

Naim's troubling bond issue

BY **Jose Barrock**

Naim Holdings Bhd, a well-connected property and construction company in Sarawak, is in unfamiliar territory. Its RM500 million debt paper is in question after RAM Rating Services Bhd revised the long-term rating of the group from "stable" to "negative".

The reason is due to Naim's declining financials. For FY2011 ended Dec 31, Naim posted a net profit of RM46.93 million on the back of RM409.65 million in revenue. In contrast to a year ago, the company's net profit tumbled almost 52%, while revenue was slashed by almost a third.

"This deviates substantially from our initial expectations. We note that Naim's construction division had realised lower contract billings following delays caused by land issues, bleak weather and design changes," RAM said in its press release.

"The division also did not secure any notable new contracts last year. At the same time, the property division's progress billings had declined due to delayed launches of new projects," it added.

Naim's results came as a surprise as its shareholders are among the who's who in Sarawak. Its two largest shareholders are Datuk Hasmi Hasnan, who has a 22.86% stake, and Datuk Abdul Hamed Sepawi, who owns 16.06% equity interest. Sepawi is a cousin of Sarawak Chief Minister Tan Sri Abdul Taib Mahmud.

"For a company such as Naim, not hav-

ing a contract in hand is surprising," says a banker.

Sources say Hasmi was the company's driving force for a long time but took a back seat for personal reasons. However, after things took a turn for the worse, he is said to be back at the helm.

Naim's debt paper

Naim has drawn down RM300 million of its RM500 million medium term note (MTN) facility. It is notable that Naim's debt paper is at the holding company level, which means it does not leave the company much room to gear up further.

As at end-December last year, Naim had cash and bank balances amounting to RM213.46 million. On the other side of the balance sheet, the group had non-current liabilities amounting to RM339.09 million while short-term debt obligations stood at RM7.91 million.

A look at the bond prospectus reveals that Naim has to maintain an annual interest cover ratio of at least four times.

The company has property development and construction jobs on hand, but there have not been any new launches, according to RAM.

According to RAM, Naim plans to incur hefty debt-funded capital expenditure to acquire land and investment property. This will result in increased gearing and weakening earnings before interest, tax and depreciation.

The rating agency says the outlook for the group may be reverted back to stable if it is

able to replenish its order book, sustain its uptrend in unbilled sales and demonstrate robust improvements in its business and financial profile. A review will be done in the next three months.

So, will things change for Naim within the next three months?

Naim, according to a TA Securities, has tendered for RM2 billion worth of jobs while the company's order book, as at the end of last year, stood at RM685.4 million.

The company completed Permy Mall in Permyjaya, Miri, late last year, which could generate rental income of about RM8.4 million based on an average rental of RM5 per sq ft and 92% tenancy rate. A planned shopping mall in Bintulu will take time to generate earnings.

Dayang, the jewel in the crown

The jewel in Naim's crown is its 33.63% equity interest in Dayang Holdings Enterprise Bhd, which had a market value of RM392.09 million as at last Thursday.

Considering Naim owns a controlling block, there will be a premium if divested.

There is a negative pledge on the bonds, which means any assets Naim may seek to sell will require the approval of the bondholders. This is to ensure the proceeds goes towards redemption of the debt paper.

But Naim is unlikely to divest its interest in Dayang because the latter is the main contributor to the group's earnings.

For FY2011 ended Dec 31, Dayang posted a net profit of RM83.92 million from

RM382.31 million in sales.

A check on Bloomberg reveals that Dayang has an indicated gross dividend yield in excess of 7%.

"This means that if Dayang's earnings contribution is removed, Naim's core net profit will be very small, so what will the company do in the following years without Dayang?" says the merchant banker.

He adds, however, that Naim has good land assets in Kuching, Miri and Bintulu totalling more than 2,000 acres, but cautions that these will take time to develop.

As for the company's recent tie-up with KPJ Healthcare Bhd, that will also take time to bear fruit. The two companies are starting a hospital in Miri, which is only expected to contribute to the group's bottom line after 2014, says an analyst's report.

A TA Securities report early this month on Naim says that "investors have overlooked its upside potential given that its construction and property businesses are only valued at an implied FY2012 PER of 2.3 times. This is after excluding the current value of its 34% stake in Dayang worth RM393 million, representing 82% of Naim's market capitalisation".

The more prominent jobs include packages in the Klang Valley MRT project.

How Naim settles the bond issue should keep it under the spotlight for the near term at least.

"There are many possibilities, some of them can be interesting as well, but expect a lot of excitement at Naim," the merchant banker adds. **E**