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

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Nilai Resources privatisation a raw deal?

BY **Max Koh**

The major shareholder of Nilai Resources Group Bhd (NRGB), Tan Sri Dr Gan Kong Seng, is proposing a selective capital repayment of RM1.50 per share in a move to privatise the property developer.

Considering the company's net assets of RM3.68 per share, the offer price of RM1.50 is seen as a raw deal for the minority shareholders. "The discount grossly undervalues NRGB as the company has a lot of assets," says an analyst familiar with the company.

NRGB is primarily involved in the development of the 6,223-acre Putra Nilai township in Negeri Sembilan. Its prized assets include 1,445.19 acres of land in Seremban worth RM90 million, a 252-acre golf course worth RM42.2 million, a 119-acre parcel occupied by Nilai University College and an international school worth RM156.5 million, and a hotel worth RM53 million.

An unhappy minority shareholder says some of the assets are worth more at market value. "The 27-hole golf course in Nilai is recorded in the books at cost price. The land could easily fetch up to RM300 million," he tells *The Edge*.

Minority Shareholder Watchdog Group (MSWG) says there could be a potential revaluation surplus for the group's properties and land that have not been revalued for years.

An analyst says a better way to safeguard minority shareholders' interests is to dispose of the assets to unlock the value, followed by capital repayment with the proceeds from the sale.

"NRGB's assets, such as the golf course, university land and hotel, could be sold at a higher price than current valuations. This could be a better option for NRGB instead of the current offer, which is at a steep discount to book value," says the analyst.

NRGB's education arm is another prized asset. While Nilai University College (NUC) is profitable, the Nilai International School (NIS) has been posting losses over the past four years. "The independent auditor says NUC's return on investment is only 4%, but I doubt it will remain so. Last year, NUC actually saw profit growth and one only needs to look at SEG International Bhd, Sunway College and Inti College whose profits are hitting record highs," says the analyst.

In February, Gan's investment vehicle, Akarmas Sdn Bhd, made an offer to privatise NRGB via a selective capital repayment exercise. Gan, who is also the company's chairman, and parties acting in concert with it have a 61.42% stake in NRGB. The selective capital repayment will amount to RM67.9 million.

As at March 31, NRGB's cash balance stood at RM76.2 million. Minus its borrowings, the company has net cash of RM32.9 million, which is equivalent to 28 sen per share.

According to the circular to shareholders, Gan plans to privatise NRGB as the group needs to incur upfront costs for its Putra Nilai township project, which will suppress future earnings and dividends. It also says the uptake for its projects has been weak. "The company will have to conserve cash for future infrastructure development and thus will result in a strained cash flow for the company."

In the offer document, Akarmas noted that the offer price was 36.67 times the group's earnings per share (EPS) of 4.10 sen for the financial year ended Dec 31, 2010. The offer was also at a 57.3% discount to NRGB's net assets of RM3.51 per share as at Dec 31, 2010.

For FY2011, NRGB's net profit grew 336% to RM20.53 million or 18 sen per share from RM4.7 million a year earlier. The higher earnings were due to land sales of RM136 million during the year.

The offeror notes that the township development has been showing low returns over the years due to low property prices and the ongoing infrastructure jobs undertaken by NRGB. "Upfront costs need to be incurred in the development of these infrastructure facilities. There projects will have long gestation periods and need significant bank borrowings and are not expected to bring in significant cash flow," it says.

Thus, it foresees NRGB experiencing strained cash flow and producing low dividend yields. It also notes that the stock is thinly traded.

TA Securities, the independent adviser for the proposal, says the deal was "not fair but reasonable". "We are of the view that on an overall basis, the proposed selective capital repayment is not fair principally due to the cash repayment sum being at a discount of 59% to the latest audited net assets per share," it says.

TA Securities recommends that shareholders vote in favour of the proposed selective capital repayment, saying that the deal is reasonable owing to NRGB's inconsistent financial performance, uncertain prospects of the property and education industry in Nilai, and future working capital and capital expenditure requirements.

That said, it may not be an uphill task for the minorities to block the deal. According to MSWG, it only takes 3.85% or 4.5 million shares to reject the proposal at the upcoming EGM on Wednesday. As the proposal needs only 10% of the outstanding shares not owned by the offeror to vote against the deal, "the minority shareholders should exercise their vote wisely", says the watchdog group.

Gan and Akarmas currently hold a 54.1% stake in NRGB. His brother, Datuk Gan Kong Hiok, has a 7.3% stake and will abstain from voting at the EGM. Other substantial shareholders include the Federal Land Development Authority (6.38%) and Ng Leong Huat (7.35%).

The proposed selective capital repayment draws comparison with Asia Pacific Land Bhd (AP Land), which was taken private via the assets-and-liabilities route at 45 sen per share. This was at an 8% premium to AP Land's last closing price of 41.5 sen and at a 57% discount to its net assets per share.

Other companies that were privatised at a discount to their previous book value include Leong Hup Holdings Bhd, Premium Nutrients Bhd, OSK Properties Bhd, Merge Housing Bhd and YTL Cement Bhd.

Since January 2011, 14 companies have been successfully de-listed from Bursa Malaysia. Whether NRGB will join the ranks of these companies will depend on the minorities this Wednesday. E