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Future-proofing JCorp

CORPORATE

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Tasked with helming the state investment group, its president and CEO slammed the reset button since coming on board in early January 2020. The group is looking very different now.

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IT was not easy to nail down an interview with Johor Corp's (JCorp) president and chief executive Datuk Syed Mohamed Syed Ibrahim, *(pic)* who has stayed low-key since coming on board in January 2020.

"I always prefer to let the results do the talking," he quips, as he settles into his first face-to-face media exclusive at the group's new satellite office in Kuala Lumpur, at KL Eco City.

But away from the limelight, Syed Mohamed has had his work cut out for him in steering a group with RM23.4bil in assets – making JCorp one of the country's largest state-owned investment groups.

"Covid-19 or no, it was do or die for us. If we didn't pivot quickly enough, we would not have survived,' he tells *StarBizWeek* without mincing his words.

JCorp is a major shareholder of prized assets such as Bursa Malaysia-listed KPJ Healthcare Bhd, plantation group Kulim (M) Bhd, plus QSR Brands Bhd, which operates the KFC and Pizza Hut restaurants in Malaysia, Singapore, Brunei and Cambodia.

As Johor's principal development institution, it has built 34 industrial parks, and secured RM90bil in terms of investments, both local and foreign.

However, returns did not commensurate with the size of the group's wealth.

"We were asset-rich but cash flow poor. And to be quite frank, we were all over the place, being involved in a multitude of businesses – it was clear that we could not possibly continue with the same approach," he admits.

In the mid-1990s, JCorp went on an aggressive expansion, funded largely on borrowings. It faced a debt crisis on at least two occasions in the past as it struggled to churn out sufficient cash flows to meet the huge debt obligations.

Fast forward to today and JCorp looks like quite a different corporate animal.

Under a reinvention plan themed JCorp 3.0, which was rolled out in 2020, operations have been streamlined into four core businesses – agribusiness; wellness and healthcare; food and restaurants; as well as real estate and infrastructure.

"The objective is to future-proof and ensure the sustainability of JCorp as an investment institution.

"Towards this end, we were quite clear that we needed to exit from business activities other than our four core segments. And if any of these four segments have non-strategic assets, those too will be divested," says Syed Mohamed, who previously had a stint with the Johor State Economic Development Corp (the predecessor of JCorp) in the late 1980s to early 1990s.

As for JCorp's investee companies, he says "we want them to be either No. 1 or No. 2 in their industries".

For the reinvention plan to be executed in a structured way, there is a guide or what Syed Mohamed calls the "3-3-5 playbook".

This encapsulates the three objectives it wants to achieve, three areas of focus and a five-pronged strategy that includes corporate restructuring and investment management, financial restructuring, future of work, digital transformation and environmental, social and governance (ESG) initiatives.

Management makeover

But before that, one of the first things Syed Mohamed did was a management shake-up at the holding company level.

Everyone in the current management team is new, except for one person who has been with JCorp since 2018.

Why the total makeover? He explains that to drive a large-scale transformation such as this requires "horsepower" of the right qualities.

Besides that, the workforce at the JCorp holding company level was also reduced. By next month, it will be down to 80 people from about 440 in 2020.

"We were duplicating some of our investing companies' activities at the holding company level.

"Why should we waste resources at the top when we have got a dedicated management team at the investee companies' level?

"So, we rationalised and redeployed," Syed Mohamed explains.

Beefing up and inculcating a culture of strong corporate governance was another thing Syed Mohamed did when he came onboard.

Towards this end, the group roped in an international consultant to help strengthen the institution's governance structure, policies and framework to meet global best practices.

"The corporate governance of this institution must be strong. Because if we come up with a plan to future-proof JCorp, but do not have a good defence, it will not mean a thing."

Earnings reboot and debt issue

Adhering to the highest standards of corporate governance will also allow JCorp to balance its economic and social roles.

"In whatever we do, we will not depart from the purpose of our creation that is 'Membina dan Membela'.

"This is sacrosanct and still very much relevant. JCorp has a social obligation, but there must be returns. Otherwise, how would we be able to perform in the other part of our creation, which is wealth distribution?" he says, adding that all the projects it undertakes must comply and contribute to ESG.

To be sure, the initiatives under the reinvention plan is still very much a work in progress.

"But they are bearing fruit. One clear proof is our financial performance, which is stronger. Our balance sheet has also improved and we are ready for our growth thrust. We do not discount potential acquisitions, but this must be aligned to our four core businesses," he adds.

For the financial year ended Dec 31, 2021, JCorp posted a profit after tax of RM379mil, as compared to a loss of RM237mil a year ago.

Revenue rose 19% year-on-year to RM5.13bil, driven by the agribusiness segment, which saw revenue up by 49% on the back of strong crude palm oil prices.

Debt, meanwhile, stood at RM1.8bil from RM5bil before, brought down from money raised from its recent sukuk issuance, plus savings from the refinancing of loans with high interest rates.

"We also sold Menara JCorp (in Jalan Tun Razak, Kuala Lumpur) to a local company, while the gradual divestment of non-core and non-strategic assets can go towards lowering debt further."

JCorp's debt restructuring had caught the attention of RAM Ratings, which ascribed it the highly sought-after *AAA* rating for its sukuk issuance last year.

The rating agency in a March 2022 report noted that the group's initiatives to exit non-core segments and its prudent financial management should limit downside risks for its credit metrics.

IPOs of Kulim, QSR on the cards

In recent months, there has been a lot of talk on the potential initial public offerings (IPOs) of two of the group's investee companies, namely QSR and Kulim.

Both these companies were once listed on Bursa Malaysia before being taken private.

According to Syed Mohamed, the IPOs are in the pipeline.

"We are keen to have this happen. For QSR, we have been evaluating an IPO for some time and it is really a matter of determining the best time to go to market.

"As for Kulim, we have done a lot to fix it up and we are driven to hold the pole position in the sector.

"With palm oil prices expected to remain better than historical value, we hope to get a valuation of around RM4bil for Kulim," he says.

However, JCorp intends to list Kulim as a pure plantation entity.

Kulim has over 55,000ha of land bank, mostly in Johor. Its yield per ha at 20.11 tonnes puts it in top tier as compared to peers. The plantation company also has an oil and gas venture via EA Technique (M) Bhd. This will be divested before any corporate exercise is done, adds Syed Mohamed.

"We also have plantation operations in Indonesia, which we are in the midst of selling.

"Although this is within our core business, we do not want to be in an environment which we are not familiar with," he adds.

Apart from palm oil, Kulim is also into pineapple cultivation and livestock farming, albeit on a smaller scale. It has about 500 acres of pineapple plantation that is marketed under the brand, Melita. It is also growing vegetable crops, such as okra, cucumber and chilies.

However, Syed Mohamed says that the pandemic had triggered the group to relook its existing investments in food given concerns on food security.

Towards this end, it will soon be venturing into food hubs in the state.

A food hub connects producers or farmers with institutional buyers and end consumers.

"JCorp, via Kulim, has done a study on the business plan of venturing into food hubs.

"The state government was quite excited and Kulim will be spearheading this. We hope to launch it by the end of the year."

According to him, the business model will be based on hub-and-spoke, where Kulim will be the principal hub in playing the role as aggregator and creating the platform.

"There could be multiple hub players and the big plantation companies might later on be interested in coming in as a hub player.

"The spoke would either be small landowners or people who do not own land, but they want to work in this project," he shares.

On market talk whether QSR will consider a listing in Singapore, he says "there are many options on the table".

"What is important is we have grown a strong business over the years and it is now time to evaluate and decide what is best for QSR, together with the other shareholders".

He points out that the restaurant chain operator was able to generate pre-pandemic levels of revenue during the 2020-2021 period thanks to its swift shift to eCommerce.

"The pandemic forced us to review the composition and structure of our restaurants.

"Now, we are going to have more drive-throughs and small kiosks or push carts instead of store outlets.

"We are also reviewing the location of our restaurants, and if they are underperforming because of a particular market segment, we will move on," he says.

In the bigger scheme of things, digitalisation is a core driver of JCorp's reinvention strategy.

Interestingly, what turned out to be a threat initially, became an unexpected opportunity for JCorp when it fast-tracked its digital transformation following the outbreak of Covid-19.

"We had a target of becoming a data-driven organisation by 2025, this now can be achieved by 2023," he shares.

Its ultimate objective is to reap value from the intangible or the non-physical assets of the group.

"The value is traditionally in the tangible asset, but we must make sure that value is also contributed by the intangible assets.

"These are things like innovation, creativity, new concepts and product designs, and branding".

Singapore potential

JCorp is keen to leverage further on the state's neighbour, Singapore.

"Our strength is our location that is close to Singapore. But this is not capitalised effectively.

"We have many things coming up for Johor – the Johor Bahru-Singapore Rapid Transit System Link and the Johor Strategic Growth Plan 2050 are all impetus for the growth of the state."

The Johor Strategic Plan 2050, he explains, is a new long-term plan initiated by JCorp to take Johor to the next level bearing in mind the changing economic landscape.

"The state has successful building blocks – companies in advanced manufacturing, education, hospitality and healthcare, plus industrial parks that we have and are developing, which have a huge multiplier effect.

"In terms of logistics, the state has three seaports, one international airport, and a fantastic network of roads and highways.

"But we need a different and more structured approach in growing its economy, and that is in the works."

With so much going on, it is no wonder Syed Mohamed can no longer keep a low profile.

In the midst of the almost three hour long interview, he inadvertently kept a group of senior investment bankers waiting for him.

That they stayed put in the waiting room waiting for their moment with Syed Mohamed indicates that JCorp, under his stewardship, is the new big thing in town.

The group is certainly worth watching.

The four core businesses of JCorp

AGRIBUSINESS
- Kulim (M) Bhd

WELLNESS & HEALTHCARE
- KPJ Healthcare Bhd

FOOD & RESTAURANT
- QSR Brands (M) Holdings Bhd

REALESTATE & INFRASTRUCTURE
- Johor Land Bhd
- TPM Technopark Sdn Bhd
- TLP Terminal Sdn Bhd
- Damansara Assets Sdn Bhd
- Al-'Aqar Healthcare REIT
- Al-Salam REIT

FY21 performance

Revenue:	Profit after tax:	Total assets:
RM5.14bil ↑ 19% y-o-y*	RM379mil ↑ >100% y-o-y*	RM23.4bil

*year-on-year

Source: Johor Corp

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