MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 524989-M)

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Major shareholders must provide fair exit to minorities

Comment

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LAST week we had news of three privatisations, two from the Tan Sri Syed Mokthar Albukhary's stable – United Malayan Land Bhd (UMLand) and Aliran Ihsan Resources Bhd (AIRB) – while the other is rubber glove maker Adventa Bhd. All three are retail-based stocks.

Interestingly, all three involve slightly differing methods of privatisation.

The first being UMLand by way of takeover offer which does not require an EGM but requires a threshold of 90% of total issue capital of the company held by offerors to be privatised.

For this case, the offerors already have a 77.52% stake and thus need only 12.48% from the remaining shareholders. In addition, to compulsorily acquire the company, the offeror need 20.2% of the minorities' stake.

Tradewinds Corp Bhd, another company controlled by Syed Mokhtar, and UMLand executive director and nominee of Chee Tat Holdings (Singapore) Pte Ltd, Datuk Ng Eng Tee, have equal equity interest in Seleksi Juang Sdn Bhd, which announced this takeover offer of RM2.50 a share.

Specialists in township and niche development, UMLand has about 1,800 acres of undeveloped land and three mixed township developments in high growth areas of Bandar Seri Alam and Taman Seri Austin within Iskandar Malaysia, Johor and Bandar Seri Putra in Selangor.

Seleksi's announcement came after the news that it had bolstered its position by buying CapitaLand Ltd's 20.75% stake for RM156.45mil. The offer by Seleksi's group has two implications. One, that it does not comply with the public shareholding spread (and does not intend to do so in future), and two, regardless of the take-up level of the offer, Seleksi will delist the company.

Our analysis is based on the offer price of RM2.50 versus net assets per share of RM3.04. And on the financial metrics: a current ratio of 3 times and a small debt-to-equity ratio of 0.16 times.

Valuation-wise, at RM2.50 a share, it is 13.2 times 2011 earnings of 18.87 sen a share. The valuation could drop for its 2012/2013 earnings.

Is Seleksi's offer acceptable, especially given the March reports of its plans for RM1.4bil of mixed property developments within Iskandar Malaysia?

The second privatisation is by way of selective capital repayment, where a special resolution at an EGM involving approval by 75% of the remaining minority shareholders voting and attending is required. It involves the High Court giving confirmation on the capital reduction exercise after the EGM approval.

The above privatisation is by MMC Corp Bhd to take private AIRB, Johor's top water concessionaire, in a deal valued at RM181.12mil, or RM1.84 a share.

AIRB, which is already 62.82% controlled by MMC, is the third largest supplier of treated water in the country. Upon successful completion of the proposed exercise, AIRB will become a wholly-owned subsidiary of MMC, and thus will be delisted.

Although the offer price is a tenth higher than the five-day VWAP (volume-weighted average price) and a 5% premium to its last traded price, a closer look at AIRB shows that it has cash deposits worth RM273.124mil, low borrowings of RM137,000, and announced expectations that revenue should increase during the year due to anticipated higher production from its water treatment business as well as an increase in construction revenue.

In short, MMC is paying RM181mil for a company that has RM273mil in cash, negligible debt and an improving outlook. In terms of PE (price earnings), the price offered amounts to a 11.6 times 2011 earnings and a discount of 38.6% from the average industry PE of similar companies. Further the proposed exercise would benefit MMC as it would be able to consolidate the entire earnings of AIRB.

And on to Adventa Bhd, which appears to be offering a more generous deal than the previous two mentioned. This is by way of asset-liability method, which requires the approval of 75% of shareholders at an EGM, This will then bind all the rest of the shareholders to accept the privatisation.

Last week, Adventa managing director Low Chin Guan and Mulberry Asia Fund II jointly offered to acquire Adventa's business for a total of RM320.85mil, equivalent to RM2.10 per share. Low holds a 38.25% stake in Adventa. Here, the Adventa board's approval is required.

On the face of it, the offer price of RM2.10 does appear attractive, reflecting a 30.4% premium to Adventa's last traded price of RM1.61. However, the offer price also amounts to only 7 times 2013 EPS (earnings per share), which is a discount to the average PE ratio of 11.6 times for its peers.

Perhaps, this factors in the company's smaller size and (perceived) higher earnings risk, since results have generally disappointed over the past four quarters.

While Adventa's might appear a sweeter deal, shareholders should still press management to distribute the full cash proceeds of RM2.10 to them, as it will be a cash company post-acquisition.

All three privatisations require independent advisors' opinions.

Overall, however, concern must be voiced that these small(-ish) yet profitable companies are leaving the exchange. Clearly, the major shareholders of these companies want to take matters into their own hands, which is within their prerogative to do so as long as they provide a fair exit to the minorities. And all minorities would need to exercise their right as owners to vote by attending in person or by way of proxy.

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