

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

The Star, StarBizWeek – Saturday, 14 February 2009

VIEWPOINTS

GIVEN the lacklustre performance of property stocks on Bursa Malaysia and the prevailing sluggish capital market, there is a likelihood that more property companies will be taken private if the bear market continues.

Taking a company private at the bottom of a market cycle is a better option for the major shareholders to take over shares not already owned by them as the exercise will cost much less than if it's done at the peak of the market.

The property sector was the worst performing last year with the KL Property Index recording a 51% plunge compared with the KLCI's 39% drop. Except for top guns SP Setia and Mah Sing, almost all property counters are trading at below book value, which means there are many cheap property companies with price valuations of around 0.5 to 0.6 time their book value.

The weak capital market also undermines the ability of companies to raise funds from the public which is one of the reasons for listing a company in the first place.

To take a listed company private,

Good time to take firms private

Minority shareholders need fair offer

the buyout party must have a deep pocket to finance the exercise and plans should be in place to ensure the exercise will yield rewards to the major shareholder within the next few years. This calls for the buyout party to unlock the value of the assets, including land, owned by the privatised property company to ensure they provide consistent yields and smooth cash flow going forward.

Besides a handsome cash pile, the takeover party should preferably have chain listings to allow share swaps for minority shareholders in

exchange for their shares in the privatised company. Otherwise, the total sum to be forked out for the exercise will be much higher. As such, companies with rich listed parents who have the capability to offer cash and/or share swaps will be good candidates for privatisation.

Taking companies private is not a new phenomena in Corporate Malaysia and there has been a rise in the number of privatisation exercises in recent years. These include Permodalan Nasional Bhd's takeover of Island and Peninsular Bhd, Pelangi Bhd and Petaling Garden

Bhd, and more recently, WCT Engineering Bhd's privatisation of its property arm, WCT Land Bhd and IOI Corp Bhd's proposed takeover of IOI Properties Bhd.

To ensure a takeover exercise will be a win-win for both the buyout party and minority shareholders, it is prudent for the major shareholders to make a fair offer to minority shareholders so that they are duly compensated for having to give up their shares in the privatised company.

Compared with the foreign shareholders who have mostly liquidated



their positions when the global financial crisis unravelled in the second half of last year, local investors have greater confidence in the country's potential and are expecting the economy and stock market to recover earlier than the other more developed crisis-hit countries.

Comprising both retail and institutional investors, they are the ones who are still the pillar of the country's economy and capital markets. Perhaps it is time to reward minority shareholders for their steadfast support through the good and bad times.

● Deputy news editor Angie Ng believes property companies, whether listed or otherwise, should maintain the highest quality standards at all times to improve the living environment for the people.