MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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LTAT'S TAKEOVER OF BOUSTEAD

REASONS TO ACCEPT OFFER

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OFTEN, when there is a takeover offer, there will be two sets of minority shareholders — those who are happy with the offer and those who are not.

This difference is due to the minority shareholders' risk appetite and their views of the share's intrinsic value and how the future will pan out for the takeover candidate.

The Armed Forces Fund Board (LTAT or the offeror) has offered 85.5 sen per share for Boustead Holdings Bhd's shares.

Boustead's subsidiaries are mired in a myriad of business challenges. These include the RM9.13 billion littoral combat ship contract (Boustead Heavy Industries Corporation Bhd), the Practice Note 17-affected Pharmaniaga Bhd and its elevated debt level.

It is therefore understandable why some minority shareholders would welcome the conditional voluntary takeover offer by LTAT.

Boustead needs a fast turnaround, which they can do better as an unlisted public company.

LTAT has explained that the exercise will provide the fund greater flexibility to implement the turnaround plan for Boustead as part of its objective to ensure the sustainability of the fund.

The independent advice

Kenanga Investment Bank Bhd, the independent adviser of the offer, has deemed the offer price of 85.5 sen per share by LTAT as "not fair but reasonable".

It has advised the acceptance of the offer. (The independent directors of Boustead have concurred with Kenanga's advice).

The offer is deemed not fair as the offer price translates to a discount of between 45.3 and 51.7 per cent to the estimated value of Boustead's sums-of-parts valuation of between RM1.563 and RM1.751 per share. This discount probably comprises the "holding company" discount — a discount applied by the market to companies with subsidiaries involved in different businesses, as in Boustead's case.

There are three reasons for Kenanga's recommendation to accept the offer.

Firstly, it deemed the offer to be reasonable in that it represents a premium of between 15.64 sen (22.39 per cent) and 23.63 sen (38.19 per cent) over the five-day, one-month, three-month, six-month and one-year volume-weighted average price of Boustead shares up to and including the last trading day (March 1, prior to the date of the takeover offer notice received by Boustead's board) — of between 61.87 sen and 69.86 sen.

This must be the most compelling reason to accept the offer. As of May 2, Boustead closed at 85.5 sen. Those accepting the offer would rationalise that a bird in the hand is worth two in the bush.

Secondly, Kenanga noted that LTAT does not intend to maintain the listing status of Boustead. As such, the offeror will not be taking steps to address any shortfall in the public shareholding spread of Boustead in the event Boustead does not meet the public spread requirement after the closing date.

With LTAT's shareholding in Boustead crossing the critical 75 per cent mark to 75.08 per cent (as of April 26 as per announcement to Bursa Malaysia), the public shareholding spread of Boustead is now below the 25 per cent threshold required under Paragraph 8.02(1) of the Listing Requirements to maintain a listing status.

Lastly, the reasonableness of the offer lies in the fact that there is no competing offer or alternative offer for Boustead shares or its business, assets and liabilities.

Compelling reasons to accept the offer

Based on the reasons highlighted and without a competing/alternative offer, it makes sense to regard LTAT's offer as an opportunity for Boustead shareholders to cash out at 85.5 sen per share.

Furthermore, LTAT has no intention to maintain Boustead's listing status. This itself can be a cause for concern, especially with LTAT holding the bulk of the voting shares in Boustead and with no alternative proposal in place.

With LTAT's substantial stake (75.08 per cent as of April 26) in Boustead, any alternative proposal will not be successful unless it has the blessing from LTAT.

Given the group's volatile earnings in the past five years, coupled with the potentially time-consuming divestment process, obtaining support from financial institutions to refinance its debts and redeem the perpetual sukuk could be challenging.

Perhaps a lesson that minority shareholders can learn from this LTAT takeover exercise is that statutory funds or any fund or major shareholders can always opt for the privatisation route as a way out of misery when a public-listed company continues to find itself in bad financial shape despite numerous resurrection efforts.

Should shareholders choose not to accept the offer, they might end up holding shares in an unlisted entity if Boustead is delisted from Bursa Malaysia and thus may have limited opportunities to realise their investment in Boustead.

There are compelling reasons to justify the acceptance of the offer by minority shareholders.

Democratisation of minority shareholders' rights means minority shareholders have the right to make their own informed investment decisions according to their risk appetites.

For transparency, LTAT is a founding member of the Minority Shareholders Watch Group (MSWG) and a nominee of LTAT sits on the board of the MSWG.

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The writer is chief executive officer of Minority Shareholders Watch Group