MIG has applied for a larger IPP (independent power producer) licence in Thailand and is looking to invest in the power sector in Indonesia.

Melewar Equities projects that by 2008, 50% of earnings from its businesses will come from overseas operations.

In 2004, MIG floated its steel operations unit on Bursa Malaysia's main board under Mycron Steel.

Building on its strength

MIG submitted the proposal for the 52km

induction furnaces and casting technology.

'This is a very interesting development in steel operations to gain economies of scale,' he says. The technology sees the production of specific steel billets to be used for reinforcement bar rolling mills. Many companies have expressed interest in this technology, he adds.

A MycroSmelt mill in Shah Alam is in the final stage of commissioning.

Doing its bit for CSR

As a caring corporate citizen, the Melewar group does its share in the area of corporate social responsibility. It has committed some RM8 million in the two main charities it maintains.

One is the MAA Medicare Dialysis Centre comprising 10 branches and operating 150 machines. The centre has become the largest non-government kidney dialysis operation.

The other charity is Budimas Charity Foundation to help orphans and abandoned children. The foundation adopted and maintains four homes. It also intends to build a home that can accommodate 1,000 children and is looking to set up its first facility in Gombak on a four-hectare site.

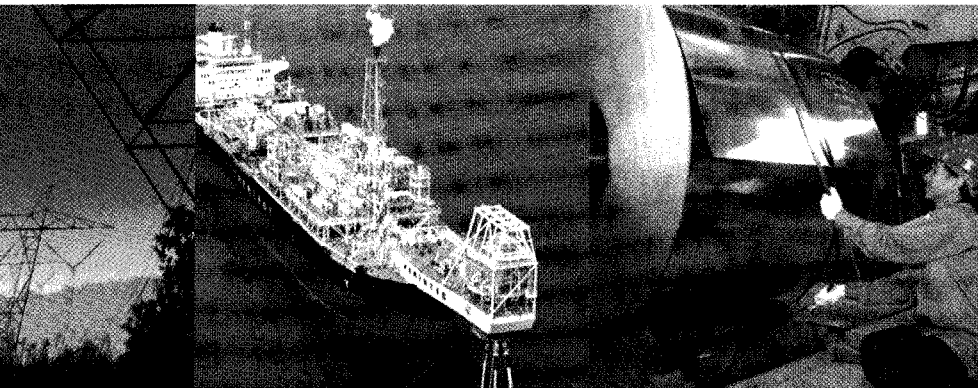
The idea is to give education and support to these children so they can achieve their potential and contribute to the country as well as support the home.

Looking ahead

Five years down the road, Tunku Ya'acob would like to see both his companies, MAAH and MIG, be among the 50 top-capitalised companies on Bursa Malaysia.

'It's a matter of time before the public see the companies' true worth,' he says. 'My vision is to build world class companies, with global standards and global professional levels.'

As for Melewar Equities, the aim is to be the foremost family grouping in the region. **mb**



internal rate of return (IRR) for FPSO is about 12%-15%, compared with 30%-50% for oil and gas production. The company is bidding for a couple of oil and gas contracts in India and elsewhere.

MMM is undertaking a fleet renewal programme including buying new vessels to gear up for its new core business in FPSO and focus on chemical and clean petroleum tanker sector.

MIG has also moved into the lucrative and stable power sector to insulate itself from the cyclical steel sector. Its 100%-owned Mperial Power Ltd owns 70% of Siam Power Generation Co Ltd (Sipco). The latter is the licence-holder for a

Penang monorail project to the government in 2004. Using the steel tube-based concept, the cost of construction for the system would be much cheaper at RM1.6 billion, averaging RM30 million per km compared with RM60 million per km for the monorail in Kuala Lumpur. Although MIG's proposal is favourable to the government, it has to contend with other bidders that have joined the fray.

Tunku Ya'acob is also excited about a new technology – scrap smelting and billet making called MycroSmelt – developed by MIG. The technology allows the smelting of smaller amounts of scrap competitively using state-of-the-art