MSWG
MINORITY SHAREHOLDER WATCHDOG GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad
Incorporated in Malaysia * Company No. 524898-M

The Observer

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MESSAGE FROM THE CEO

The role of Independent Advisers ("IAs") arising from SC's amendments to the rules on Malaysian Code on Take-Overs and Mergers can be highlighted in the privatisation of a little-known company called Esthetics International Group Berhad ("EIG"). Since September (and the case of Glenealy Plantations), when the Securities Commission ("SC") imposed a requirement on IAs to put a value on the target company's assets, the spotlight has really turned on the IAs to proffer more detailed and useful advice. In this case, the IA's opinion on the offer for privatisation was unfair and unreasonable using additional valuation methodologies compared to the ones used by the Corporate Adviser (CA).

In stating that the 50 sen per ordinary share and 12 sen per warrant cash offer "is not fair and not reasonable", the IA based its recommendation on EIG's discounted-cash flow valuation of EIG's shares of 69 sen per share and 15 sen per warrant. In short, we see that the SC's amendments to the rules had in some way brought about positive changes in terms of getting more details for the valuation. (Please refer to our opinion in quick take in relation to this transaction).

Regards...

Rita

Economy Update

Our Prime Minister Datuk Seri Najib Tun Razak had on 16 November 2012 announced the liberalisation of 6 more sub-sectors under the Competition, Standards, and Liberalisation Strategic Reform Initiatives. The 6 sub-sectors are legal services, medical specialist services, dental specialist services, international school, private universities and telecommunications, namely Network Facilities Providers and Network Services Providers.

In addition, Datuk Seri Najib also announced 20 projects under the National Key Economic Areas (“NKEA”) as well as the three Economic Corridors. The 11 key projects in seven NKEA are expected to contribute RM1.129 billion of GNI in the year 2020 as well as attract investments of RM6.68 billion and create 40,021 jobs by 2020. The 7 NKEA are Oil & Gas and Energy, Greater Kuala Lumpur/Klang Valley, Communications Content and Infrastructure, Business Services, Healthcare, Tourism and Education.

MSWG’S Comments:
We welcome the liberalisation of the move to spur the economic growth. We also hope that private sector take the cue and ride on these initiatives to propel the economy.

We also hope that the government could expedite the structural reforms such as improvement in the skills of the workforce, retain talents, promote innovation in highly-focused technology and urbanisation developments and be inclusive.

OUR TAKE ON ONGOING CORPORATE TRANSACTIONS

MALAYSIAN AIRLINE SYSTEM BERHAD (“MAS”)
MAS had on 19 November 2012 announced that it has secured a Bai’ Bithaman Ajil Islamic financing arrangement of up to RM5.311 billion from Turus Pesawat Sdn Bhd, a special purpose vehicle company (“SPV”) owned by the Ministry of Finance (“MOF”). The proceeds of the borrowings will be used to fund the purchase of 8 aircraft.

MSWG’S Comments:
According to the latest quarterly result of MAS, its half-year finance cost ballooned by 45% to RM107 million as compared to the corresponding period in the previous year. In addition, its total long term and short term borrowings recorded in the quarterly result was approximately RM8 billion, which resulted in a gearing ratio close to 5.3x. If the purchase of the 8 new aircraft materialises, the total borrowings would escalate to RM13.3 billion and further drive up the gearing ratio to 9x (900%).
This massive debt burden and its ability to repay the principal and interest (which is still not disclosed) could weigh down the company if the operational profit is not sufficient to service its interest payment.

ESTHETICS INTERNATIONAL GROUP BERHAD (“EIG”)
Inter-Pacific Securities Sdn Bhd in its independent advice circular (“IAC”) sent to the minority shareholders of EIG had advised them to reject the offer by its majority shareholder Providence Capital Sdn Bhd to buy out the remaining shares and warrants it had not yet owned in the company.

The offeror had proposed an unconditional privatisation for a cash offer price of RM0.50 per EIG share and RM0.12 per warrant. This means that if the company is not privatised, the offeror will continue to hold the shares acquired from shareholders. In addition, the offeror has no intention to compulsorily acquire any remaining shares and to maintain the listings status of the company.

MSWG’S Comments:
We note that this is the first take-over offer after the SC amendments of rules governing IA’s recommendation in the IAC report for privatisation, which should take into consideration all relevant factors in evaluating the reasonableness of the offer and the IA should exercise due care, skill and professional judgment in selecting the most appropriate valuation methodology to be used that must be supported by reasonable grounds and logical assumptions.

The valuation methodologies applied by the CA and IA are shown below:

Valuation Methodologies Applied	CA	IA

Valuation Methodologies Applied	CA	IA
Absolute Valuation:		
Discounted Cash Flow Model (DCF)	N	Y
Volume Weighted Average Market Price (VWAMP)	Y	Y
Relative Valuation with comparable companies/ recent transactions:		
Price-to-Book Ratio	Y	Y
Price-to-Earnings Ratio	Y	Y

MSWG's Watchlist

BINA GOODYEAR BHD ("BINA GOODYEAR")

Bina Goodyear had on 20 November 2012 announced that the company was classified as Practice Note 17 due to a provision of RM29.6 million made for work-in-progress jobs that are not billable and chargeable to its customers. The provisions affected the shareholders equity of the company and thus triggered certain criteria stipulated under PN17 of the Main Market Listing Requirements.

Bina Goodyear had appointed PKF Advisory Sdn Bhd to conduct special audit to inspect the provisions and the related matters. The company also intends to submit a regularisation plan to the relevant approving authorities to address its PN17 status.

DIALOG GROUP BHD ("DIALOG")

Dialog's wholly-owned subsidiary, Dialog D & P Sdn Bhd ("Dialog D&P"), had on 19 November 2012 entered into a Subscription and Shareholders' Agreement ("SHA") with Asia Energy Services Sdn Bhd ("AES"), a wholly-owned subsidiary of Halliburton International, Inc., to subscribe 50% equity interest in Halliburton Bayan Petroleum Sdn Bhd ("HBP") to jointly manage an Oilfield Services Contract ("OSC").

Under the SHA, AES and Dialog D & P are expected to carry out the redevelopment of the Bayan Field, which is worth US$1.2 billion and involves providing Contractor Services which requires enhancing the recoverable reserves through Production Enhancement Activities, Oil Development and Prospect Appraisal over the Bayan Field.

Local News and Developments

Nutella Tax on palm oil doesn't go down well with manufacturers, consumers
http://biz.thestar.com.my/news/story.asp?file=/2012/11/20/business/12340907&sec=business

Astro seeks legal advice on Indonesia court summons
http://www.btimes.com.my/Current_News/BTIMES/articles/astroi/Article/

Scomi tracking KL monorail system
http://www.btimes.com.my/Current_News/BTIMES/articles/20121120012212/Article/index_html

Mitsubishi Motors Corp: Our collaboration with Proton is over
http://www.theedgemalaysia.com/business-news/225233-mmc-our-collaboration-with-proton-is-over.html

Global News and Developments

Scenarios: How soon U.S. "fiscal cliff" talks could unfold
http://www.reuters.com/article/2012/11/20/us-usa-fiscal-idUSBRE8A80WV20121120

France Loses Another Top Rating
http://online.wsj.com/article/SB10001424127887323353204578129502730718358.html

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Feedback

We welcome your feedback on our newsletter and our work. Email us at mswg.ceo@mswg.org.my with your comments and suggestions.