**MINORITY SHAREHOLDER WATCHDOG GROUP**
*BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD*
(Incorporated in Malaysia – Company No. 524989-M)

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# MISC privatisation

## RM5.30 offer per share not compelling enough based on low acceptance rate

ON Jan 31 this year, our national oil company Petronas offered to buy the rest of the shares it did not already own in the global shipping company Malaysia International Shipping Corp Bhd (MISC) for RM5.30 per share.

MISC, incorporated in 1968 and the country's leading international shipping line, is currently worth RM23.8bil and majority-owned by Petronas at about 63%, while Employees Provident Fund (EPF) at about 9% and Permodalan Nasional Bhd (PNB) at about 6% are the next largest shareholders.

Today, with over 130 liquefied natural gas (LNG) and Aframax (oil) tankers, MISC is one of the most important transportation players in the global oil and gas industry, an industry that Malaysian service providers have built a niche in, with customers in the LNG, petroleum and chemical industry.

The offer document stated the reasons behind Petronas' move to privatise MISC were, among others, the prevailing industry backdrop and uncertain global economy which had made efforts to sustain and transform the business challenging.

The exercise will also allow Petronas to obtain full control of the company, thus having greater flexibility in deciding MISC's strategic direction. It also stated that this move will provide minority shareholders the opportunity to exit and realise their investment at RM5.30 per share.

MISC has been going through some difficult times because of a combination of factors including a global oversupply of vessels, which has driven tanker rates to rock-bottom levels and recessionary concerns in the eurozone due to its ongoing debt problems, which, along with an uneven economic recovery, has pressured global energy prices. These woes have been reflected in MISC's share price. Before the offer was made, MISC stock traded in the RM4 levels compared to its high of RM9.94 in December 2007 (after adjusting for rights).

In financial year 2012, there were early signs of recovery as the group operating profit had a growth of 3.0% compared to previous financial year, coming out from a rock bottom level in 2011. The increase in operating profit was largely due to the commencement of the LNG regasification project and lower losses in the group's petroleum business from lower operating costs.

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In addition, the loss-making liner division had been hived off and the bulk of the provisions had already been made in 2011. Adding to this, the acquisition by Petronas of Progress Energy Resources Corp could provide MISC a more dominant role in the global transportation of energy which is expected to benefit MISC in the medium to long term.

To reiterate, the offer of RM5.30 per share represents a premium of 18% over MISC's last traded price on Jan 30 and as much as a 27% premium to the three-month volume weighted average price (VWAP) of MISC shares.

However, the offer price is at a discount to MISC's sum-of-part value (SOPV) with independent adviser's, AmInvestment Bank Bhd, valuation ranging from RM5.69 per share to as much as RM6.10 per share. The independent adviser had said the offer was unfair as it was priced at a significant discount to MISC's SOPV but considered it reasonable due to a weak shipping outlook that may persist and the absence of a competing bid, hence recommended minorities to accept the offer.

There was a rights issue in November 2009 at RM7 per share to raise funds mainly for the Gumusut-Kakap project, where 50% was later sold off to Petronas.

On March 19, MISC announced that the offer was extended without revising its offer price to April 5, indicating that minority shareholders did not see Petronas' offer as particularly appealing despite the independent adviser's recommendation. This was on the back of only 0.74% acceptance rate, bringing its total ownership to 63.41%, far short of the 90% needed to make the offer unconditional.

We ourselves felt that the offer price was not compelling enough. And for the institutional investors, we urge them to discharge their stewardship responsibilities wisely in considering this offer, to ensure that the investment value for their ultimate beneficiary or client is adequately protected. All minority shareholders whether institutional or retail, should take into account their entry levels and risk considerations.

Petronas might do well to consider putting a larger carrot on the stick if their intention is to fully take MISC private.

● *Rita Benoy Bushon is chief executive officer of Minority Shareholder Watchdog Group.*