GUH-ing on expansion mode

Company's move is to reduce group's reliance in core business

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KUALA LUMPUR: GUH Holdings Bhd, which is sitting on net cash of RM85.5 million, plans to expand its businesses in oil palm plantation, property development and concessions (water and power generation).

The expansion in the peripheral business segments is to reduce the group's reliance on its present core business in the manufacturing of printed circuit boards (PCB), which tends to be cyclical, according to its CEO and managing director Datuk Kenneth H'ng Bak Tee.

Market observers say such moves may help expand earnings stream and generate interests towards the stock, whose valuation appears undemanding currently.

GUH closed at RM1.18 on Wednesday, which gives it a market capitalisation of RM239.6 million. Stripping out its net cash holdings, investors were only valuing the group's businesses and non-cash assets at RM154.1 million, which was about 3.6 times its annualised earnings for FY10 ended Dec 31 of RM43 million, or 3.1 times its annualised Ebitda of RM49.3 million.

The group's shareholders equity stood at RM380.9 million or RM1.90 a share.

In an email interview with *The Edge Financial Daily*, H'ng said GUH plans to dilute the revenue contribution from its core PCB business to 60%-70% of group revenue in the medium term, from about 90% at present. In terms of earnings, the PCB business contributed to about 83% of the group's pre-tax profit.

"This does not necessarily mean that we will reduce our investment in the PCB business; we will still look for opportunity to invest in the PCB business to enhance our competitive advantage in the Asean region," he added.

GUH has two PCB factories in Penang and Suzhou, China. With regards to the outlook for 1QFY11, H'ng said things look positive, with orders having come in during 4QFY10.

"If this positive trend continues, we expect 2QFY11 to be positive as well. We are getting a lot of enquiries for our higher end double-sided PCB products," he said, adding the company was looking to invest about RM20 million to increase the production capacity of its double-sided PCB to 50,000 sq m per month in FY11 from 40,000 sq m per month in FY10.

"This investment is to raise the output of higher margin yielding double-sided PCBs and to enable the group to price these products competitively," he said.

Nevertheless, H'ng said as far as the group's strategy is concerned, management has reckoned that palm oil, property development and concession businesses (water and power) are areas for expansion.

GUH is involved in the power-generation business with a 37.1MW diesel-engine heavy-fuel fired power plant in Cambodia via its 20% stake in associated company Cambodia Utilities Pte Ltd. The other stakeholder is Leader Universal Bhd, with a 60% stake and Delcom Utilities with a 20% stake.

According to their 2009 annual reports, both GUH and Leader Universal have several common substantial shareholders, including Zun Holdings Bhd — one of the private vehicles of the H'ng family, which owns a 9.61% and 11.7% stake in the two companies, respectively. As at March 31, 2010, GUH also had a 4.92% equity interest in Leader Universal.

GUH's executive chairman Datuk Seri H'ng Bok San is also the founder of Leader Cable Industry Bhd, which merged with Universal Cable (M) Bhd to form Leader Universal, where he still serves as the executive deputy chairman.

GUH has a plantation arm which has an oil palm estate of 385 acres in Kuala Muda, Kedah, and GUH Properties Sdn Bhd which is involved in the development of Taman Bukit Kepayang in Seremban.

H'ng said he expected the property division to contribute up to 20% to group revenue in the near future from 5% currently based on the growing demand for its properties and scheduled launches.

"Our strengths are our comfortable cash pile position and our ability to turn the old master development plan into a modern living concept with contemporary product design within a short time span," he said, referring to the acquisition of the property arm via a reverse takeover from GUH's previous owner, former MCA chairman Tan Koon Swan in 1994.

GUH had a few weeks ago announced that it had entered into a preliminary agreement with the Development General Co of Jiangsu Gaochun Economic Development Zone, Jiangsu province, China, for the construction of a 100 million litre per day (mld) water treatment plant and distribution network.

The capital expenditure for the project was estimated to be 180 million yuan (RM83.5 million), excluding the distribution network, and the implementation will be in two phases of equal capacity, and would be undertaken by GUH on a build-operate-transfer basis.

According to H'ng, GUH decided to venture into the water treatment business as it viewed it as a recession-proof business and could help provide a steady flow of income to cushion any possible cash flow challenges during an economic downturn.

"We like China as the investment environment because it is more matured compared with other (emerging) countries, plus there is a growing demand for water."

"We are also open to the idea of collaborating with other water players that already have similar investments in China," he said, adding that the preliminary feasibility report was expected to be ready by July.

For its nine months ended Sept 30, 2010, GUH posted a net profit of RM32.22 million on the back of RM232.58 million in revenue.