Agreeing on the right price

By YVONNE TAN
yvonne@thestar.com.my

IN a privatisation exercise where a party makes an offer to buy out the other shareholders of a public-listed company, the issue of whether the offer price is right is often a point of contention.

Minority shareholders, particularly, are faced with this difficult question all the time – is the offer good enough for them to sell off their shares?

Certainly, no one wants to be taken for a ride.

To be sure, the issue of a good and fair price is often exacerbated in a depressed market such as the one we have now as sometimes, the offerors take advantage of declining stock prices to buy out shareholders on the cheap.

Whatever the case, the subject of buyouts and privatisation is almost never that straightforward.

A fairly recent case in point in Corporate Malaysia is the privatisation – or rather the lack of it – of agribusiness group FGV Holdings Bhd by its parent, Federal Land Development Authority (Felda).

Felda had made its first attempt to take FGV private in 2021, where it had offered shareholders RM1.30 per share to buy them out.

It also said then that it does not intend to keep the company listed on Bursa Malaysia once the deal goes through.

At RM1.30, the offer was a steep 71% discount to FGV's initial public offering (IPO) price of RM4.55.

Shareholders were advised then to reject the offer due to the unattractive price.

Notably, filings with Bursa Malaysia reveal that Felda has been mopping up FGV shares from the open market and with its most recent purchase in August of some 2.3 million shares, it now has a shareholding of just above 81% in FGV, with 12.4% of this stake held indirectly.

However, this is still well below the 90% it needs to trigger a compulsory acquisition of all the shares it does not own in FGV.

With this and no fresh offer in sight, it looks like this deal is at a deadlock for now.

Revisiting history, a good example of how minorities can actually fight for a better buyout price is the case of Malaysian Oxygen Bhd (MOX).

Back in 2007, German industrial gases group Linde AG's unit bought a 45% stake in MOX and consequently made an offer for the remaining 55% with the intention of privatising the company.

However, the deal was blocked by some minority shareholders including fund management firm Aberbeen Asset Management, which collectively with the other minorities held more than 10% in MOX.

Linde then sweetened its offer price for MOX, upping it by 13% or RM2 to RM17 per share.

A senior investment banker involved in privatisation exercises says there are many factors that ensure such an exercise goes through without major hiccups.

"When you privatise a company and take it off the stock market, you are essentially depriving minority shareholders of any benefits that the company may be able to give them in the future.

"To me, companies that make these buyout offers must conduct a thorough evaluation of all their assets and incorporate the appropriate future values into the buyout price, or else the offers are likely to be rejected," she says.

That said, some minorities may want to exit at any price deemed fairly reasonable, especially those who feel that they have been stuck for a long time in a company that the market has severely undervalued, so privatisations are always tricky, she adds.

Minority Shareholders Watch Group chief executive officer Devanesan Evanson feels that the market may start seeing more privatisation exercises if the current weak market trend persists.

"Weak markets depress share prices, sometimes below their fair values.

"This is when major shareholders may embark on privatisations as the market consistently undervalues their shares," he says.

"If weak market conditions continue to persist or weaken further, privatisation offers may start to increase."

In deciding on an offer, minority shareholders are guided by independent advisers' (IAs) opinions on the fairness and reasonableness of an offer and the IA's recommendations as to whether to accept the offer or not, he says.

"Furthermore, there are thresholds in relation to shareholdings and acceptances that have to be met before a successful privatisation can be achieved.

"If minority shareholders are not happy with the offer price, they can choose not to accept the privatisation offer.

"This may result in an unsuccessful privatisation attempt. The shareholders can choose to hold out until the offeror offers a price that is acceptable to the shareholders."

Devanesan adds: "Generally, a voluntary takeover is deemed 'not fair' if the offer price is lower than the revalued net asset value per share or fair value estimated by the appointed independent adviser.

"As such, it is the independent advisers who will have to ascertain the fair value of the assets."

Among the many sectors on Bursa Malaysia, the glove sector is one that is now often thought to be ripe for privatisation activities.

The darling of investors during the Covid-19 period due to robust demand for its products, some glove companies have now lost more than half of the market value they possessed during the heady pandemic days.

Even as investors continue to ignore these companies post-pandemic, observers say it's not such a bad idea for some of the owners, especially those who still hold substantial stakes and are flushed with cash, to buy out the other shareholders and take the companies off the stock market.

Some only need to fork out a relatively small amount of money to take the companies private, given how much the market has recently been punishing the stocks of these firms.

Needless to say, in any deal, the offer price will once again be the focal point.