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Building on a strong foundation

BY A JALIL HAMID AND SHAREN KAUR - 5 APRIL 2016 @ 11:03 AM

KUALA LUMPUR: Excerpts of the interview with IJM Corp Bhd chief executive officer and managing director Datuk Soam Heng Choon.

Q: How is the progress so far since you took over as the managing director (MD) and chief executive officer (CEO) of IJM Corp, which is almost a year now?

A: I took over from April 6 last year. IJM is a fantastic company, I would say. I've been in this company for quite a while now. Of course IJM has actually grown organically

and also through mergers and acquisitions (M&As). IJM itself was formed in 1983 via the merger of three companies, that is Ipoh Garden Bhd (Ipoh Garden), Jurutama Sdn Bhd (Jurutama) and Mudajaya Construction Sdn Bhd (Mudajaya). That's how the name IJM came about.

In the early days I used to handle the property business in IJM group. Of course, at the peak we were doing sales of over RM2 billion, a turnover of about RM2 billion and profit before tax of more than RM500 million. So, that by itself is quite a sizable business. Of course, now I have taken over the group and I have to look after the five core businesses.

If I divide the infrastructure division into two, which is inclusive of port operation, then it's actually six different businesses that come under my thinking cap. So, definitely the focus would be in all the areas that we are operating in, but of course in all the divisions, we also have CEOs and MDs looking after them. At group level we have to look at the areas that we need to grow and what are the areas of pain that we need to address.

Q: In terms of growth prospects, what are the areas that you think we should be more focused on?

A: In Malaysia, because of the 11th Malaysia Plan implementation from this year, I think there is going to be RM260 billion worth of projects over the next five years.

We believe some of this major projects are being rolled out now, projects like the Mass Rapid Transit (MRT) Sungai Buloh-Serdang-Putrajaya Line (MRT2), the upcoming Light Rail Transit (LRT) Bandar Utama-

Klang Line (LRT3), our own West Coast Expressway. Then you have the new Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) Highway, the Damansara-Shah Alam Elevated Expressway (DASH), and also the Pan Borneo Highway in Sabah and Sarawak. These are all big infrastructure projects. So the prospect for the construction sector is very bright currently in Malaysia.

Q: Out of the five sectors IJM is involved in, which one is contributing positive growth?

A: For the past five years, the property division has given tremendous growth to the group, but the last two years you can see a some softening in the property sector. This year, the property sector will be going through a bit of challenges in terms of some decline in both revenue and profit numbers. But, in the construction and infrastructure side, there's a lot of growth there. We have an order book of more than RM7 billion, which will be carried out over the next three years.

Q: Is that purely construction?

A: Purely construction. On the property side, we have unbilled sales of more than RM1.7 billion. Our annual sales is the previous year we were doing about RM1.7 billion. This year our financial year hasn't closed yet.

Q: And which will be the biggest contributor moving forward?

A: Based on figures in our last annual report, by revenue, the property division contributed 37 per cent, construction 20 per cent, infrastructure 17 per cent, industry 15 per cent and plantation 11 per cent. Our infrastructure division is doing very well, especially our Kuantan Port and toll highways. Traffic numbers are growing. We haven't ended our financial year yet, but there will be growth in the construction and infrastructure division. The plantation division and industry would remain about the same. Of course the property division will drop to below 30 per cent. They will be some shift and adjustment, but definitely we are expecting to do better this year than in 2015.

Q: Do you expect analysts to revise upwards the company's share target price this year?

A: We don't work for the analysts. We do our business, we drive our business. We need to drive growth in the company. And with growth, the rest will fall into place. We believe this philosophy of ensuring that in whatever sector we are operating in, if the wind is against us, we must face it and try to see how to overcome it. And if the wind is behind us we need to sail a bit faster. So, for the last few years, the wind was behind us in the property side, so we were sailing much faster. And now in construction, the wind is behind us, so we probably have to sail faster in the construction division.

Q: What about revenue contribution in terms of local businesses and overseas?

A: Overseas now forms a very small part of our business. Because there are a lot of jobs in Malaysia, we have refocused ourselves back here even though our footprint overseas is in at least 10 countries.

Q: What are you doing currently in those 10 countries?

A: We are currently in China. We have a manufacturing plant in southern China and also a property project in Changchun, which is up north. In Vietnam we have a water treatment plant and property projects in Ho Chi Minh. We are also in Singapore where we have a construction arm there. In Indonesia, we own plantations. In the United Kingdom, we have a property development in London. In the Middle East, we have construction jobs in Abu Dhabi, Dubai and Bahrain. In Pakistan, we have a ready mixed plant there catering to industries. India is a big market for us where we currently operate all our core businesses there except plantation. This means we have construction, property development, industry and infrastructure businesses in the form of toll roads. In Argentina we have one toll road where we own 20 per cent of it.

Q: What are the new markets?

A: We are looking at emerging markets in the Asean region. Of course for certain sectors of the business we are looking at more matured markets. For property development we are looking at the UK and Australia but a lot of developers are already there, so it is about coming up with the right product. There are challenges sometimes in emerging markets like mortgage. Unless, of course, the country has a very robust mortgage system but then there would also be other issues. We will be very cautious when entering emerging markets.

Q: What's the ratio like for the last financial year?

A: It should be about 90/10. The foreign contribution is quite small and the main driver currently is India. There is also stable income from our property development in London and the water treatment concession in Vietnam.

Q: So you are not bullish on overseas markets?

A: It's not that we are not bullish overseas. We are still in certain countries. We will refocus our attention overseas given that the Malaysian market is limited in size. In the future we may expand our global presence in a bigger way. Currently, since Malaysia has a lot to offer, we are focusing here on new developments, but at the same time we are still looking for expansion overseas. Like for example our industry division, we are selling spun piles from our factories in Malaysia to Myanmar and Iran.

Q: IJM Corp was one of top three Malaysian companies in India some 10 to 12 years ago with contracts worth billions of ringgit. Do we see this happening again?

A: Yes, we are still a big player in India and probably one of the few left behind. In fact, we are currently the top Malaysian company there and are looking for further expansion in India.

Q: A lot of Malaysian companies that pulled out of India said it was because they were running losses due to several challenges and the tough business environment with so many competitors. How has IJM Corp been able to survive for so long?

A: We are doing well in India. We completed five infrastructure toll highways and they are collecting tolls now. In fact, we have disposed of certain equity in some of the toll highways. In terms of construction we have completed all the work given to us. We have also developed a township in Hyderabad and still have property projects in other parts of India.

You see the challenges that you mentioned was during the global financial crisis in 2008 where CPO (crude palm oil) price shot up. India at that time was experiencing a bit of contraction in their local economy. When there's a contraction, financing is difficult. Interest rate went up and inflation went to double digits. When borrowing is double digit and inflation is also double digit, whatever that you made from projects would be lost. You won't be able to cover your expenditure coupled with the high interest rate and inflation. What we did was we re-strategised all our businesses there.

Q: Which are the markets IJM Corp will focus on overseas?

A: We will still be doing businesses in India and also property projects in more mature markets in the UK. We will also focus on newer emerging market like Vietnam. Of course like I said, even though we might not set factories in some of these countries, but we will continue to sell our spun concrete piles overseas.

Q: With the current global economic turmoil some companies are suffering and worried whether they are able to sustain their business. Where is IJM Corp on this?

A: Even though some companies are facing a lot of stress because of the current global economic situation, but in Malaysia, you can say we are lucky that we have a lot of projects that are being implemented by the government and some of these projects are quite big. There is enough work out there for everyone. It is not just the government alone that is spending, as even the private sector is investing in new projects and jobs are outsourced. For example, right now is the Kuantan Port expansion by IJM Corp. We are investing over RM1 billion and giving smaller jobs to smaller contractors and other firms in the construction sector. The government is also putting in some money as they want to make it a mega port.

Q: Who are your major shareholders currently?

A: The Employees Provident Fund owns about 13 per cent, PNB (Permodalan Nasional Bhd) has around eight per cent and Lembaga Tabung Haji has five to six per cent. Kumpulan Wang Amanah Pencen (KWAP) has slightly over four per cent.

Q: What is the share of foreign funds?

A: Foreigners have 30 per cent now. It used to be 40 per cent but because of the US dollar depreciation, some have left. But 30 per cent is still respectably high and is one of the highest for Malaysian corporates. Our shareholders include Fidelity and Aberdeen. California Public Employees' Retirement System (Calpers) is also our shareholder. These are all big names.

Q: How many toll concessions do you have in total?

A: In Malaysia we have two which are 100 per cent-owned, which is Besraya and NPE. LEKAS we own 50 per cent.

Q: And what about overseas?

A: Overseas in India, we used to own five highways. We already disposed of equity in three, so we are left with two highways in India.

Q: Given your commitment in all these infrastructure projects, including these highway, what's your appetite for debt borrowing?

A: Our current gearing is about 0.46 per cent.

Q: In terms of mergers and acquisitions, are you looking for some?

A: It's always on our agenda. IJM has grown both organically and also through M&As. Definitely we will be on the lookout, but don't treat it like we must do it. Along the way, like people say when times are bad, there could be opportunities. Of course there are a few conditions. The business must be synergistic to us. It must give us impact, and also the culture of the people in the company must be able to assimilate with ours. It's very important, otherwise the two groups of people (end up) fighting, and you have got a problem.

Q: Do you think we have too many builders or construction companies, but not major ones like the Koreans? Do you think there is room for us to consolidate?

A: Yes, there is a lot of room because I would say construction is a very fragmented business. We have too many contractors in Malaysia. We have 60,000 to 70,000 contractors in Malaysia, both big and small. Given our population, do we need so many? We probably need small renovation contractors, like ID contractors. But real builders, we must have some champions, people like Samsung, people like Hyundai, Japan has Shimizu, and Taisei.