

Be fair to AP Land minority shareholders



Comment
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SHAREHOLDERS of Asia Pacific Land Bhd (AP Land) will convene in an EGM today to vote on a proposal first announced on Jan 11 this year: that substantial shareholder Low Chuan Holdings Sdn Bhd (the family-owned company that started AP Land half a century ago, and which is related to three of the executive directors), proposed to acquire the entire company, including all of the assets and liabilities.

The offer price is 45 sen. This is an 8% premium to its closing price of 41.5 sen before the announcement was made, but a 57% discount to the adjusted audited net assets per AP Land share as at Dec 31, 2010.

Notably, only a simple majority (or 50% plus one share) of non-interested shareholders' approval is required for the proposed privatisation, since the offer came before the amendments to the listing requirements (which raised the threshold for shareholder approval to 75%, where a listed company is disposing all, or substantially all, of its assets, resulting in it being no longer suitable for continued listing on Bursa Malaysia). Thus, it has been more than six months since the company's announcement and the 75% Rule kicking in.

When we first responded to this proposal, we noted that many reasons could exist for the deep discount to the company's net tangible assets (NTA), including the fact that much of the value of its assets, mostly backed by landbank, has not been unlocked, and that the company has not enjoyed a stable history of profits since it has lost money in seven of the last 10 years. Nor has it paid any dividends in this period.

Since then, other related views have been sought, including that of the non-interested directors, audit committee, and independent advisers.

First, the non-interested directors. Their opinion was that the proposed disposal was fair and reasonable, after taking into consideration the advice of the principal and independent advisers.

From a financial point of view, the audit committee thought otherwise, since the offer price was at a discount to NTA and would result in a loss on disposal. However, they added that there was an element of reasonableness, after taking into consideration the company's historical market price and trading volume, the trading multiples of other comparable listed property companies and comparative premiums offered in previously similar transactions on Bursa.

Lastly, MIDF Amanah Investment Bank Bhd, the independent adviser, said the proposed disposal was not fair, mainly because of the discount to NTA, though it was reasonable for reasons similar to that stated by the audit committee.

What do we think? Our answer comes in the form of several

observations:

- Revenue at AP Land is on a healthy growth trend: rising every year since 2006, and in fact more than doubling to RM125mil in FY2011. Our calculations show revenue growth at an average compounded rate of 67.58% per annum.

- That it has a sizable and well-connected landbank in Rawang. AP Land has 492ha in an area where other major and established developers have already built their own projects; is suitably near to retail chains and will enjoy improved road connectivity with the recent opening of LATAR expressway, as well as the possible direct linkage to LATAR via Bandar Tasik Puteri.

- That AP Land might well have stable income from its oil palm plantations in East Kalimantan. It has a total of about 9,130ha as shown in the circular to shareholders against about 12,800ha shown in the company's FY2010 annual report.

- That the independent adviser's suggestion that share trading is illiquid may not reflect its shareholding structure: the FY2010 annual report and the independent adviser's circular show that the free float of shares is 66% of the total shares issued (excluding treasury shares) and that all the free float shares are held by minority shareholders.

- That management and the board have not been able to create value for shareholders for at least the last decade. AP Land's share price has traded below the offer price of 45 sen per share except for the period between early 2007 to early 2008.

Volatile market

Smaller property companies will often suffer from a poor valuation. Diminished liquidity (often exacerbated by a dominant shareholder) and a crowded property sector with little to distinguish one from the other has contributed to the situation.

Moreover, many of these property companies have not attained the minimum market capitalisation needed by institutional funds to invest. What's more, sentiment in the property market has been inextricably linked to the fortunes of the stock market which is very volatile currently.

Our only response, as always, is to be fair.

Minority investors, who are the same men and women who believed the story of the major shareholders. Thus it is only right that major owners do right when the time comes to part.

Our advice to minority shareholders of AP Land is vote wisely. With your small but influential ownership (10 lots and less) you already make up 90% of the total number of shareholders. Most of the 66% of shareholders eligible to vote on the proposed disposal are minority retail shareholders. (Please refer to our detailed analysis at www.mswg.org.my)

● The writer is chief executive officer of Minority Shareholder Watchdog Group.