MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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VOLUNTARY TAKEOVER OFFER

MAKING INFORMED DECISIONS

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MINORITY shareholders sometimes wonder how to react to a voluntary takeover offer. They wonder if there is a sequence of activities or thought processes that they should follow. And how they should rationalise whether the offer should be accepted or otherwise.

At the outset, it should be made clear that such offers require the appointment of independent advisers (IAs).

They will rationalise their recommendations with information and views. This comprises quantitative financial metrics and qualitative information to enable the non-interested shareholders to substantiate their recommendation on the offer.

Any shareholder who prides himself as an adherent to the "informed investment decision making" school will wait for the IA's advice before deciding.

Fairness and reasonableness

The IA's advice is based on the fairness and reasonableness of the offer. Fairness looks at the valuation of shares based on some financial metrics of the company such as earnings per share, the net tangible asset per share, the intrinsic value of the company and the historical share price analysis.

Reasonableness generally considers matters other than the valuation of shares. This includes, but is not limited to, whether the offeror intends to maintain the listing status of the offeree company.

Generally, if the offeror does not intend to maintain the listing status, the IA will skew towards accepting the offer as they do not wish shareholders to end up holding shares of an unlisted company.

Likewise, if the offeror intends to maintain the listing status, and the offer price is not that attractive, they will tend to recommend that the shareholder hold on to the shares as the shareholder can always sell the shares later on the stock exchange.

But the clincher is the final recommendation to accept or reject the offer.

Pending the IA's advice, the shareholder is entitled to a preliminary view based on what has been announced concerning the offer. Often, such views abound and are discussed among investors, commentators and investment blogs.

The LTAT offer

On March 2, Lembaga Tabung Angkatan Tentera (LTAT) announced a conditional voluntary takeover offer for 40.58 per cent stake or 822.51 million shares in Boustead Holdings Bhd it does not already own, at 85.5 sen per share.

Boustead was last traded three sen, or 4.8 per cent, higher at 65.5 sen before trading was suspended.

The premium to the last traded price alone should not be a determinant for accepting an offer. The IA's estimation of the company's intrinsic value will be relevant consideration.

Boustead also announced that LTAT does not intend to maintain its listing status. This fact, too, will be featured in the IA's recommendation.

Whether the delisting happens or not will depend on the number of shares that LTAT ends up with.

Conditional approvals required

The Armed Forces pension fund, which holds a 59.42 per cent interest in Boustead, said the offer is conditional on the Minister of Finance's approval upon Bank Negara's recommendation and approval under Section 87 of the Financial Services Act 2013 and Section 99 of the Islamic Financial Services Act 2013 to allow it to acquire up to 100 per cent equity in Boustead.

Thus, there are several approvals.

And there is a tight timeline — up to 81 days to obtain these approvals, up to 21 days to the posting date and another 60 days to the first closing date.

In accordance with the Rules on Takeovers, Mergers and Compulsory Acquisitions issued by the Securities Commission, the conditions must be fulfilled within 21 days after the first closing date.

Why the offer

The reason for the offer is clearly stated.

"The offer represents a significant step for LTAT in taking Boustead private allowing for, greater flexibility for LTAT to implement the turnaround plan for Boustead as part of its objective in ensuring the sustainability of the fund for the Malaysian Armed Forces and veterans, in line with LTAT's ongoing transformation plan," said LTAT.

Sometimes, a company that needs to be turned around sooner than later will prefer the path of privatisation. Once privatised, it will not be subject to the demanding obligations as a listed company like quarterly reports and announcement of material price-sensitive information.

Sometimes, once turned around, these companies may find their way back to the stock exchange.

Impact on other listed companies under Boustead

As LTAT already has statutory control over Boustead, the offer will not result in any mandatory offer to acquire the remaining voting shares in Affin Bank Bhd, Boustead Plantations Bhd, Boustead Heavy Industries Corp Bhd and Pharmaniaga Bhd that it does not already own.

So at this point in time, the better approach is to await the IA's recommendations. Of course, there will be some shareholders who will be happy to sell their shares on the stock exchange as the price is hovering around the offer price.

There is nothing wrong with making an investment decision before the IA's advice. But more information will be available in the IA's advice, and with more information, one can make a better-informed investment decision.

The writer is chief executive officer of Minority Shareholders Watch Group.