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# Setiakon downplays possibility of Kanger RTO

BY BEN SHANE LIM

**K**anger International Bhd was among the most actively traded counters last week after Setiakon Builders Sdn Bhd emerged as a substantial shareholder in it with a 5.01% stake, fuelling speculation of a potential reverse takeover (RTO).

As at last Friday, Kanger's closing price of 30.5 sen — giving the company a market capitalisation of RM243.5 million — was already three times higher than it was three months ago.

An RTO would be a big catalyst for the China-based bamboo product maker because Setiakon is one of the largest private construction companies in the country, as evidenced by the many cranes carrying its brand around town.

Interestingly, Setiakon founder, managing director and largest shareholder Datuk Kuan Ah Hock has been appointed deputy chairman of Kanger for a relatively small stake.

"At present, we have no immediate plan to explore an RTO via Kanger. I got involved in this company because I am confident of its business prospects and believe that I can grow it," Kuan tells *The Edge*, downplaying the possibility of such as exercise.

He prefers to view it as a venture into a completely new business that he will grow by leveraging his network of contacts. After all, the synergy between Setiakon and Kanger, which produces bamboo flooring and furniture, is minimal.

It is worth noting that this is not the first time Setiakon's name has come up in speculation about an RTO. Back in 2014, it was rumoured that the company was seeking to use Takaso Resources Bhd (now O&C Resources Bhd) as an RTO vehicle. The rumours were denied and no deal materialised.

Kuan admits that he does have an ambition to list Setiakon at some stage, confirming the rumours that have been circulating in the market for several years now. But he makes it clear that this will not be happening in the near future.

"I am not actively looking to list Setiakon right now. The timing isn't right. Of course, I get many



SHAHKIN YAHYA/THE EDGE

**Kuan: We have no immediate plan to explore an RTO via Kanger. I bought into this company because I believe in the business and I feel I can grow it.**

each while Tan Juinn Siong has an 11% stake. In the meantime, is Kuan satisfied with a mere 5% stake in Kanger?

"My 5% stake is just a start and I am not in a rush to increase it. What is more important right now is to grow the business first. If it does well, then I will decide again if I want to increase my stake," he remarks.

Kanger chairman Leng Xingmin holds a 24.45% stake in the company.

A 5% stake in Kanger is quite meaningless seen from Setiakon's earnings perspective. Kanger generated RM68.72 million in revenue and RM10.26 million in net profit in the trailing 12 months ended March 31, 2016. This included large foreign exchange gains of around RM5 million.

proposals, both for IPO (initial public offering) and RTO. And as a businessman, I have to evaluate these proposals," he comments.

Kuan controls 33% of Setiakon while Tan Tong Kwee owns 22% of it. Tee Gan Ting and Tee Kian Chon hold 17%



By comparison, Setiakon boasted an annual turnover of RM577.08 million in its financial year ended Dec 31, 2014, and a profit after tax of RM25.4 million. According to Kuan, Setiakon has an order book of over RM2 billion.

Nonetheless, the businessman has already done due diligence on Kanger and is optimistic about its prospects. Over the next few years, the company is aiming to double its bamboo production capacity, he says.

Kanger's bamboo production and processing activity is currently based in Jiangxi, China, and utilises a bamboo species that is indigenous to the northern hemisphere.

"We plan to diversify our production to include the tropical species of bamboo. We are exploring options to set up plantations and factories either in south China, Thailand or Malaysia," says Kanger executive director Amita Chong.

Chong used to be a substantial shareholder of Kanger with over 6% but reduced his holding to 0.26% in the past few months as Kanger's share price surged.

Tropical bamboo is more robust and has better structural qualities than its northern counterpart, he explains. "We have already done R&D on tropical bamboo and hope to work with the **Forest Research Institute of Malaysia** to develop the bamboo industry in Malaysia."

This would be a big change for Kanger as it would mean establishing a physical presence in Malaysia, in contrast to most of the China-based companies listed here. This would help set Kanger apart from the other red chips that have gained a negative reputation among investors.

Chong also points out that as far as he is aware, there are no sizeable bamboo producers in Malaysia.

"If we set up a plantation and factory here, we would potentially be the largest in Malaysia, if not the only one. Others have tried in the past but lacked the technology and scale. We are looking to secure up to 10,000 acres of bamboo plantations over the next few years."

However, Chong makes it clear that Kanger is still at an early stage of identifying suitable locations for a bamboo plantation and factory here.

With a yield of 200 stalks per acre per annum, 10,000 acres would generate nearly two million stalks of bamboo per year. That works out to about 250,000 sq m of laminate flooring that would almost double the group's existing capacity, says Chong.

More importantly, remarks Kuan, Kanger does not have an immediate for a cash call to undertake the expansion.

Hence, there will be no urgency for a private placement in the near future to fund capital expenditure — one way Kuan might have strengthened his position in Kanger.

"Right now, Kanger exports about 60% of its products. But it does so in a piecemeal manner, depending on where the orders come from. With my network of business associates, I hope to set up proper distribution channels for the company to export to the US, Canada and Europe in a larger and more sustainable manner," he explains.

Bamboo flooring and furniture are more environment friendly than conventional timber products, which makes them more attractive to these markets, he adds.

If all goes according to plan and Kanger performs well over the next one year, management will also look at rewarding its shareholders, Kuan promises.