MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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Dealmakers observe decline in reverse takeovers, uptick in 'business divestitures'

BY **CHERYL POO**

It would appear that there has been a decline in reverse takeovers (RTOs) or backdoor listings on Bursa Malaysia over the years. In the absence of official data from the authorities, people in the dealmaking business have pointed to the growing stringency in rules, on top of the inherent complexities of backdoor listings, as a key deterrent to companies seeking access to public funds via an RTO.

Some dealmakers whom *The Edge* spoke to in recent weeks say that this has led to some of such deals being structured as a business divestiture within the listed companies themselves so as not to trigger an RTO, since that invites scrutiny from the authorities and "inflexibilities" where approvals are concerned.

According to the Securities Commission Malaysia's (SC) Equity Guidelines for backdoor listings and RTOs as at Dec 16, 2021, the regulator says it will treat such proposals like a new listing applicant and that they "must comply with the requirements under either the profit test or the infrastructure project corporation test".

The first edition of the SC Equity Guidelines was issued on May 8, 2009, and it has undergone five revisions since 2013.

Dealmakers routinely refer to the profit test as a pain point. SC stipulates that the applicant needs to have an uninterrupted profit of three to five full financial years, with an aggregate after-tax profit of at least RM20 million as well as an after-tax profit of at least RM6 million in the most recent financial year. "If you look into the proposed divestures on Bursa today, about 50% of them have [a backdoor listing] in mind but are structured in such a way as to do away with the scrutiny that follows an RTO. Divestitures are very attractive to this group because the timing from announcement to market is quite fast," Astramina Advisory Sdn Bhd founder and managing director Wong Muh Rong tells *The Edge*. The firm's niche is in Main Market deals.

A dealmaker who declines to be named adds that many deals are structured in a way that will not trigger an RTO. For example, in a corporate exercise in 2018, Bio Osmo Bhd sold its loss-making bottled drinking water business and later acquired the Impiana Group's local hotel assets from Bio Osmo's largest shareholder, Datuk Seri Farouk Abdullah, which it injected into the group.

Backdoor listings seen as 'less advantageous'

The dealmakers observe that interest in backdoor listings has waned, and that applicants and their advisers avoid the RTO route because of apparently marginal benefits.

The dealmakers point out, however, that an RTO is necessary in the case of listed shell company SCGM Bhd. After all, the Johor-based plastic products maker has been a potential takeover candidate since it announced last year the sale of its core food packaging operations to two Tokyo-listed Japanese parties — Mitsui & Co Ltd and FP Corp (FPCO) — for RM544.38 million, or RM2.83 per share.

"Usually, a white knight would not be keen to absorb another entity that it does not know very well, no matter how vigorous the due diligence will be. Moreover, it doesn't make sense when the approving authority's assessment of both the RTO and IPO is the same. It would make more sense to do an IPO instead," points out a dealmaker who prefers to remain anonymous.

Minority Shareholders Watch Group CEO Devanesan Evanson concurs, observing that when dealing with less familiar parties, relationships may break down at any time and even in the advanced stages of a deal.

"This may have a dire financial impact on the backdoor lister, as money would have been spent and time would have been wasted. On the other hand, backdoor listings [are meant to] bring new business to the company, and this is good for minority shareholders [if the RTO is successful]," he says.

M & A Equity Holdings Bhd managing director Datuk Bill Tan says, in the wake of RTOs over the years, the authorities have been "tougher on backdoor listings".

"Currently, the duration of time it takes to list via the backdoor route is no faster [than an IPO]," Tan recalls.

Proposed in October 2021, M & A Securities' RTO of SYF Resources Bhd to list on the Main Market of Bursa was completed on June 30.

For the record, numerous RTOs have been completed over the years. They include Eco World Development Group Bhd's RTO of Focal Aims Holdings Bhd; WMG Holdings Bhd's RTO of Tekala Corp Bhd; Rohas-Euco Holdings Sdn Bhd's RTO of Tecnic Group Bhd; and GFM Services Bhd's RTO of AsiaEP Resources Bhd (see table for length of time from the deals' proposal to conclusion).

A pending RTO that has garnered attention is that of loss-making poultry and egg producer LTKM Bhd, which on April 8, 2022, proposed to divest its existing business to Ladang Ternakan Kelang Sdn Bhd (LTKSB) for RM158.83 million cash. The latter is the holding company of LTKM, with 71.6% equity interest. The divestiture was to be followed by a RM336 million RTO deal with Local Assembly Sdn Bhd, an electronic manufacturing services (EMS) firm based in Gelang Patah, Johor.

"The deal has not been able to move forward because of the many issues raised by the approving authorities. The assessment for [the LTKM RTO appears to have become even harder] than doing an IPO. This is not beneficial to the minorities," says a source familiar with the matter.

In the past, terminated RTOs have included Kuantan Floor Mills Bhd's takeover of water filtration systems provider NEP Holdings (M) Bhd because of "both parties' inability to execute the definitive agreement by the agreed deadline".

Another stalemate was Wellspring Worldwide Ltd's takeover of technology solutions provider SMTrack Bhd in April 2018.

Regularisation plan needed for PN17 companies to be used as listing shells

On the availability of quality shell companies in the market, the dealmakers who decline to be named point to the many PN17 financially distressed listed companies on Bursa as viable options, even though these are "the cheaper shells".

The founder of a boutique advisory firm estimates the shells of both Main Market and ACE Market companies to be worth between RM10 million and RM40 million, and that ACE Market shells tend to be more in demand. A distressed company requiring restructuring would sell for about RM10 million, he adds.

Another observer says Main Market shells would fall within the range of RM30 million to RM60 million, "depending on how clean the company is".