MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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Issues to ponder in proposed Esso deal

VIEW POINT

By Rita Benoy Bushon

MARKET watchers would have noted with interest the sharp rise and equally sharp decline in Esso Malaysia Bhd's share price.

The rise was prompted by speculation that San Miguel Corp was buying ExxonMobil Corp's entire 65 per cent stake in Esso.

San Miguel, a Manila-based conglomerate, which started off as a single-product brewery business in 1890, is now a diversified group which has interests in power, infrastructure, telecommunications and a 68 per cent stake in Petron, which operates about 1,700 service stations and has crude distillation capacity of 180,000 barrels per day.

The speculations were ultimately proven right.

The disappointment, however, came after Esso's announcement that San Miguel would indeed agree to buy Exxon Mobil Corp's three Malaysian subsidiaries for a total of US$610 million (RM1.82 billion), but would only acquire Exxon's entire 65 per cent stake in Esso Malaysia Bhd for about US$206 million, or just RM3.50 per share.

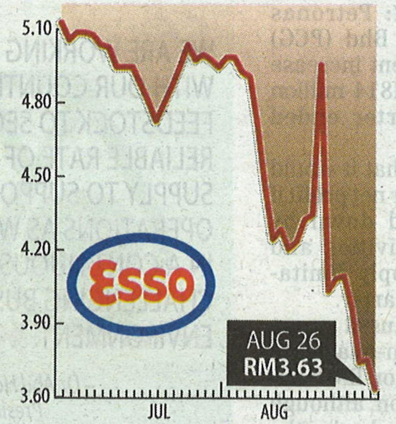
The disappointment focused on the offer price of RM3.50 per share. The price is 25 per cent higher than Esso Malaysia's net assets per share of RM2.80 as at end-December 2010 but at a significant discount to the volume-weighted average prices (VWAP) of the key periods of one month, six months and 12 months at RM4.97, RM4.66 and RM4.29 by 42 per cent, 33 per cent and 22 per cent respectively.

The offer price was also a 29 per cent discount to Esso's closing price of RM4.95.

One could argue that Esso Malaysia's VWAP has, in the last six months, been flattered by on-off speculation of such a sale occurring, and hence a discount to the VWAP doesn't genuinely reflect historical trading levels.

One can see that prior to the rumour mill taking over, Esso Malaysia's share price only breached the RN3 mark in November of 2006. Between then and December 2010, Esso Malaysia's share price traded between RM1.50 and just below RM3.

That range is perhaps a fairer assessment of Esso Malaysia's real trading levels, and likely reflects its choppy earnings record: for the five years between 2006 and 2010, revenues vacillated in this order: RM9.34 billion, RM9.74 billion, RM11.74 billion, RM8.03 billion and RM8.43 billion.



In fact, in the last decade, Esso Malaysia has reported losses in three financial years (2002, 2004 and 2008), while in one year (2006), just RM7.1 million in profit was reported.

In the interest of fairness, one could argue that San Miguel will have to set aside substantial funds for capex to upgrade the refinery, especially if San Miguel chooses to re-tool the business for a more renewable and clean energy in the future.

However, from the standpoint of minority shareholders, a couple of issues bear considering.

Firstly, the discrepancy in price-to-book values of the three subsidiaries being bought over by San Miguel. Esso Malaysia's is the most relevant, since it is the only listed entity.

At the end of its last reported results at the end of June, Esso Malaysia's book value was RM3.28 a share. San Miguel's offer price of RM3.50 amounts to just 1.06 times book value.

However, for the two private entities also being bought over, ExxonMobil Malaysia Sdn Bhd and Exxon Mobil Borneo Sdn Bhd, the price-to-book valuations are much higher.

Minorities should ask Esso Malaysia's board for an explanation as to why, if ever they were consulted, to accept this offer.

Bear in mind that San Miguel is paying US$404 million (RM1.2billion) for all of ExxonMobil Malaysia Sdn Bhd and Exxon Mobil Borneo Sdn Bhd, but just US$206 million (615.9 million) for 65 per cent of Esso Malaysia Bhd

Another question is on the unusual trading activity in Esso Malaysia's shares. In the two-and-a-half-hour afternoon trading session of August 17, Esso Malaysia shares shot up to RM4.95 from the pre-lunch time close of RM4.33 .

The Securities Commission should examine the trading activities and the source of these trades since all Malaysians have vested interest in seeing the influencers and gatekeepers of our listed companies work in our best interest (and not their own personal ones).

As this deal is between shareholders, and is under the ambit of the Take-Over Code, which in this case has triggered the Mandatory General Offer, the minorities now would need to make the decision whether to accept or reject the deal at RM3.50 a share.

The board would need to appoint an independent adviser for minorities to make this decision.

** The writer is the chief executive officer of the Minority Shareholder Watchdog Group*