

# KCB goes ahead with Sabah project

| BY TONY C H GOH |

When a proposed collaboration between Karambunai Corp Bhd (KCB) and its Korean partner to develop a piece of land in the Karambunai peninsula, near Kota Kinabalu, lapsed without any agreement earlier this year, it seemed KCB would put its plans for the land into cold storage.

However, that piece of land will now form part of the new Karambunai Golf Residential (KGR) development as the group moves ahead with its plan to start a golf community project. The first phase of the KGR project, comprising 400 bungalow lots, is slated for launch in 2H2010.

The initial estimated gross development value (GDV) for the entire development is RM2 billion, although the final figure could be much higher. The project, which includes a canal city, will be completed in seven phases.

KCB's CEO Datuk Robin Loh Hoon Loi tells *The Edge* that the project is part of its master plan for Karam-

bunai to tap the tourism potential of Sabah.

"The expiry of the proposed joint venture will not affect our planning for the KGR project. In fact, the parcel designated for the Korean joint venture was only around 11% of the over 600-acre KGR project," says Loh.

KCB's subsidiary Karambunai Resort Sdn Bhd (KRSB) had, on July 4 last year, entered into a memorandum of understanding (MoU) with Land-lovers Korea Co Ltd (LKCL) to form a joint-venture company to develop 66.32 acres of land owned by KCB into a Korean village resort.

The joint-venture entity, in which KRSB was to hold a 70% stake and LKCL the remaining 30%, was to purchase the land at RM30 psf or around RM86.67 million. The proposed resort had a GDV of around RM400 million and comprised 395 units of villas and condominiums with recreational facilities.

However, KCB announced in January this year that the MoU had expired without the execution of a formal agreement. The project had failed to take off because of the global economic slowdown at the end



Dillenia 1, the first phase of KCB's Nexus Residence project, is 96% sold

of last year, which affected its Korean partner.

While KCB is going ahead with the KGR project on its own for now, Loh says the company is still open to proposals from interested parties to jointly develop some portions of the development as strategic partners.

At the moment, KCB owns around 1,500 acres of the land in Karambunai. The entire development in the area hinges on the group's flagship asset — Nexus Resort Karambun-

ai, a premier 485-room hotel and golf resort.

The 65-acre Nexus Resort contributes around RM60 million to RM80 million to group revenue annually. It is the company's most profitable asset and KCB will be tapping its reputation as an award-winning resort to develop the other components in Karambunai.

Going ahead with the project seems to be the logical way for the company to grow, given that it has a sizeable landbank in a strategic location.

Besides Karambunai, KCB has 1,363 acres of land in Bukit Unggul, which is within the Kuala Lumpur International Airport, Putrajaya and Cyberjaya area, and an ongoing 415-acre development called Bandar Sierra in Meggatal, near Kota Kinabalu.

As of March 31, KCB's land held for property development was valued at RM803.62 million, up 6.3% from RM755.93 million a year ago.

While funding for the KGR project has yet to be finalised, Loh says KCB is exploring the option of combining equity and borrowings. The company is not looking to sell any land at the moment, he adds.

It will not be an easy task to raise the financing for the project because the company is not in the best of health financially.

It recorded a net loss of RM35.4 million for FY2009 ended March 31, growing from a net loss of RM32.1 million previously. Revenue, however, was higher at RM198.4 million against RM172.5 million recorded last year.

Be that as it may, Loh says KCB's

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commitment to turn Karambunai into a choice location for foreign and local property investors interested in owning real estate in a prized beachfront location is producing results.

The success of Nexus Resort is providing leverage for KCB to sustain the development of the area. Upcoming projects are likely to be supported by KCB's leaseback options to purchasers of its properties either for home-stay or investment purposes.

In 1Q2010, KCB will start work on the second phase of The Nexus Residence (NR) project, Dillenia 2 precinct, with around 300 units of pool and spa villas and a total GDV of RM460 million.

The upmarket project will have a total of 2,000 beachfront resort villas when completed. KCB is offering its investors a sale and leaseback option, with an average yield of 7% per annum.

The first phase of the NR project, Dillenia 1, with 243 villas, is now 96% sold. KCB is leasing back around 90% of the units to complement its existing 485-room inventory in Nexus Resort.

KCB's aggressive approach is also partly backed by its confidence in the potential of the tourism industry and the commitment of the Sabah government to develop this key economic sector for the state.

The completion of Kota Kinabalu International Airport's (KKIA) RM1.4 billion expansion, including RM720 million for a new terminal to handle another nine million passengers a year, is seen as crucial to support the

growth of tourism in Sabah.

Other works at the airport include RM200 million for the extension of the runway from the present 3km to 3.8km to cater for larger planes. In 2008, the second busiest airport in the country handled around 4.6 million passengers, including more than two million tourists.

It was originally slated for completion in April 2009, but has been extended to December partly due to a delay in the relocation of the Royal Sabah Turf Club. The ongoing expansion covers 101.89ha and is now around 86% complete.

Loh says the tourism potential of Sabah has convinced the company to start the next phase of development in Karambunai, albeit at a slower pace. The target market of the KGR project is international investors from Hong Kong, China, South Korea, Japan, Europe and other affluent countries.

For now though, Nexus Resort remains the group's flagship property, having played host to numerous high-profile individuals and events, including former British Prime Minister Tony Blair and more recently, the International Mayors' Conference.

It is now undergoing a RM20 million refurbishment and facelift to ensure it maintains its premier status. This success story will be KCB's point of reference as it moves forward in its development plan.

"We started during the worst of times [referring to the opening of Nexus Resort in 1997] but have proved successful. We have the patience to wait, which is crucial in this business," says Loh.