

TRADE WISE

# GUH gears up for acquisitions

BY BEN SHANE LIM

With the expiry of its power plant concession in Cambodia, GUH Holdings Bhd is getting ready to put its cash-rich and debt-free balance sheet to work in a RM420 million acquisition spree to beef up its utilities and property development divisions.

"We have about RM180 million in net cash, and the intent is to gear ourselves up to 50%. Our shareholders' funds stand at around RM480 million, so we can raise RM240 million debts. Together with the cash, that is about RM420 million for acquisitions," CEO and managing director Datuk Kenneth H'ng Bak Tee tells *The Edge*.

GUH's core business has been the manufacture of printed circuit boards (PCB), which contributes 36% to the group's profit, but Kenneth wants to shift its focus to property development and utilities such as power and water.

As at last Friday's close of RM1.59, GUH's share price was almost 74% higher than that a year ago. Nonetheless, the stock is still valued at a relatively undemanding 14 times historical earnings compared with its peers, and yields 2.5% in dividends.

It is worth noting that GUH has 68 sen in cash per share.

Moving forward, the potential acquisitions could be a catalyst for the group, considering that it has a market capitalisation of only RM420 million, roughly the same as the allocation for its planned acquisitions.

Note that the RM420 million allocated for acquisitions does not include the RM69.69 million land deal that GUH recently inked. Recall that the company in May proposed to acquire a 99.46% stake in Million Crest (M) Sdn Bhd, which has a 46-acre tract in the south of Seberang Prai.

The proposed acquisition is a related-party transaction as Million Crest is wholly owned by Leader Universal Properties Sdn Bhd, which in turn is 99.46%-controlled by HNG Capital Sdn Bhd. HNG Capital is the vehicle of Kenneth's older brother, Datuk Seri H'ng Bok San, who is also the chairman of GUH.

"On top of the RM70 million, we will be spending on landbanking [the Million Crest tract]. We are allocating another RM100 million for landbanking," says Kenneth.

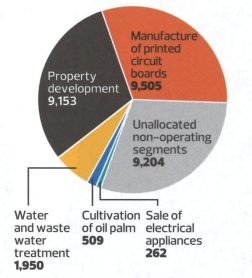
The balance RM250 million or so will be invested in or used to acquire power and water projects.

There is some urgency to secure a new utility project as the group's 18-year concession for the 35mw diesel power plant in Cambodia is set to expire in May next year. The project was the first independent power project in that country and commanded a lucrative internal rate of return



Kenneth: We have to be careful with launches, especially the big ones

## Profit for FY2013 (RM '000)



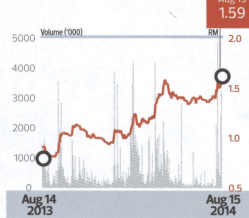
(IRR) of between 20% and 30%, says Kenneth.

GUH has a 20% stake in the project while Leader Universal Holdings Bhd, which is controlled by Bok San, holds 60% equity interest. GUH's share of the dividends is about US\$2 million (RM6.4 million) per annum, against the group's RM24 million in net profit last year.

Kenneth points out that the group is currently in talks to extend the concession. In addition, GUH is negotiating new power concessions outside Malaysia, he adds.

However, if all else fails, the H'ng family could consider injecting another power asset into GUH. Leader Universal wholly owns a 100mw coal-fired power plant in Silhanoukville, Cambodia, which was completed recently.

## GUH Holdings



GUH Holdings Bhd is an investment holding company. The company, through its subsidiaries, manufactures and sells printed and hybrid circuit boards, precision shutters, and centre hubs for microfloppy disks. It is also a property developer.

FYE DEC (RM MIL)	FY2013	FY2012
Operating profit/(loss)	28.17	24.76
Net profit/(loss)	29.98	36.11
EPS (sen)	11.34	13.23
ROE (%)	6.63	8.77

AS AT AUG 15	
Market capitalisation (RM mil)	427.87
Shares outstanding (mil)	264.12
Price/book (times)	0.86
PE forward (times)	NA
PE historical (times)	14.07
Dividend yield (%)	2.51
Estimated free float (%)	35.74

"It is a possibility. That asset belongs to Leader Universal in which I don't have a stake," Kenneth says.

It is interesting to note that Leader Universal has been disposing of its assets of late. Following the sale of its 46 acres in Penang to GUH, Sarawak Cable Bhd in June began performing due diligence to acquire Leader Universal's cable and wire businesses for RM210 million.

The coal-fired power plant comes with a 98km transmission line concession, and together, they are worth about US\$450 million. However, the equity portion accounts for only 20% to 30% of that figure or about US\$120 million, says Kenneth.

The IRR on the coal-fired plant, however, would be much lower than that on the 35mw diesel power plant — somewhere in the mid-teens. Kenneth notes that any acquisition by GUH would have to command a yield of at least 12% to 13%.

GUH is also on the lookout for more water concessions, to be undertaken by its subsidiary Teknoserv Engineering Sdn Bhd, which has a class A licence that allows it to undertake almost any project in Malaysia.

GUH's water and wastewater treatment segment currently contributes 24% to the group's net profit.

## Landbanking

As for the group's property development division, Kenneth says GUH will be looking to acquire land in Greater Kuala Lumpur and the outskirts such as Rawang and Dengkil.

At present, the group's landbank stands at 542.05 acres, with most of the parcels in Seremban.

"The property market is slowing down. People are no longer snapping up properties like they used to and the number of loan applications that are rejected is on the rise. We have to be careful with launches, especially the big ones," says Kenneth.

GUH's property development arm has been focusing on selling landed properties, and its projects appeal mostly to non-speculators, he adds.

Although the property market is softening, GUH's sales have been relatively buoyant even in non-core property markets such as Seremban. Ahead of the official launch of 100 units of landed properties in Seremban, which is slated for Merdeka Day, Kenneth notes that about half of them were sold during the soft launch.

"Our Seremban tract is prime land. It is located next to the first toll plaza when you exit [the highway]," he says.

Meanwhile, in Penang, the 46-acre tract is expected to generate some RM238 million in gross development value. Kenneth says the company already has the necessary development approvals and can proceed as soon as the transaction is finalised.

However, he notes that the plan for the site is about 10 years old and GUH is in the process of updating it to cater for today's market. The company will also be developing landed properties there, with linked houses priced at about RM500,000 each.

As for the PCB business, Kenneth says GUH has no plans to expand capacity after the last RM20 million investment in the business. As at the first quarter of the year, its PCB operations in Penang were still loss-making. This is because it has been focusing on supplying PCB components for audio and visual products, where the margins are thin.

The group's PCB plant in Suzhou, China, continues to be profitable as it is producing components for appliances that have more robust demand. In view of this, Kenneth says, the Penang plant will be shifting its focus to appliances as well. ■