

Newspaper : The Edge Malaysia

Date : 19th June 2017

Title : Bina Puri to take control of RM15bil Kuantan Project

Bina Puri Holdings Bhd

(207184-X)

Section : Corporate

Page : 38

38 | CORPORATE

THE EDGE MALAYSIA JUNE 19, 2017

Bina Puri to take control of RM15 bil Kuantan project

BY KHAIRIE HISYAM ALIMAN

Bina Puri Holdings Bhd is looking to acquire a controlling stake in its property development associate Ideal Heights Properties Sdn Bhd (IHP) by the third quarter of the year, which may almost double the construction company's net assets per share.

Group executive director Matthew Tee Kai Woon says the plan is to buy shares from other IHP shareholders, up to just over the 50% threshold, via a share swap exercise. He adds that IHP is valued at about RM200 million.

"We started the process in 2015 but faced a hurdle in working out the valuation, so there was some delay due to that," Matthew tells *The Edge*. "It is still going through regulatory processes at the moment but hopefully, [the acquisition] can be concluded by September."

The share purchase is a related-party transaction as IHP is controlled by the Tee family, which collectively owns more than 24% of Bina Puri, according to its latest annual report. Other shareholders of Bina Puri include Jentera Jati Sdn Bhd, a vehicle of Tan Sri Syed Mokhtar Albukhary, which has an 8.02% stake.

According to IHP's latest annual return, its largest shareholder is Bina Puri managing director Tan Sri Tee Hock Seng with a 22.5% stake. Bina Puri founder director Dr Tony Tan Cheng Kiat has 12% equity interest.

Other shareholders include Bina Puri directors Tay Hock Lee (11.5%) and Datuk Henry Tee Hock Hin (4.99%).

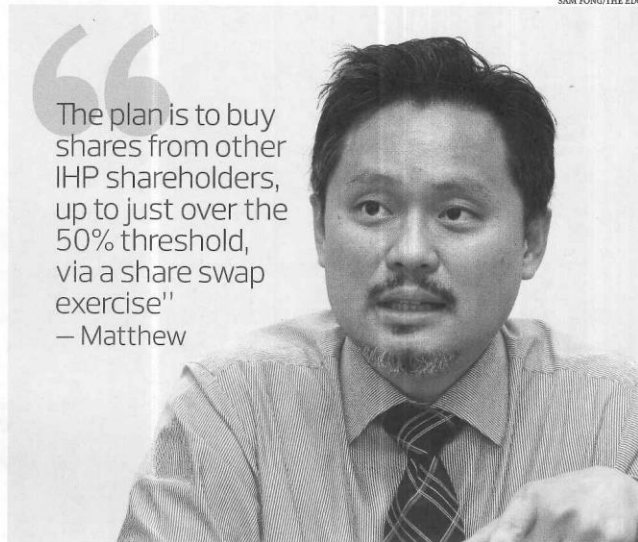
This means that the corporate exercise "will also remove conflict of interest", says Matthew, as the directors would not own direct stakes in separate property development entities given that Bina Puri also has its own property arm.

Bina Puri currently controls 12% of IHP. Assuming an increase to 51%, an additional 39% stake would translate into an extra RM78 million to Bina Puri's asset base.

It is a significant increase given the company's market capitalisation of RM111.8 million as at last Thursday.

A back-of-the-envelope calculation shows that the additional RM78 million valuation is equivalent to 185.71 million Bina Puri shares as at last Thursday's closing price of 42 sen apiece. That represents over two-thirds of its existing share base.

While the mechanism and final details are still being worked out, Matthew stresses that the intention is to maintain



SAM FONG/THE EDGE

“The plan is to buy shares from other IHP shareholders, up to just over the 50% threshold, via a share swap exercise”
— Matthew

a reasonable public shareholding spread and to avoid triggering a mandatory general offer.

For the financial year ended Dec 31, 2015 (FY2015), IHP recorded a pre-tax profit of RM1.04 million on revenue of RM10.3 million, based on its audited financial statements.

While IHP's recent earnings are not exciting compared with Bina Puri's full-year turnover of RM1.05 billion in FY2016, gaining majority control of IHP means it could consolidate future earnings from the Kuantan Waterfront Resort City (KWRC) — the RM15 billion development in Tanjung Lumpur, several kilometres from the Pahang capital.

IHP currently owns 70% of Ideal Heights Development Sdn Bhd, which has the reclamation rights. The remaining 30% is controlled by Newston International Group Sdn Bhd.

KWRC will involve the reclamation of up to 500 acres over the next 10 years. Plans for the development include a water theme park, a marina and yacht facilities, indoor aquaria and waterfront alfresco outlets.

In addition to medical and wellness facilities and duty-free shops, KWRC will have hotel and resort components as well as residential units ranging from floating

villas and bungalows to high-rise serviced apartments.

The first of four phases, which comprises two blocks of serviced apartments, has seen a take-up of 70% from mostly local buyers.

Last October, Bina Puri partnered Chinese contractor CCCC Dredging (Group) Co Ltd in a 50:50 consortium to develop KWRC. Bina Puri will take the lead on the development aspect while CCCC Dredging will undertake the land reclamation works.

"The reclamation is expected to begin by the end of this year," says Matthew. "We estimate the cost to be around RM300 million, so we are working with CCCC Dredging to contra the payment with reclaimed land of a similar value."

That said, Bina Puri is not in a hurry, he clarifies, as it sees a lot of potential for Kuantan. Among others, he points to the upcoming East Coast Economic Region — which spans Kelantan, Terengganu, Pahang and northeast Johor — and the Kuantan Port expansion, by a consortium led by IJM Corp Bhd, as potential catalysts.

"So, it is in our interest to not rush the project and to undertake proper planning," Matthew says, adding that Bina Puri may look to bring in more partners further down the road.

Loan restructuring

On another front, Bina Puri is looking to restructure about RM60 million of its debt after the upcoming listing of its Indonesian power unit, PT Megapower Makmur Tbk, by end-June.

The figure represents about 9% of Bina Puri's overall borrowings of RM670 million as at the first quarter ended March 31. If the company is successful, it will reduce its gearing from 2.1 times to 1.9 times.

In a May 31 note, TA Securities says Bina Puri's balance sheet is rather "stretched" and as such, it does not expect the group to pay dividends until FY2019 at least.

"After the listing, we will speak to the bankers as the loan was taken on behalf of Megapower and is currently under Bina Puri," Matthew says, adding that the debt had been serviced with cash flow from the operations of the power business. "We are looking to shift [the borrowings] to Megapower directly instead."

A micro power generator, Megapower currently leases and operates eight power plants running diesel engine generators, in addition to one mini hydro power plant. It supplies 31.2MW to Indonesia's Perusahaan Listrik Negara, according to Bina Puri's website.

In 2015, the power producer registered revenue of RM1.23 billion and a net profit of RM3.3 million. On its prospects, a May 26 report by KGI Sekuritas Indonesia opines that Megapower has much room to expand given a relatively low electrification rate of about 88% in Indonesia.

The 80%-owned power unit is expected to list on the Indonesia Stock Exchange by June 23 and to raise nearly US\$4 million in proceeds. Following the listing, Bina Puri is expected to retain a 56% stake.

Half of the proceeds will be used to repay shareholder advances of about RM8 million from Bina Puri, says Matthew. Bina Puri has advanced RM17 million so far since it bought into the power producer in 2010 and the balance is expected to be repaid over the next three years.

However, the funds will likely be used as working capital instead of special dividends, Matthew clarifies. On what lies ahead post-listing for the power unit, he says the plan is to resume expansion.

"Access to financing will be important. We hope the power unit will be self-sufficient in pursuing expansion," says Matthew. "There are a lot of opportunities and we have had a number of approaches, but expansion has been [put] on hold pending the listing."