

# FOCUS

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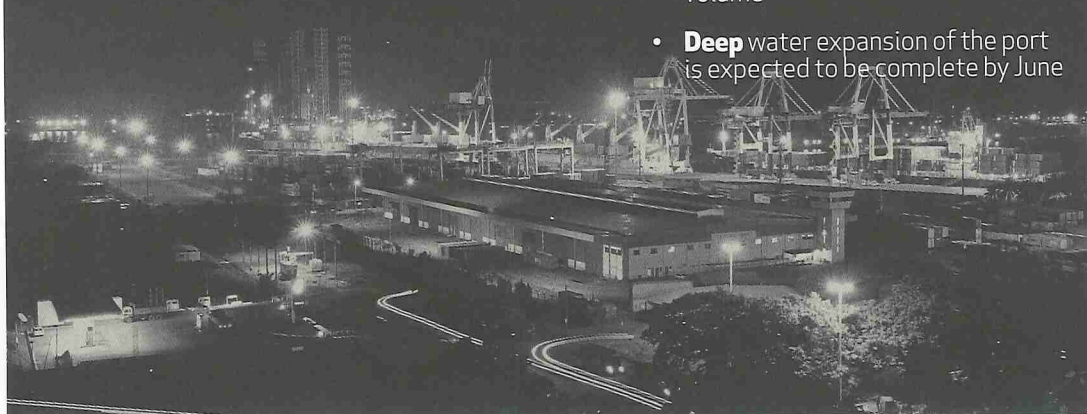
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## IJM's port biz gets China lift



- **Despite** concerns over slowing Chinese investments, IJM is confident the MCKIP and Kuantan Port projects will pay off
- **China's** Alliance Steel begins operations this month and could contribute 30% to the port's volume
- **Deep** water expansion of the port is expected to be complete by June

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# IJM's port biz gets

About 30% of Kuantan Port's throughput volume will come from Alliance Steel



by Khairul Khalid

- **Despite** concerns over slowing Chinese investments, IJM is confident the MCKIP and Kuantan Port projects will pay off
- **China's** Alliance Steel begins operations this month and could contribute 30% to the port's volume
- **Deep** water expansion of the port is expected to be complete by June

IJM Corp Bhd's maiden venture in the port business via a 30-year concession to operate Kuantan Port in Pahang is poised to reap huge dividends for the construction and property group.

It is set to capitalise on two major milestones in the coming months – the first being China's Alliance Steel beginning operations this month at the Malaysia-China Kuantan Industrial Park (MCKIP).

This will boost cargo volume at the port, which is located nearby. IJM is a major partner in both the industrial park and port.

The second milestone is the targeted completion of Phase 1A of Kuantan Port's new deepwater terminal expansion in June.

This is also expected to be a boon for cargo throughput by increasing vessel traffic to the east coast terminal.

With such matters falling into place, IJM is optimistic its port segment will contribute more to group earnings.

However, the China factor may yet be a double-edged sword for IJM, depending on how it swings.

Some market observers point out that MCKIP and Kuantan Port rely heavily on investments from China. Hence, the group risks being over exposed if China experiences a prolonged economic downturn.

## No China worries

However, IJM CEO and managing director Datuk Soam Heng Choon tells *FocusM* that China's growth contraction will not impede the momentum of the group's projects in Kuantan.

"I don't think so. We still see entrepreneurs from China entering the country. There might be some difficulty in getting financing but many of its players are already operating in Malaysia and other overseas markets.

"Instead of just expanding plants and operations in their country, China companies are expanding to their markets in the Asian region. This will provide them with many advantages.

"When companies from China come here, they aren't just looking at our country but also at the Asean market which means access to over 600 million people," says Soam.

China's investments in Malaysia have been under greater public scrutiny in the last few years, which has seen one of the

world's superpowers take drastic measures to cool its overheating economy.

Last year, China implemented capital controls restricting overseas investments. This raised fears it could have a domino effect on its burgeoning economic interests in Malaysia.

For example, many were worried that China's property developers that invested billions in mammoth projects in Iskandar Malaysia, in Johor, might start to feel the pinch.

## Assured backing

Soam says the MCKIP is a government-to-government project. This means players can be assured of the respective governments' backing due to the high-level of project investments.

"When our authorities give approval to players from China, it comes with several conditions. For example, the government wants to ensure there is no extra capacity in any industry that comes in," he says.

## Construction-driven top line

In its latest Q3 results, IJM Corp Bhd's healthy infrastructure and construction order book is counterbalanced by its less than impressive showing in sectors such as plantation and manufacturing.

The group has a massive RM10 bil construction order book. But it needs to improve some of its recently underperforming segments to allay investor concerns.

IJM CEO and managing director Datuk Soam Heng Choon shares about the company's prospects and plans to address various issues faced by the group. Some excerpts from the interview:

### FocusM: What is IJM's outlook for the plantation and manufacturing sectors this year?

**Soam:** We take a longer-term view of our plantation division's earnings. IJM Plantations Bhd's fresh fruit bunches (FFB) volume is seeing a recovery from El Nino in previous years, so we are anticipating volume growth from maturing acreage in our Indonesian operations.

We are still on course to achieve a record level of FFB production by end FY18, surpassing 900,000 tonnes for the first time.

A significant portion of the group's 35,000ha of palm plantings will attain prime maturity (eight to 20 years old) over the next three years.

By FY18 ended March 31, areas with a prime

mature plantation in Indonesia is expected to increase by 4,000ha from the 1,557ha in FY17. By FY20, we hope to exceed FFB production of one million tonnes annually.

The strengthening ringgit should be a boon for IJM Plantations. The bulk of its borrowings to fuel our Indonesian expansion was denominated in US dollars.

The ringgit's depreciation hit the group's bottom line, but the group is expected to book foreign exchange gains going forward.

The group's manufacturing division, which is involved in producing spun piles and quarry products has a healthy outstanding order book in excess of 5.5 months. It is expected to be replenished in line with the robust construction activities in Malaysia.

Earnings from the manufacturing division are expected to improve in FY19 with the commencement of some mega infrastructure projects.

Meantime, the group continues to tender for projects that require large diameter piles. The division is also actively tapping export markets in Indonesia, Brunei, Singapore and Myanmar.

### Which segments are expected to drive IJM's earnings this year?

We are managing our balance sheet well. In the long run, we are looking at building a core group of income-generating assets such as infrastructure,

Steelmaker Alliance Steel is investing RM5.6 bil to build an integrated steel complex on 287.3ha at MCKIP.

Other incoming Chinese investments worth RM19 bil are from manufacturers in sectors such as steel, aluminium, tyres, fertilisers and ceramics.

Last November, Kuantan Port signed land sublease and terminal agreements with the local unit of Hong Kong-listed New Ocean Energy Holdings Ltd.

Reports say New Ocean will develop a RM5.1 bil oil refinery over three-and-a-half years with an annual production capacity of 3.5 million tonnes, and a tank farm and blending plant for various grades of petroleum products.

IJM owns 60% of Kuantan Port Consortium, which holds the 30-year concession for port management. The remaining 40% is held by China's Guangxi Beibu Gulf International Port Group.

IJM is also part of the local consortium consisting of IJM Land Bhd, Sime Darby Bhd, and the Pahang government which holds 51% interest in MCKIP.

The China consortium of Guangxi Beibu and Qinzhou Investment owns the remaining 40%.

## Hinterland port

There is some concern that IJM's Kuantan Port might face additional competition in future due to plans being mooted to develop several other ports in the country.

## IJM Corp Bhd

### INDUSTRY

### KEY BOARD MEMBERS AND MANAGEMENT

TAN SRI ABDUL HALIM ALI  
(chairman)  
DATUK SOAM HENG CHOON  
(CEO/MD)

### MAJOR SHAREHOLDERS

Employees Provident Fund

14.66%

ASB

6.76%

Lembaga Tabung Haji

6.48%

KWAP

5.40%

### MARKET CAP (March 22)

RM9.9b

SHARE PRICE (March 22)

RM2.73

52-WEEK HIGH (May 8, 2017)

RM3.56

52-WEEK LOW (March 9)

RM2.58

### FINANCIAL RESULTS (Q3 ended

Dec 31, 2017)

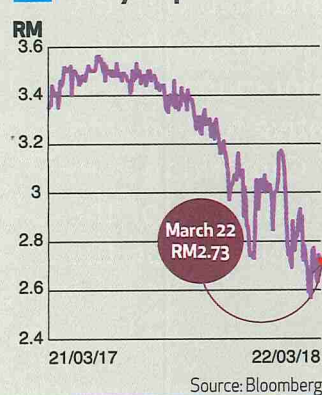
REVENUE

RM1.56b

NET PROFIT

RM101.36m

### One-year price chart





# China lift

"IJM will have to find its niche in the port business to survive. It is not easy, but if the MCKIP takes off in a big way, IJM will be in a good position to capitalise on other business opportunities related to its port," a sector analyst says.

Soam says Kuantan Port is a little different from others in the peninsula's west coast because it is a smaller, hinterland port which emphasises different client requirements. For instance, it mainly deals in bulk cargo whereas the other ports deal with container cargo.

"We serve the mining, palm oil, and oil and gas industry in the area, [with clients] such as Petronas and Felda. It has historically been that way.

"With the addition of MCKIP customers,

we will continue to service the bulk cargo needs.

"At the same time, some of the industries will export their cargo and bring in their raw material in containers.

"We are the only big port there [East Coast]. Geographically, it's also well-located and facing the South China Sea, so we are not fighting with the other players for container business," he says.

Although the container business makes up less than 10% of Kuantan Port's total



DD HOE/FOCUSM

IJM is part of a consortium consisting of IJM Land, Sime Darby, and the Pahang government that holds a 51% interest in MCKIP

volume, the company is looking to expand in the segment.

It is planning for a container terminal in phase 2 of its expansion plan and capacity will be doubled when both phases are eventually completed.

IJM is targeting to double the capacity of

Kuantan Port to 52 million tonnes annually, with MCKIP as one of the prime drivers.

It is targeting to increase its volume by 30-40% in the next three to four years in tandem with its expansion plans.

"It's sometimes a chicken and egg **Continues P.12**

JONATHAN LOI/FOCUSM



Soam says China's growth contraction will not impede the momentum of the group's projects in Kuantan

tolls and property development to give the group continuous income and a healthy cash flow.

Construction will be the main driver of our top line – our current order book is expected to last us three years and generate revenue of over RM2.5 bil a year.

We look forward to participating in opportunities from the mega infrastructure and construction projects spurred by the government and supported by future inflows of foreign direct investment ie East Coast Rail Link, KL-Singapore High-Speed Rail and the Pan Borneo Highway.

### What are the main challenges for IJM this year?

In the property sector, lending continues to be squeezed by the financial sector with its strict lending criteria. Buyers are not able to obtain the required margin of financing.

The present market demand is for reasonably priced homes, given the large demography of first time home buyers.

IJM Land has focused its efforts on launching more mass-market products, particularly landed properties and mid-range condominiums in the Klang Valley and Seremban.

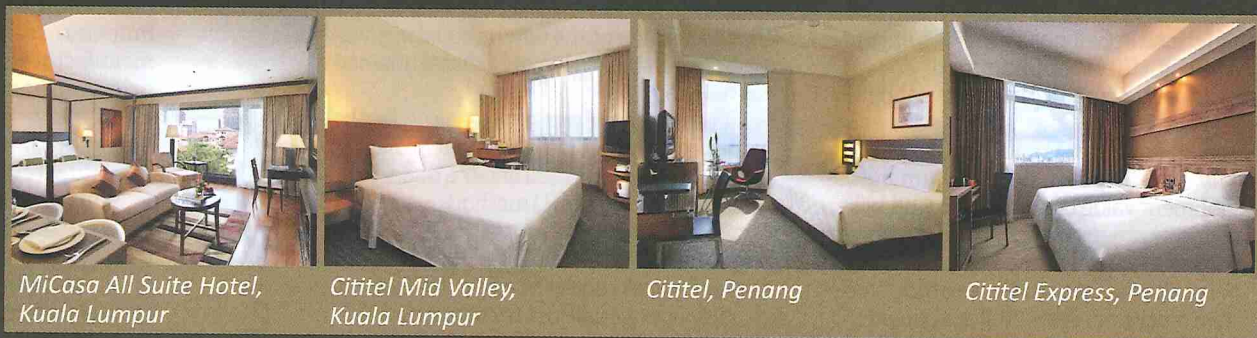
### What could be the impact of the US' proposed tariffs on imported steel?

The construction industry could benefit from the proposed tariffs – a possible increase in steel stockpiles in the region might translate into better prices for construction players in Malaysia.

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## No slowdown in IJM Land's property launches



An artist's impression of Savio@Riana Dutamas



An artist's impression of The Light City in Penang

THE property market slowdown has not deterred IJM Corp Bhd from launching new projects at its townships across the country.

Its listed property development arm, IJM Land Bhd, has adapted to the challenging market conditions by offering products that cater to varying needs of the market.

IJM Land Bhd focusing on a new direction Chong Sin Kiat tells *FocusM*. "The good thing about townships is that during good or bad times, you can continuously launch because you can juggle your products to suit the different markets.

"At whichever cycle of the market, there is always something people will want. Townships continue to anchor the development of projects that we have because we are able to shift our products quite quickly."

IJM's hugely successful Bandar Rimbayu township in Teluk Panglima Garang, Klang, Shah Alam 2 in Bandar Puncak Alam, S2 Heights in Seremban and the Light Waterfront in Penang are proof of its strategy.

Chong reiterates that all its townships, including The Light Waterfront in Penang, will continue to develop.

"In the Klang Valley, the major focus is our townships like Bandar Rimbayu, or Shah Alam 2. They too will continue to see launches," he says.

He says Mezzo@The Light City in Penang, which consists of 456 condominium units ranging from 1,033 sq ft to 1,367 sq ft, is set to be launched in Q2 this year.

Spanning 13.26ha and accounting for 22% of the entire The Light Waterfront Penang masterplan, The Light City features retail, hotels, office tower, luxurious high-rise residences and a convention centre on freehold land in Gelugor town.

The Light City is an integrated development where IJM Land has set up a joint venture with Singaporean partner Perennial Real Estate Holdings Ltd.

The Light City development, with a gross development value of some RM4.5 bil, will comprise over one million sq ft of retail space and a convention centre on top of it.

"We will have two hotels, an office block and two blocks of residential apartments," says Chong, adding that the project is targeted to be completed in phases within four years.

Also coming up in Penang is 3 Residence condominium on Karpal Singh Drive. It features 478 units with built-ups of between 872 and 1,077 sq ft. It will be launched in Q3 this year.

With a GDV of RM318 mil, the selling price of the units starts from RM565,000.

The developer also had a soft launch of the final phase of the Permatang Sanctuary

township on Penang's mainland. It comprises semi-detached and link houses with prices starting from RM700,000.

The group has also recently launched Savio@Riana Dutamas (Parcel 1) in Segambut, Kuala Lumpur. It comprises 1,018 apartment units starting at RM575 per sq ft and is already 40% sold.

### Landbank

Chong says the land bank that IJM has is sufficient to last eight to 10 years.

"We are comfortable with the current land bank that we have, but if there are good deals that come along, we will consider.

"The advantage is that we are not aggressively required to replenish our land bank at this juncture.

"If the price is not right or the location is not so strategic, we will not be keen to increase our land bank," he says.

Chong says the company is also in the final stages of getting planning approval for the second phase of the Royal Mint Gardens development in London, UK.

"We have sold close to 90% of the first phase. Despite the fact that people have been talking about Brexit, pricing in where we are located is actually quite strong," he says.

On its property sales target for FY19, IJM Corp CEO and managing director Datuk Soam Heng Choon says: "In the previous two years - FY16 and 17 - we were doing about RM1.4 bil.

"This year we should be doing about RM1.6 bil, and next year we also hope to achieve the same."

### Highway developments

Beyond local shores, IJM Corp has been awarded a project by the National Highway Authority of India to build the Solapur-Bijapur section of the new national highway 52, between the states of Maharashtra and Karnataka.

The toll-based project comes under the National Highways Development Project Phase-III to be executed under a build, operate, transfer (BOT) method.

IJM was also involved in the RM193.8 mil project to widen and upgrade 19.8km of the Dewas Bypass road in Madhya Pradesh.

"For now we will just try to execute the two projects first before we make the next move in India," says Soam.

He says IJM is embarking on the second phase of its housing project in India, Raintree Park Dwaraka Krishna in Vijayawada.

"Our focus in India is not so much on housing but infrastructure," Soam says.

- by Sonia Ramachandran



Chong says that all of IJM's townships will continue to develop

## Drive to draw more projects to MCKIP

### From P.11

situation. People say if you don't have industries, why build a port? On the other hand, industries won't come if the port is not good enough to handle their cargo.

"That's why we have to drive hard to get more industries into MCKIP. It will provide synergies for both projects," Soam says.

The Alliance Steel factory will be pivotal to the success of MCKIP and in turn the Kuantan Port. The steelmaker will be capable of manufacturing 3.5 million tonnes per annum at full capacity.

The port's current maximum capacity is 25 million tonnes. It transported 15 million tonnes last year. And it is targeting 18 million tonnes this year, with about 30% of volume coming from Alliance Steel.

The government has also given free trade zone status to Kuantan Port to promote value-added exports. This will boost its ambitions of becoming a transshipment hub for the region.

### Weak plantation, property

Although its projects in Kuantan are gaining traction and visibility, IJM is still better known as a construction and property player. Nevertheless, its Q3FY18 results were considered disappointing by some analysts.

An RHB Research report says IJM's core net profit of RM345.5 mil (down 14.3% year-on-year) was below expectations, matching only 57% of its full-year estimates.

It attributes this to the weaker-than-expected performances of its plantation, property and manufacturing divisions.

"9MFY18 revenue grew 5% to RM4.6 bil. This was mainly driven by the construction division, thanks to higher work progress in its RM9.3 bil outstanding order book.

"The infrastructure division, on the other hand, performed well with improved throughput volume at Kuantan Port.

"This was, however, insufficient to offset weaknesses in the plantation (high percentage of immature trees in Indonesia) and manufacturing (high raw material prices) segments."

In FY17, IJM's construction business made up 36% of group operating revenue of RM6.91 bil.

This was followed by property (21%), manufacturing and quarrying (16%), infrastructure (14%), and plantation (10%). The balance of contributions came from investments and others.

RHB Research expects IJM's construction division to continue to underpin its near-term earnings growth, supported by an estimated outstanding order book of RM9.3 bil.

IJM has secured RM2.7 bil worth of new contracts so far in FY18. It expects the figure to reach RM3 bil.

And while it is keen to participate in major infrastructure projects such as the East Coast Rail Link (ECRL), it has also



IJM's plantation business has suffered partly due to a high percentage of immature trees in Indonesia

tendered for the project delivery partner role involving the Kuala Lumpur-Singapore High-Speed Rail project with three consortium partners.

### LRT3 win

This month, IJM announced another win for its construction division, bagging the Light Rail Transit 3 (LRT3) underground package worth RM1.1 bil from Pakarana Malaysia Bhd.

The contract, which is the sole underground package for LRT3, includes the construction of underground tunnels, stations, ancillary buildings and other associated works to be completed over 31 months by October 2020.

The project will span 2.1km within the Shah Alam area and straddle Station 11 at Persiaran Hishamuddin.

Hong Leong Investment Bank maintains that IJM is a key player in the RM55 bil ECRL project. And it has a good chance to undertake construction works for the ECRL stretch that passes through two stations at Kuantan Port.

"With this recent contract in the bag, we estimate IJM's year-to-date FY18 (March) job wins to stand at RM3.6 bil.

"This achievement is the company's second highest in its history [highest was RM5.7 bil in FY15].

"We estimate IJM's order book to now stand at a record RM10 bil, translating to a strong cover of 4.9 times on FY17 construction revenue."

IJM was formed in 1983 after a merger between three medium-sized local construction companies - IGB Construction Sdn Bhd, Jurutama Sdn Bhd and Mudajaya Sdn Bhd - targeting to compete against bigger foreign contractors in Malaysia at the time.

In April 2007, IJM acquired the Road Builder Group and boosted its construction order book, property land bank and infrastructure portfolio.

This enabled it to leverage synergistic benefits and a more sizeable balance sheet to bid for larger jobs and facilitate its expansion overseas.

IJM CEO Soam was managing director of Road Builder prior to the acquisition. *FocusM*