GUH seeks to expand income base

BY **Chong Jin Hun**

Mergers and acquisitions (M&A) may feature prominently in cash-rich GUH Holdings Bhd's long-term growth strategy as the diversified entity reduces its dependence on its bread-and-butter printed circuit board (PCB) manufacturing business.

The focus of the Penang-based company is expanding its income base via a stable of utility, real estate and plantation assets. This is to safeguard the group's earnings against the cyclical nature of the electrical and electronic industry, says GUH's CEO and managing director Datuk Kenneth H'ng Bak Tee.

"Our long-term business direction is to drive our investment strategy towards becoming a well-diversified conglomerate with meaningful investment in property and utilities (water and power generation) while maintaining the dominant position of our PCB division.

"Our cash will be used to invest in viable businesses in the areas mentioned earlier — in the expansion of our landbank in Malaysia, further investment in concession businesses (water and power) and the expansion of our oil palm estate," says H'ng in an email.

GUH, which is debt-free and has a cash pile of more than RM100 million, will be able to gear up to undertake sizeable projects in the future, he points out.

The group will continue to grow its PCB business in absolute numbers, although revenue contribution from the division will be reduced from 90% to 70%.

While the company plans to grow its PCB unit organically and via acquisitions, H'ng says organic expansion will be given priority. This is because M&A opportunities are not easy to come by in the PCB industry.

"As the global economic outlook is still uncertain, the biggest challenge for the company is managing costs," observes H'ng. "This can be very challenging for our PCB division as its profitability depends largely on the price fluctuations of raw materials such as copper and gold."

On GUH's utility business, he says the company plans to acquire water and wastewater treatment plants apart from embarking on organic growth via greenfield projects.

"We like the utility business because of its income stability. The outlook for it is positive as there is growing demand for power and water consumption by households and commercial [entities], which is all tied to growing populations, especially in Asia," says H'ng, whose family vehicle Zun Holdings Sdn Bhd holds a 10.29% stake in GUH.

GUH has 20% equity interest in Cambodia Utilities Pte Ltd, which has an 18-year electricity-generation concession in Phnom Penh. The concession ends in 2015.

Leader Universal Holdings Bhd, in which Zun Holdings owns a 12.6% stake, controls 60% of Cambodia Utilities.

In January this year, GUH signed a preliminary agreement with the Development General Company of Jiangsu Gaochun Economic Development Zone in China for the planned construction of a water treatment plant with a capacity of 100 million litres per day and its distribution network within the zone.

GUH is still studying the feasibility of the project, estimated at RMB180 million. It will be undertaken on a build-operate-transfer basis. The RMB180 million figure does not include the plant's distribution network.

More recently, on July 1, GUH said it was acquiring a 70% stake in Teknoserv Engineering Sdn Bhd for RM8.97 million. Teknoserv offers engineering services for wastewater and water treatment plants.

In the real estate sphere, GUH plans to expand its presence in the Penang and Klang Valley residential and commercial property sectors by acquiring companies with landbank and collaborating with landowners.

As a property developer, GUH has only one mixed-use project — the RM750 million Taman Bukit Kepayang on a 500-acre tract in Seremban. Since development started in 1994, more than 1,300 units on 260 acres have been completed. The rest of the tract will be developed gradually until 2016.

GUH's oil palm business is also worth watching. H'ng says the company, which has a 385-acre plantation in Kedah, may acquire more land or plantation companies to grow the division. But it has no immediate plans to make a foray abroad.

"Lastly, we are still on the lookout for opportunities to expand our oil palm plantation acreage amid the high asking prices for land in Malaysia," remarks H'ng. According to him, the 385 acres in Kedah are fully planted, with the trees on some 300 acres already more than three years old.

On the whole, GUH is anticipating better financials in the coming years. It expects a net profit of RM48.2 million in FY2011 and RM52.9 million in FY2012. Net profit was RM43.77 million in FY2010 on revenue of RM309.27 million.

H'ng says PCB manufacturing and real-estate development will be the growth drivers for GUH in FY2011.

The property division's contribution to revenue is expected to rise to 20% in the near future from 5% now as a result of scheduled launches and demand for its properties.

In 1QFY2011 ended March 31, the company's net profit fell 25% to RM9.52 million from a year earlier. Revenue, however, rose 12% to RM78.78 million. First quarter profit dropped because the numbers for the previous corresponding quarter included a RM4.4 million gain on fair value adjustment of quoted investments.

As at March 31 this year, debt-free GUH had cash of RM104.13 million, which translates into net cash per share of 51 sen against its last closing price of RM1.20. Its latest reported net assets per share is RM2.

Moving forward, GUH's earnings dynamics will be closely watched by the investment fraternity. As the company earmarks its funds for expansion, investors will also be wondering if it will return a portion of its cash to shareholders as dividends. In FY2010, it rewarded shareholders with a gross dividend of 5.5 sen per share.

H'ng says the company will try to maintain or improve its dividend payouts in the future. That should not be a problem if its cash pile is invested in bottom line-accretive assets as planned by H'ng. E