

Mixed review on YHS offer price



Corporate Portrait
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YHS plans to take Malaysian unit private at RM3.60 per share

AFTER more than 30 years as a public company, Yeo Hiap Seng (M) Bhd (YHSM) has decided to go private. This is not something new to corporate Malaysia as many listed companies have gone the same route and some, after a while, have been re-listed.

YHS (Singapore) Pte Ltd (YHSPL) proposed in an announcement to the stock exchange last Wednesday to take the company's 61.15%-owned subsidiary YHSM private for RM3.60 per share via a selective capital reduction and repayment exercise.

This would result in a total capital repayment of RM213.6mil to shareholders. This translates into a cash of RM3.60 per YHSM share – representing a price to earnings (PE) ratio of 22.5 times based on the basic earnings per share of YHSM group of 16 sen as at Dec 31, 2011.

The takeover would involve cancelling YHSM shares, on the basis of one YHSM share cancelled for every RM1 paid by it to entitled shareholders as capital repayment. The company's (YHSM) paid-up share capital is RM152.70mil, comprising 152.7 million RM1 shares.

As the exercise would involve the cancellation of 213.57 million shares,

which were higher than the company's existing share base, a bonus issue of up to 61.87 million shares in YHSM might be proposed to increase its paid-up share capital to a level which was sufficient for the capital reduction. Upon completion of the exercise, YHSPL would own 100% equity in YHSM.

The company offered various reasons for the privatisation. With the uncertainties plaguing global markets and escalating cost of raw materials and increasing competition in the food and beverage sector, YHSM said for it to continue to perform would involve it incurring substantial capital expenditure and higher cost on advertising and promotion to maintain its competitiveness.

As such, the future dividend payment to its shareholders may be affected. Historically, YHSM had been paying high dividends, about 55% of its profits. For 2011 financial year (FY11), the company paid a total of 12 sen per share in dividends, a 75% payout ratio. It also has zero borrowings and the group was in a net cash position of RM24.6mil or 0.16 sen cash per share as at March 31.

It said the company's shares had also been thinly traded. YHSM shares had been traded with an average daily volume of 190,822 shares and an average monthly volume of 3,265,908 shares, representing 0.32% and 5.50% of YHSM's total free float*

respectively for the past 12 months up to May 28.

(Note: * Based on the 59,327,120 YHSM shares, being the number of shares not held by YHSPL as at May 28). Given the challenging market environment and low trading liquidity of YHSM shares, the proposed selective capital reduction represented a good opportunity for the minority shareholders to realise cash for their investments at an attractive premium above the prevailing market prices of YHSM and at attractive valuation multiples, it noted.

Whether the privatisation exercise would go through would depend on whether the offer price of RM3.60 a share is a fair one and shareholders give the okay.

Since the method of privatisation is via a selective capital reduction, an EGM has to be convened and requires approval of at least 75% of the non-interested minority shareholders.

As at March 15, the interested shareholder controls about 61% of YHSM. This means that for the deal to go through, 75% out of 39% of shareholders i.e. 29.25% of total shareholders, must vote in favour of the deal. In addition, this is also subject to the condition that it must not be voted against by more than 10% of shareholders.

How the vote will play out is yet to be seen.

On the offer price, there are mixed

signals from the market. There are not many analysts covering YHSM but those that are, feel it is generally a fair deal.

AmResearch said the offer price for the privatisation was 7.6% below the brokerage's fair value of RM3.90 per share, adding that although it was a small discount to its fair value, the proposed offer price was deemed to be fair.

Based on recent merger and acquisition (M&A) deals, the brokerage said YHSM's implied valuation appeared to be more attractive than its consumer peers. "YHSM's trailing price earnings (PE) of 25.7 times (based on financial year 2011's core earnings per share of 14 sen per share) is higher than the proposed privatisation of KFC Holdings Bhd at 22 times PE ratio, as well as the disposal of bottler Permais Sdn Bhd by CI Holdings Bhd to Asahi Group Holdings Ltd at 24.7 times back in July 2011," the research house noted.

It said the offer price represented a premium of 18% based on its five-day volume-weighted average price of RM3.04 per share, after adjusting for a final dividend of 9 sen per share (less 25% tax) payable on July 9.

Another analyst said the offer was fair and that minority shareholders should take the offer as YHSM was planning to expand and set up a bottling plant in Indonesia which he felt

might pose some operational risks in the short term.

The Minority Shareholder Watchdog Group (MSWG) considers the offer price to be on the lower side. CEO Rita Benoy Bushon cited several factors to support this view. She said Permais was sold to Asahi for RM820mil which is equivalent to a Permais price earnings ratio (PER) of 25.73 times and PBR of 8.54 times. The valuation of YHSM was RM549.72mil, which was RM270mil lower than Asahi's offer.

YHSM's valuation was equivalent to a PER of 22.5 times and PBR of 2.08 times, she said, adding that the industry averages for PER and PBR were 11.22 times and 1.68 times respectively around the time of Permais sale in October 2011.

The premium paid for Permais was attributable to its extensive distribution network and felt YHSM too commanded a similarly strong distribution network given its long presence in the market since 1975, she noted.

Apart from YEO being a household name and established brand in Malaysia, the company has zero borrowings and good dividend payment record. MSWG said minority shareholders should evaluate and make their own decisions whether to accept or reject the offer based on their respective risk-return profiles and entry levels.