

Overseas ventures boost earnings for some

IT seems fashionable these days for local companies to venture into the overseas market. Facing saturated markets at home, they are encouraged to go abroad to explore business opportunities.

Analysts said some companies' overseas ventures had boosted their corporate earnings last year.

“Malayan Banking Bhd, Public Bank Bhd, Telekom Malaysia Bhd and IJM Corp Bhd are among those which have successfully taken on the world stage,” an analyst said, adding that the smaller companies were not left behind.

“Smaller companies seem to pursue a path of overseas expansion as well. The saturating markets at home have prompted these companies to venture abroad.”

A local bank-backed analyst said the majority of those that had ventured overseas over the past two years were rushing towards India and China to ride on the countries' economic boom.

However, he said, more and more companies were also heading towards Vietnam and West Asian countries.

“There are more Malaysian foreign direct investments, ranging from manufacturing operations in Thailand, Vietnam and China to toll and airport concessions.

“Over the past few years, Malaysian businesses have been investing more than RM10bil annually overseas,” the analyst noted. “Local companies that have successful overseas projects have gained from the positive publicity and seen a boost in their earnings performance and reputation.”

Another analyst said that it was not all smooth sailing for these companies which had made a name for themselves overseas.

“There have been some disappointments after fruitless attempts in their overseas forays.”

SJ Securities head of research Cheah King Yoong said aside from being a reputable local construction player, IJM had also been successful in its overseas forays, particularly in India where it had undertaken sizeable construction projects.

He said that although the group had ventured into India for quite some time, the company had only started doing business in a big way over the



past few years.

IJM ventured into India in 1998 with the Mumbai Pune Expressway and has successfully completed 11 road projects. It has diversified into metro construction and developed an integrated residential township project in Hyderabad.

Meanwhile, IJM has plans to make a foray into Pakistan this year, with the Karachi Elevated Highway project, according to OSK Investment Bank.

For the financial year ended March 31, the company made a 14% rise in pre-tax profit to RM318.9mil on revenue of RM2.3bil. Analysts said currently more than half of its revenues were derived from overseas projects.

Tan Teng Boo Cheah said another company which had made it big beyond local shores was UMW Holdings Bhd. .

UMW has operations in Singapore, Thailand, Vietnam, Myanmar, Papua New Guinea, China, Australia, Turkmenistan, India, Indonesia and the Middle East.

Analysts said despite all the successful stories, there were also less successful overseas ventures and these companies learned the process the hard way.

UEM World had made a full provision for the millions it lost in its venture to the Middle East while Sime Darby had to write off a huge provision for bad debts in China in 2005.

Quite a number of construction companies, including IJM, Gamuda Bhd, Road Builder Holdings Bhd, WCT Engineering Bhd and Mudajaya Corp Bhd, are exporting their expertise overseas, the most popular destinations being India, China and countries in the Middle East and South-East Asia.

“KNM Group, Dialog Group Bhd, LCL Corp Bhd and UMW are also actively expanding their operations abroad,” an analyst said.

The trend of Malaysians investing abroad is expected to continue into the future.

An analyst pointed out that more Malaysian companies were listing overseas, particularly for their overseas subsidiaries, as it would be seen as a natural progression to expand their businesses abroad.

Overseas expansion would be necessary in the long run, as the local playing field is getting flooded with players, an analyst said.

However, for some companies, opportunities at home have certainly not dried up.

Analysts say, local companies were also eyeing the projects under Ninth Malaysia Plan.

Local construction players have been urged by the Prime Minister to merge and form bigger entities that would be able to bid for jobs overseas.

LEE SENG HUANG

Executive chairman Mulpha International Bhd

We needed to diversify our income base since the Malaysian market is of limited size. It is also about spreading our risks across markets rather than be exposed to a single market.

We have ventured into countries such as Hong Kong, Vietnam, Australia, China and the Philippines. In general, we have been happy with our progress; but some countries have been tougher than others. In the Philippines we struggled with the culture and ways of doing business, but in places like Australia, we have emerged as Malaysia's largest real estate investor. In Australia, we have probably invested a total of about RM300mil to RM400mil, which has now become about RM3bil in total assets, contributing about 70% of our revenue and profit.



Lee Seng
Huang

LEE SWEE ENG



Managing director KNM Group Bhd

Thus far, our expansion into China, Indonesia, Australia, the United Arab Emirates (UAE) and Italy has progressed as planned and we continue to expand.

We have invested about RM195mil over the last four years and have increased our market share to about 1% for the year ended Dec 31, 2006. Our overseas business contributes about 45% to revenue and 28% to profit in the first quarter of the year. We are now engaged in constructing new plants in Brazil and Canada and seek further expansion in the UAE, China and Batam. Human capital is a major challenge to our expansion plans and we have established a subsidiary in India to recruit Indian engineers.

Lee Swee Eng

ALVIN ANG

Group financial controller

Thong Guan Industries Bhd

Apart from our manufacturing activities in Malaysia, we have one plant each in China and Thailand to produce garbage bags. We have been operating from these two countries for seven years.

Although we have been exporting to more than 40 countries, we are constantly looking for opportunities in new markets. Export sales currently account for about 70% of the group's revenue.

We started exporting our garbage bags to Japan in 1993. Today, we export about 160 containers of garbage bags to Japan monthly from our plants in Malaysia and China.

We are also looking to invest in a garbage bag manufacturing facility in Vietnam this year. We hope to start construction by the end of this year and manufacturing activities will begin early next year.

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