

Acquisition of MKH a synergistic deal for Batu Kawan but Indonesia expansion not without challenges

BY LEE WENG KHUEN

Batu Kawan Bhd's (KL:BKAWAN) latest corporate exercise involving the buyout of plantation and property player MKH Bhd (KL:MKH) underscores the conglomerate's appetite for mergers and acquisitions (M&A) as crude palm oil (CPO) prices remain elevated.

Industry observers caution, however, that operating in a highly regulated market like Indonesia comes with mounting challenges. Batu Kawan, which already has exposure to Indonesia through its 48.38%-owned Kuala Lumpur Kepong Bhd (KL:KLK), will need to continue navigating evolving regulations and policy risks there.

Just last Wednesday, Indonesian President Prabowo Subianto announced that exports of palm oil, coal and ferroalloys must be conducted through a state agency, according to Reuters. The move is part of broader efforts by the Indonesian government to tighten control over its natural resources and boost state revenue. In effect, the government will have greater control over export volume and benchmark pricing mechanisms.

Under the deal announced on May 20, Batu Kawan will acquire a 47.7% stake in MKH from the founding Chen family for RM549.8 million in cash, triggering a mandatory general offer (MGO) for the remaining MKH shares at RM2 each. Batu Kawan intends to take MKH private if it secures a 90% stake.

The acquisition values MKH at an implied price-earnings ratio (PER) of 12.9 times and a price-to-book (PB) of 0.6 times.

At the same time, Batu Kawan is buying a 3.9% stake in MKH Oil Palm (East Kalimantan) Bhd (KL:MKHOP), the plantation arm of MKH, which owns two oil palm estates in Kalimantan, Indonesia, measuring a combined 18,205ha.

MKH and its subsidiaries collectively hold a 65.3% stake in MKH Oil Palm. When the proposed MGO for MKH becomes unconditional, Batu Kawan will also be obliged to undertake an MGO for MKH Oil Palm at 64.78 sen. Having said that, Batu Kawan intends to maintain MKH Oil Palm's listing on the Main Market.

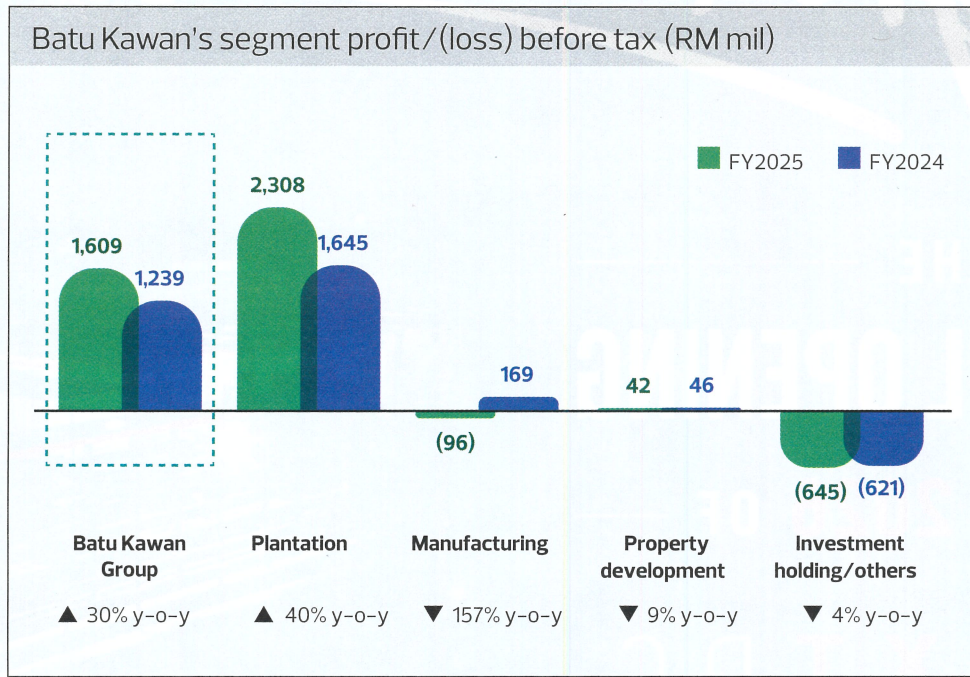
Batu Kawan is controlled by tycoon Tan Sri Lee Oi Hian and his brother Datuk Lee Hau Hian, who collectively own direct and indirect equity interests of 59.8% in the group.

An analyst whom *The Edge* spoke to says the valuation appears fair, as the acquisition is not purely about plantation earnings but also reflects the strategic value of MKH's property development and land bank.

"While 12.9 times PER may not look particularly cheap compared with some mid- to small-cap plantation players, MKH is not a pure plantation company, as a meaningful portion of earnings comes from its property and other business segments," the analyst says.

At the same time, she says the PB of 0.6 times implies the deal was done at a discount to its book value, which may reflect the typical conglomerate discount and the market not fully recognising the underlying asset value.

As at end-September 2025, KLK — the third-largest listed planter in Malaysia — had a planted area of 301,090ha spanning Peninsular Malaysia, Sabah, Indonesia (Belitung Island, Kalimantan and Sumatra) and Liberia.



Pure-play value from MKH Oil Palm

Analysts say Batu Kawan's decision to keep MKH Oil Palm listed could reflect expectations that a pure upstream plantation company may command better valuation support and attract stronger investor interest than one housed under a diversified group structure.

"Plantation businesses generally offer clearer earnings visibility and more direct exposure to CPO price movements, making them easier for investors to value.

"At the same time, maintaining a separately listed entity also provides greater flexibility for future fundraising and potential value-unlocking opportunities over time," one analyst notes.

MKH is involved in the plantation, property development and property investment businesses. It has an undeveloped land bank of more than 600 acres.

The plantation division was the largest contributor to MKH's pre-tax profit at 65% in the financial year ended Sept 30, 2025 (FY2025), followed by property development (23%) and hotel and property investment (12%).

In FY2025, MKH posted a net profit of RM89.6 million, up 17.7% from RM76.1 million in FY2024.

Through MKH Oil Palm, the group owns 18,205ha in East Kalimantan, supported by its own CPO and crude palm kernel oil mills as well as a jetty. Of the total land bank, 17,008ha are planted.

As at end-September 2025, 96.5% of its trees were in the prime mature category, with only 3.5% classified as young mature.

MKH Oil Palm was listed in April 2024 at a PER of more than 20 times. Its net profit expanded to RM79.79 million in FY2025, from RM63.56 million in FY2024.

Smaller plantation players seen as M&A targets

Analysts do not rule out the possibility of more M&A in the plantation sector, if the conditions are right.

One analyst says M&A activity could gradually pick up, particularly among smaller plantation players that may struggle to absorb rising costs and compete on scale amid increasing requirements surrounding sustainability, traceability and operational efficiency.

"This could encourage more consolidation, with larger and financially stronger groups taking the opportunity to acquire

quality assets and expand their plantation footprint. That said, I expect deal activity to remain selective, as stronger CPO prices could also prompt sellers to demand higher valuations."

Another analyst says family-owned businesses may look to sell assets because of succession issues or differing interest among family members.

Both Batu Kawan and KLK have been active on the M&A front in recent years. In 2021, KLK acquired a 56.2% stake in IJM Plantations Bhd from IJM Corp Bhd (KL:IJM) for RM1.53 billion and took the company private.

That same year, Batu Kawan bought a 56.32% stake in Chemical Company of Malaysia Bhd from Permodalan Nasional Bhd for RM292.8 million, and subsequently privatised the company.

KLK also attempted to acquire Boustead Plantations Bhd in 2023, but the deal was eventually terminated, following backlash from certain quarters. Boustead Plantations was later privatised by Lembaga Tabung Angkatan Tentera (LTAT) and delisted from Bursa Malaysia in January 2024.

This time around, Batu Kawan is leading the acquisition. Analysts say the decision was probably driven more by group-level capital allocation and strategic ownership considerations rather than financing capacity alone.

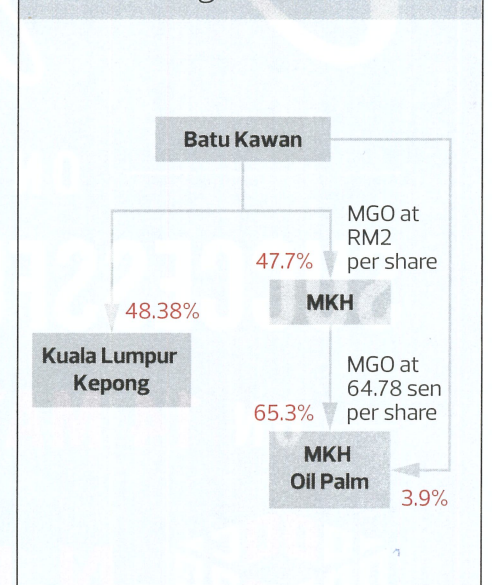
"As the investment holding company, Batu Kawan may have greater flexibility to manage and optimise exposure across its different businesses, while allowing KLK to remain focused on its core operations. Structuring the acquisition at the Batu Kawan level also helps avoid concentrating the transaction directly within KLK and preserves flexibility for future opportunities," says a market observer.

According to AskEdge data, Batu Kawan has a higher net gearing of 137.7% compared with KLK's 72.2%. Despite the injection of MKH into Batu Kawan, analysts say there is still potential for future consolidation between Batu Kawan and KLK, although the immediate priority is likely to be stabilising the newly acquired business.

Founding family exits MKH and MKH Oil Palm

Meanwhile, Chen Choy & Sons Realty's sale of its controlling stake in MKH to Batu Kawan marks the Chen family's exit from the

Batu Kawan and MKH shareholding structure



Kajang-based firm, in a deal worth about RM575 million.

MKH was founded in 1979 by Tan Sri Alex Chen, currently chairman of both MKH and MKH Oil Palm. The group started off as a property developer before venturing into oil palm plantations in 2008.

MKH shares have remained largely under the radar for years. Listed on Bursa Malaysia in 1995, the stock has never traded above RM2 since 2018. Another substantial shareholder of MKH is Public Bank Group Officers' Retirement Benefits Fund with a 9.25% stake.

Datin Wong Muh Rong, founder and managing director of Astramina Advisory Sdn Bhd — principal adviser for the Chen family — says: "The selection of Batu Kawan was strategic, considering its expertise and established presence in Indonesia, which is a challenging market. Batu Kawan is interested in expanding its property division, making this a win-win proposition for both parties."

"The Chen family has also expressed confidence in Batu Kawan's ability to elevate the business in Indonesia."

MKH formed a joint venture with the Selangor state government in 1993 for the development of Bandar Teknologi Kajang. A year later, it built Plaza Metro Kajang, the town's first shopping complex.

Its other key commercial properties include Metro Point Complex, RHR Hotel as well as shopoffices and retail outlets. The group also owns a building materials unit that supports both internal and external projects, while its property development segment had unbilled sales of RM456.8 million as at end-2025.

Having more than doubled since the corporate exercise-fuelled rally, shares in MKH closed at RM1.91 last Friday, for a market capitalisation of RM1.1 billion.

Meanwhile, MKH Oil Palm shares, which have risen more than 6% in the period, closed at 64 sen last Friday, giving the company a market value of RM649.15 million. It is up by only 3.2% from its initial public offering price of 62 sen.



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