



The Observer

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Key Takeaways of Investors' Forum: TA Global's "Privatisation": Implication to Minority Shareholders

Ever since TA Global Berhad (TAGB) announced the Conditional Voluntary Take-Over Offer (VGO) by TA Enterprise Bhd (TAEB) on 12 February 2020, MSWG has received numerous complaints from minority shareholders of both companies. The key concern is the huge discount on the offer price compared to the revised net asset value (RNAV) of TAGB.

There is also a possibility of a Mandatory General Offer at TAEB's level depending on the number of TAGB shareholders who accept the cash option under the VGO. Given the complexities (and inter-dependencies) of the offer, MSWG held an Investors' Forum to highlight the various salient points and implications of the transactions to the minority shareholders of TAGB and TA Enterprise Bhd (TAEB). The forum was held on last Thursday (27 February) at MSWG's office in Kuala Lumpur.

About 30 participants, including shareholders of both TAGB and TAEB, journalists, dealer's representative and consultants, attended the Forum.

Some of the points highlighted by MSWG at the Forum were:

1. The proposed VGO was widely reported in media as "Datuk Tony Tiah's privatization". Shareholders must understand that the exercise is not a "privatization" per se because the offer comes from a public listed company – TAEB.

As such the existing shareholders of TAGB can continue to participate in the future growth of TAGB, albeit indirectly, should they swap shares in TAGB for shares in TAEB under the corporate exercise. This is unlike a

typical privatization where the company is taken private by an individual or a group of individuals; here TAEB is taking TAGB private.

2. The offer price of 28 sen per TAGB share is not fair to TAGB shareholders because the shareholders will exchange share with a RNAV of RM1.10 each for just 28 sen. Shareholders invest for the long-term and to participate in the long-term growth of TAGB. The faithful shareholders have been contributing to the growth of TAGB in the past years. TAGB was listed in 2009 at an IPO price of 50 sen per share.
3. Previously, there have been a numbers of privatization cases where the offer price was substantially lower than the estimated fair value. Often, MSWG will receive complaints from the minorities whenever such cases occurred.

The current regulations allow exit offers to be "unfair" but "reasonable" and shareholders are advised by independent advisors to accept such offer. Major shareholders may take advantage of the low share price during market downturn to privatize their investee PLCs.

Since these exercises are done in accordance to prevailing rules, codes and listing requirements, MSWG can only engage (and has engaged) with the non-interested directors of the target companies to try and convince them to re-deliberate the offer price at the board level. MSWG also voices the grievances of minorities via weekly newsletter and engagement with media to create awareness among the investing public.

Regulators should consider amending the takeover and delisting rules to be at par with some regional peers such as Singapore, where the exit offer must be both "fair" and "reasonable" before it is tabled to shareholders.

4. The issue price of 66.5 sen per TAEB shares should not be compared to the current share price because the current share price reflects TAEB as it currently is, whereas the 66.5 sen reflects TAEB plus the incremental shareholding in TAGB as a result of the VGO. Theoretically, the share price of TAEB should increase after the VGO.

5. Two issues that were of concern to TAEB's shareholders were the dilution impact and the probability of triggering a Mandatory Take-Over Offer (MGO) at TAEB level.
6. The dilution impact arises due to the issuance of new TAEB shares to satisfy the acquisition of TAGB. The maximum number of new shares issued will amount to 892.47 million shares, causing the total number of shares in TAEB to increase to 2.6 billion shares from 1.71 billion shares.

However, the increased EPS at TAEB level after the VGO may offset some of the dilution.

7. Datuk Tony Tiah (who is the chairman of both TAGB and TAEB) and the person-acting-in-concert (PACs) hold 42.37% in TAEB currently. Any increase in shareholding by Tiah and the PACs in TAEB by more than 2% will trigger a MGO. Note that for every TAGB shareholder who opts to exchange their shares for cash of 28 sen, Tiah will subscribe shares in TAEB at 66.5 sen each to fund the payout from TAEB to TAGB's shareholders.
8. It was highlighted that the MGO will be triggered if 16% of the TAGB's shareholders (exclude PACs) choose the cash option. As the trigger point is relatively low, it is quite likely that a MGO may be triggered.
9. If the MGO is triggered, the offer price for TAEB's shareholders will be at least 66.5 sen, being the highest price paid by the substantial shareholder to acquire TAEB shares within the last 6-month period.
10. TAEB may or may not be taken private by the substantial shareholder in the event of MGO; the substantial shareholder has not indicated his intention to date.
11. Generally, shareholders should consider the following factors in making decision pursuant to a takeover:
 - a. Outlook & prospect of the industry
 - b. Outlook & prospect of the PLC Group
 - c. Consolidation effect on the acquirer PLC if the takeover is by another PLC
 - d. Integrity of the Board
 - e. Competency of management

- f. The holding company discount compared to the unlocking of value under a pure-play scenario
12. The participants of the Forum hope the regulators will understand the grievance of minority shareholders when it comes to privatization exercises, In this regard, the regulators should consider to require a deal to be both “fair” and “reasonable” when it comes to voluntary delisting exercises.

Shareholders also requested MSWG to hold more forum and to educate minority shareholders on share investing.

By Linnert Hoo
Head, Research and Development

Keeping Shareholders Informed on Share Consolidation

One local stockbroker had the following pop-up message when you try to log-in to their trading platform; in fact, you must press the “Continue” button at the bottom of the message before you can proceed to the trading screen.

SCOMI ENERGY SERVICES BHD - SHARE CONSOLIDATION
Publish Date: 2/27/2020 7:59:16 AM

Dear Valued Clients,
Please be cautious from Ex-date (27-Feb-2020) until the Book Closing Date (28-Feb-2020), when selling SCOMIES shares.

Please note that the estimation of maximum number of shareholdings you can sell for SCOMIES (7045) are:

Number of shares held divided by 5 (All fractional shares computed should be disregarded).

Illustration:
Share Balance for SCOMIES as of 26-Feb-2020: 10,000 shares

After Consolidation on 27-Feb-2020: You have ONLY 2,000 shares to sell (after divided by 5)

Investors are therefore put on notice as to the number of shares available due to the share consolidation.

During the recent wild gyrations in the share prices of Icon Offshore Berhad, (subsequent to a share consolidation exercise), we suspect that some investors sold shares that they did not own. They thought they still owned the original number of shares when, in fact, the number has been reduced due to the share consolidation exercise.

Such announcements, as above will bode well in terms of educating investors and also in terms of managing the stockbroker's risk.

More stockbrokers should follow this example of making investors more informed.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 2 March 2020 – 6 March 2020

Below are the AGMs/EGMs of companies that are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
05.03.20 (Thur) 10.00 am	MKH Bhd (AGM)	The Group recorded higher net profit in FY2019, contributed by the property development & construction segment, and manufacturing segment. However, the hotel and property investment segment recorded loss due to impairment loss on investment properties.
06.03.20 (Fri) 10.00 am	Pelangi Publishing Group Bhd (AGM)	The Group expects further growth in the ASEAN markets. What is the Group's targeted growth rate in the markets?

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
MKH Bhd (AGM)	<p>1) The Manufacturing Segment reported a much higher profit of RM2.54 million in FY 2019 as compared to RM0.59 million in FY 2018. The reason for the higher profit was due to higher revenue in FY 2019 (RM 9.29 million) as against RM7.58 million in FY 2018. (pages 215 and 217 of Annual Report)</p> <p>(a) What is the reason for the higher revenue and profit for FY 2019?</p> <p>(b) What is the plant capacity and the current utilisation rate?</p> <p>(c) What is the outlook for this segment in FY 2020?</p> <p>2) The Group made a land donation of RM9,461,450 in FY 2018 as disclosed on page 138 of the Annual Report.</p> <p>(a) What are the reasons for the land donation?</p> <p>(b) To whom was the land donated to?</p>
Pelangi Publishing Group Bhd (AGM)	The Group expects further growth in the ASEAN markets. What is the Group's targeted growth rate in the markets?

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DISCLOSURE OF INTERESTS

•With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.

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