

# Gunung Capital on the prowl for M&A

BY LIEW JIA TENG

The emergence of passenger vehicle charterer Gunung Capital Bhd as a substantial shareholder of confinement centre and senior living home operator LYC Healthcare Bhd early last month may well mark the start of its hunt for merger and acquisition (M&A) opportunities.

To date, says Gunung Capital executive director Datuk Yap Yee Ping, the group has strong cash reserves of more than RM60 million, and no debt.

“Going forward, Gunung Capital will be an investment holding company. We will scout for viable strategic opportunities and acquire a substantial stake in identified companies — either listed or non-listed — that have recurring income and promising growth prospects, and we intend to grow with them,” she tells *The Edge* in an email interview.

Yap adds that should these companies require additional funding to expand their businesses, Gunung Capital, being one of the substantial shareholders, will support them.

Yap, 45, was appointed as non-executive director of Gunung Capital in January this year before being redesignated a month later.

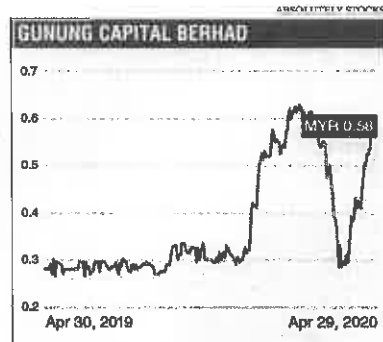
Interestingly, she is a director of CBG Capital Sdn Bhd and CBG Builders Sdn Bhd, both 51%-owned subsidiaries of textile manufacturer Kumpulan Pownet Bhd.

In January, *The Edge*, citing sources, reported that the previous owners of Kumpulan Pownet — led by Datuk Chew Kam Wah — would surface as the new major shareholders of Gunung Capital. This was neither confirmed nor denied but it is worth noting that certain substantial shareholders of Gunung Capital have been paring down their stakes.

Meanwhile, on April 7, Gunung Capital, via its wholly owned subsidiary Gunung Resources Sdn Bhd, surfaced as a substantial shareholder of LYC Healthcare with 5.33% equity interest.

The company then raised its stake to 5.46% the next day before reducing it to 5.1% by April 13.

Yap says Gunung Capital has been accumulating LYC Healthcare shares since March, with entry prices of between 15 sen and 23 sen.



ACE Market-listed LYC Healthcare, previously known as Mexter Technology Bhd, is ultimately controlled by low-profile businessman Lim Yin Chow.

LYC Healthcare saw its share price more than double within a month — from its year-to-date low of 13 sen on March 26 to its close of 29.5 sen last Wednesday — giving it a market capitalisation of RM104.83 million.

Gunung Capital's share price also more than doubled within a month — from its year-to-date low of 29 sen on March 26 to close at 58.5 sen last Wednesday — giving it a market capitalisation of RM140.88 million.

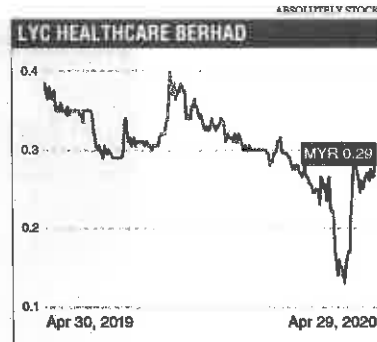
## Eyeling a bank in Cambodia

Over the past few weeks, rumours have been rife that Gunung Capital plans to acquire a substantial stake in a financial institution in Cambodia. It is said that the total investment value will be more than US\$25 million.

Yap confirms that Gunung Capital is in advanced talks to acquire a more than 20% equity stake in a new full-fledged commercial bank in the country.

“This is in line with our strategy to further diversify our group's earnings base and geographical exposure in the region. However, nothing has been finalised at this point,” she stresses. “The final quantum of the exact value is yet to be finalised, as it will depend on the final percentage of equity stake that we are investing [in].”

Yap points out that Cambodia is an emerging economy, with a lot of incentives for foreign investors. For instance, 85% of the currencies in circulation are US dollars, and there is no restriction on



remittances as long as the anti-money laundering procedure is cleared by the banks. Besides, companies enjoy low income tax of a maximum of 20% and the government is investor-friendly, she says.

“Potentially, we are also looking to unlock the value [of the bank] through a listing on the Cambodia Securities Exchange,” she adds.

Addressing the risks of investing in Cambodia, Yap says Gunung Capital has identified a strong local partner, which will handle administrative and compliance matters.

“Contrary to the misconception that Cambodia is still a third world country, it is now a developing country that is playing catch-up with its neighbours,” she explains.

She adds that foreign direct investment inflows have grown exponentially in the last few years due to the country's sound macroeconomic policies, political stability and regional economic growth.

## Why LYC Healthcare?

Commenting on Gunung Capital's emergence as a substantial shareholder of LYC Healthcare, Yap does not discount the possibility of it increasing its stake in the company.

She, however, quickly clarifies that this is a friendly deal and there is no intention of hostile activity.

“In fact, we had met Lim and his key management team before we made the move to acquire a stake in LYC Healthcare. I think they have shown unrelenting dedication to set the benchmark in the postpartum care and senior living industry. We believe they have an advan-

tageous position to navigate through this uncertain time,” says Yap.

She highlights that LYC Healthcare is the laggard among the four listed healthcare companies in Malaysia and believes the value of the company will emerge once it has returned its profitability.

“I tend to agree with the saying that money is spent the most during the birth and at the advanced age of a person, and LYC Healthcare covers both through their mother and child centre and premium LCY Senior Living,” she says.

Moreover, the investment in LYC Healthcare is also in line with Gunung Capital's diversification strategy as the latter is looking for recurring income from a promising industry that is low risk in nature.

“Our intention is to diversify our business into prospective sectors, and healthcare is one of them. It will be a long-term investment as long as it continues to fit within our risk appetite and generate the desired returns. Meanwhile, we are also exploring other synergistic collaborations with LYC Healthcare,” says Yap.

## Core businesses

Loss-making since 2015, Gunung Capital is mainly involved in the chartering of land-based transport assets and speciality vehicles.

The group operates the fleet requirements of the Ministry of Defence, transporting schoolgoing children of armed forces personnel nationwide.

The company ended the year to Dec 31, 2019, (FY2019) with a bigger net loss of RM11.62 million compared with RM214,000 a year ago, as there was no revenue from the Ministry of Defence's National Service programme (NSP), which had been terminated in May 2018.

Notably, the NSP service contract had underpinned the group's contract revenue for the previous seven consecutive years. As a result, revenue for FY2019 also fell 41% to RM16.82 million, down from RM28.44 million in FY2018.

Nevertheless, last December, Gunung Capital was awarded a RM44.2 million service contract from the Ministry of Defence, which is expected to contribute positively towards its bottom line between FY2020 and FY2022. ■