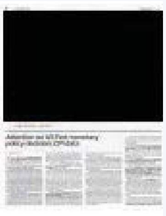
AUTHOR: No author available SECTION: CORPORATE PAGE: 6,7 PRINTED SIZE: 833.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 14,453.00 ITEM ID: MY0059222410



10 JUN, 2024

FRANKLY SPEAKING

The Edge, Malaysia

FRANKLY SPEAKING

Geely attempts to tackle an old problem

In the automotive industry, volume matters. When there is volume, vendors of automotive parts would be prepared to invest more in their operation to bring down cost and improve the quality of the parts.

Ultimately, volume contributes to lowering the cost of the car and improving its built quality.

Malaysia does not have sufficient volume in its automotive industry to bring about higher cost efficiency. This is not a new problem. The country's total industry volume (TIV) is about 720,000 vehicles and mainly contributed by Perusahaan Otomobil Nasional Kedua (Perodua).

While Proton Holdings Bhd, in partnership with Geely of China, is second in terms of market share, Proton does not have the volume either.

Apart from inadequate volume, the vendor system of national car manufacturers, especially Proton, tends to be based on the need to fulfil the overall national agenda of bumiputera policies in the automotive sector. Thus, sometimes, not the best of vendors are chosen.

Geely chairman Li Shufu highlighted in a recent interview that the Malaysian automotive industry's competitiveness has been restricted by higher supply chain costs. He contended that the supply chain cost of automotive parts in Malaysia was 30% higher than in China and 10% higher than in Thailand.

Without knowing the details of how the costing was arrived at, it would be difficult to ascertain the validity of his comparison.

First, both China's and Thailand's automotive industry is much larger than Malaysia's. As Li himself acknowledged, the relatively small size of the local automotive market meant that it was difficult to get enough scale to keep costs down.

Second, nobody knows whether the Chinese government gives incentives to automotive companies such as Geely to compete globally. There have been allegations that China's electric cars are heavily incentivised by the government, which helps lower their cost compared with that of models made in the US and Europe.

Nonetheless, besides economies of scale, efficiency plays a crucial role in driving cost down. Question arises if local vendors' efficiency level is up to mark to cater to the regional market, if not the world.

Geely plans to tackle Proton's supply chain problems by bringing in global auto parts companies to join hands with local vendors.

Proton had tried to rectify its supply chain problems in the past, but failed. Will Geely's plan make a difference, given its success in turning Proton as well as Volvo around?

Weigh cost and benefits of Labuan Bridge carefully

Time and again, the proposed Labuan Bridge connecting the Federal Territory of Labuan and Sabah makes the news.

The idea to connect Labuan island with Sabah was first mooted in the late 1990s, when it was included in the Labuan Development Master Plan 1997-2015. However, for one reason or another, the bridge, also known as the Labuan-Menumbok Bridge, never materialised.

In recent weeks, the proposal has been revived by Sabah politicians. The federal government is also supportive of the plan, with the Federal Territories Department setting up three task forces to revitalise Labuan's economy, including through the construction of the bridge.

Prime Minister Datuk Seri Anwar Ibrahim has rightly said that while the government supports the proposal, the existing technical study on the feasibility of the bridge which connects Labuan and Menumbok must be updated to reflect current conditions.

A bridge connecting Labuan and Sabah is seen as a game changer for the development of both the federal territory and the state, but its estimated cost is a whopping RM6 billion.

Proper studies covering its economic, social and environmental impacts must be conducted. This is because Sabah's development needs are not limited to Labuan with its population of 100,000 and the Kuala Penyu district where Menumbok is located, with its 20,000 residents. The state's many isolated communities are in dire need of connectivity to main towns and onwards to major cities, as well as basic infrastructure such as electricity and water, education and healthcare facilities — all of which require huge amounts of funds to be implemented.

While the bridge will improve connectivity between Labuan and the rest of Sabah and not just Kuala Penyu, its benefits must outweigh its construction cost as well as the opportunity cost when more urgent upgrades of basic infrastructure in Sabah have been put on the back-burner.

So, who is to blame for the Pharmaniaga debacle?

According to the website of Boustead Plantations Bhd (BPlant), its new CEO is Datuk Zulkarnain Md Eusope, former CEO of sister company Pharmaniaga Bhd (KL:PHARMA) who left the pharmaceutical concessionaire in March last year, a month after it fell into the cash-strapped Practice Note 17 (PN17) category.

Pharmaniaga tumbled into PN17, following a massive impairment of RM552.3 million, after overstocking and failing to offload Covid-19 vaccines. The impairment caused Pharmaniaga to bleed a quarterly net loss of RM664.39 million for its fourth quarter ended December 2022.

Zulkarnain's departure in March 2023 was abrupt and, while Pharmaniaga's announcement of his leaving was stated as to "pursue other interests", the consensus was that he was taking responsibility for the impairment.

Now, Zulkarnain's appointment to helm BPlant raises questions, especially considering Pharmaniaga is 54.9%-controlled by the Armed Forces Fund Board (LTAT). LTAT, via its flagship Boustead Holdings Bhd, wholly owns BPlant.

Him being back with the LTAT group at BPlant suggests he has nothing to do with what happened at Pharmaniaga. If this is the case, who is responsible for the mess that caused the company to incur such huge losses?

In early January this year, questions were also raised when Pharmaniaga, with its PN17 status, secured a new seven-year concession agreement from the Ministry of Health for the supply of medical logistics services.

So, if Pharmaniaga and, now, Zulkarnain are not to be held accountable for the huge losses at Pharmaniaga, who is?

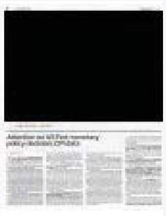
Pharmaniaga's stock, which averaged 62 sen in 2022, shed more than 50% of its value in February 2023, plunging from 52 sen to 25 sen in a matter of days, prior to the announcement of the huge impairment.

Its share price, which closed at 38.5 sen last Friday, for a market capitalisation of RM554.9 million, has yet to recover from the incident.

The only losers in the entire debacle seem to be Pharmaniaga's minority shareholders.

Prepare the pawns for battle against plastics

At their most basic, what are laws? Some would say they are the dos and don'ts of a community — a guideline for how to live peaceably and cohesively with others. At the highest level, when a law is being considered for adoption, it represents what a country or community aspires to be — what values it considers important to uphold and in which direction it hopes to go. But, at the



10 JUN, 2024

FRANKLY SPEAKING

The Edge, Malaysia

same time, laws have to be practicable.

Malaysia has a lot of laws. If outsiders were to look at the laws and policies that Malaysia has on environmental issues, they would surely be impressed. For instance, we have a road map to take us towards a zero single-use-plastic nation, as well as one for plastics sustainability. These road maps are meant to get us on the road and moving so that by the time the government sets up more laws on plastics, they will be ones that guide citizens, rather than just turn them into law-breakers.

In 2015, the government set up the Separation at Source Initiative under the Solid Waste and Public Cleaning Management Act 2007, to co-opt households into separating waste and recyclables. Nine years on, this initiative should be muscle-memory for all households. Unfortunately, not only is it not nationwide, but even in states and territories that have adopted it, anecdotal reports from waste collection agencies suggest a patchy take-up rate, at best.

So, when the national resources and environmental sustainability minister said that the government was mulling setting up federal legislation to address plastic disposal and pollution, it would have taken all but the most optimistic of Malaysians to not be cynical about this. True, one law to rule them all would be convenient. But, as with any law, execution and community buy-in are the key. That is the stumbling block that the government must address first. Otherwise, it will only make offenders out of ordinarily good citizens, and in so doing, diminish the worth of our laws.

Will time heal the wounds at Sapura Energy and KNM?

Sapura Energy Bhd (KL:SAPNRG), in which Permodalan Nasional Bhd owns a 41.1% stake, could breathe a sigh of relief last week as the High Court granted it a nine-month extension to the convening and restraining orders that were set to expire on June 10. In short, it now has nine more months to work on its debt restructuring scheme without creditors knocking on its door.

KNM Group Bhd's (KL:KNM) luck isn't as good, though. The Italian government has again rejected its plan to sell its entire stake in FBM Hudson Italiana SpA (FBM Hudson). This is the second time that KNM has failed to obtain the Golden Power clearance from the Italian government to sell the stake in FBM Hudson, which manufactures heat exchangers and high-pressure equipment.

The latest deal was expected to fetch about €16.5 million (about RM84.99 million). The rejection by the Italian authorities will add financial stress on KNM.

Back home, KNM has applied for a further time extension from Bursa Malaysia to submit its plan to regularise its Practice Note 17 status. It is seeking a 12-month extension until April 30, 2025.

In its latest monthly update on its PN17 status on June 4, its board of directors said the application was being considered by the stock exchange.

Meanwhile, the status of its plan to list its so-called crown jewel, Borsig Group, is unknown.

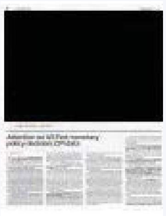
As at March 31 this year, KNM's borrowings totalled RM1.286 billion — of which RM1.281 billion were short-term debts including term loans of RM743.6 million and revolving credit (secured) of RM527.7 million — compared with its equity of RM410.76 million, taking into account its accumulated losses of RM1.6 billion.

Many oil and gas companies have recovered from the prolonged industry downturn that started in late 2014, with improved earnings and ballooning order books.

Yet, both Sapura Energy and KNM are still licking their wounds.

As the saying goes, time heals all wounds. Will this be true for the two former giant oil and gas companies that have an overseas presence? E

AUTHOR: No author available SECTION: CORPORATE PAGE: 6,7 PRINTED SIZE: 833.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 14,453.00 ITEM ID: MY0059222410



10 JUN, 2024

FRANKLY SPEAKING

The Edge, Malaysia

SUMMARIES

Geely attempts to tackle an old problem n the automotive industry,volume matters. When there is volume, vendors of automotive parts would be prepared to invest more in their operation to bring down cost and improve the quality of the parts. Ultimately, volume contributes to lowering the cost of the car and improving its built quality.Malaysia does not have sufficient volume in its automotive industry to bring about higher cost efficiency.