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UEM needs to offer more incentives for merger, says Kenanga

PETALING JAYA: UEM Group Bhd, the parent company of UEM Sunrise Bhd, may need to offer more goodies on the table for the merger with Eco World Development Group Bhd to go through, Kenanga Research said.

The research house said its preliminary thoughts on the deal were that the benefits were tilted slightly in favour of UEM Sunrise.

It added that UEM Sunrise stands to gain from tapping into Eco World's marketing prowess and world class township planning that will help boost sales.

"Also, with a larger domestic earnings base, this will help reduce earnings volatility from UEM's lumpy overseas contribution.

"As for Eco World, we think a potentially strong reason in favour of the merger is that its key shareholders may be worried that the property sector and economy remain in doldrums for the foreseeable future, which would cap their ability to convert bookings to sales and impede their ability to repay existing bank loans (worth RM3.4bil as of July).

"In such a situation, we reckon Eco World would prefer the backing of a stronger shareholder like Khazanah Nasional Bhd (through UEM), should equity fund-raising be required," the brokerage said in a note yesterday.

Kenanga also raised some of its lingering questions as to the rationale for Eco World to agree to the merger, which would see its key shareholders losing majority ownership and potentially, the brand name and possibly become less agile in terms of decision-making, aside from other concerns such as cultural fit and also UEM Sunrise's landbank, much of which do not fit Eco World's current appetite.

MIDF Research said the proposed merger would allow UEM Sunrise to leverage on Eco World's expertise in marketing and branding, which may help unlock the value of its huge landbank in Iskandar Malaysia.

UEM Sunrise has a remaining landbank of 3,707.73ha in Iskandar Malaysia with a remaining gross development value of RM80.9bil. What Eco World could leverage on in return is UEM Sunrise's balance sheet for more financial resources.

"One of the benefits from the proposed merger would be the stronger financial muscle of an enlarged entity for overseas and local projects expansion.

"Note that Eco World's net gearing is higher at 0.64 times compared to UEM Sunrise's net gearing of 0.48 times," the research house said.