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MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia * Company No. 524898-M

The Observer

Issue #12-11
16 August 2011

MESSAGE FROM THE CEO

The market declines that the Malaysian as well as Asian stock markets have suffered in the past fortnight took many by surprise. Not just in terms of the severity and extent of the volatility, but also the plunge in sentiment.

Everyone is waiting to see how resilient Asia is to the problems in North America and Europe, with many again questioning whether Asia can successfully decouple itself from Western economies. From a market standpoint, many are curious to know if it has strengthened this time to a point where it can now stand on its own two feet. Certainly, Malaysia is very fortunate in that it is a low-beta defensive market supported by large domestic institutional investors like the pension funds which, to a certain extent, has reduced extreme volatility.

Now is an opportune time for well-run companies to stand out from the crowd. Companies that practice openness, transparency and honesty will almost certainly be well-received by a market hungry for clarity, especially at a time when confusion abounds, politicians are bickering, and industry is unsure about which direction to turn.

Given what we know of the heightened volatility of today's financial markets, capital flees to havens it deems safe. This crisis of confidence in economic stewardship need not necessarily filter down to equity markets. And so, there is absolutely no reason why well-run companies with good corporate governance practices may not be among these safe havens.

Cheers!

Rita Benoy Bushon

MSWG's Quick Take on Ongoing Corporate Transactions

Ranhill Bhd: Announced it has received a takeover notice from Maybank Investment Bank Bhd, on behalf of Cheval Infrastructure Fund L.P. (acting via its general partner, TAEL Management Co. (Cayman) Ltd), Tan Sri Hamdan Mohamad, Ranhill Corporation Sdn Bhd, Lambang Optima Sdn Bhd and Pacific Energy Overseas Ltd) to acquire all the remaining

ordinary shares in Ranhill Bhd not already owned by them for a cash offer price of 90 sen per offer share. Ranhill does not intend to seek an alternative person to make a takeover offer but, in accordance with the Malaysian Code on Take-Overs and Mergers 2010, Ranhill will be appointing an Independent Adviser.

MSWG's Comment: *The offer price of 90 sen per share is a 28 percent discount to Ranhill's net assets per share as at 31 March 2011. The offer price represents a 21.6 percent premium over the stock's 5-day volume weighted average market price up to 8 August 2011, and a 20 percent premium over the stock's volume weighted average market price for the past 6 months up to 8 August 2011. In the latest quarterly results as at 31 March 2011, profit attributable to the equity holders had dropped by 27 percent to RM10 million, compared to the corresponding quarter a year earlier. Ranhill had not been performing, and was operated by one of the major shareholders that is now taking it over. Thus, the board ought to allow the best price to be offered to minority shareholders by seeking an alternative person to make a take-over offer as the offer price is not satisfactory. Shareholders should evaluate the risk vs reward before making a decision.*

Jotech Holdings Bhd, AIC Corp Bhd and AutoV Corp Bhd:

Temasek Formation Sdn Bhd, an investment vehicle owned by Datuk Goh Tian Chuan, is proposing to acquire the entire business and undertakings (including all assets and liabilities) of AIC, JoTech and AutoV for a total of RM696 million to be satisfied via the issuance of new Temasek Formation shares. The acquisition prices of Jotech, AIC and AutoV are RM217.3 million, RM339.2 million, and RM138.9 million respectively. These are to be paid for by shares in Temasek Foundation in exchange for shares in the three companies, at a share exchange ratio that values Jotech shares at 18 sen each, AIC shares at RM1.80 each and AutoV shares at RM2.38 each.

MSWG's Comment: *The proposed merger offer for Jotech, AIC and AutoV is said to create one of the largest amalgamated manufacturing firms in Malaysia, offering an extended range of manufacturing services from precision metal and plastic parts stamping to high-volume manufacturing and assembly, in addition to opportunities for cross-selling.*

The deal proposer, Datuk Maj (H) Goh Tian Chuan, directly owns 7.6 percent, 25.2 percent and 0.4 percent in Jotech, AIC and AutoV respectively, whereas Jotech has a 16.1 percent stake in AIC, which in turn owns a 19.9 percent share of AutoV. Such a cross shareholding would make the non-interested shareholders of the three entities wonder what their (as well as Datuk Goh's) eventual shareholdings would amount to after the proposed merger.

The proposed merger offer also includes holders of warrants granted in 2007 for AIC and Jotech. FYI, warrant holders of Jotech and AIC are to be given a share swap of 3 and 25 shares each for every 4 and 3 shares owned by them. It is also noted that the exercise prices of AIC and Jotech warrants are RM1.00 and 13 sen respectively. Both these exercise prices are far from their respective mother-share prices before as well as after the announcement of the Proposed Merger Offers.

MSWG would like to highlight its concern as regards to warrant holders being given the same right as shareholders to obtain the merged entity's shares. This is unfair to the existing shareholders as their shareholdings will be diluted more than necessary.

Minorities might like to question the reasons why the warrant holders have been given equal standing to the shareholders of the three entities, as their holding amounts only to a right to the underlying shares (and prior to the expiry date). Will the same standing of warrants potentially dilute existing shareholders' rights? Note that warrants for both AIC and Jotech came free when AIC and Jotech called for a renounceable rights issue in 2007.

Post-merger, the suggested synergy remains to be seen but non-interested shareholders would immediately suffer a dilution on their claims to the merged entity due to the free exchange of warrants to the shares.

Hence, non-interested shareholders have to ask themselves if the potential synergies will be able to offset the dilution.

ATIS Bhd: Major shareholder, Evolusi Impian Sdn Bhd, has announced plans to undertake a selective capital repayment (SCR) that works out to a cash payment of RM1.30 per ATIS share, and resulting in the company's de-listing. The proposed exercise would affect all except the company's non-entitled shareholders. The non-entitled shareholders – comprising the the major shareholders undertaking the SCR – would waive their respective entitlement to the repayment of capital. Entitled shareholders will receive a total capital repayment of RM70.5 million.
The SCR is expected to be completed by the first quarter of 2012, when ATIS will be de-listed from Bursa Malaysia. The stated rationale for the exercise is because ATIS shares have been thinly traded and trading volume has been low.

MSWG's Comment: *The offer price of RM1.30 per share is relatively low, valuing ATIS at around RM190 million, as it only offers:*

1) A premium of 16 to 18 percent over the five (5)-day and three (3)-month VWAP of ATIS Shares up to and including 3 August 2011.
2) A price-to-book ratio of 0.6 times based on the net assets per share of ATIS of RM2.11 (as at 31 Dec 2010).
3) A price-earnings ratio of 7.6 times based on audited earnings per share (EPS) of 17 sen (FYE 31 Dec 2010).

Besides being at the low end of the valuations stated above, from our analysis the offer price seems to have excluded the value of the 60.8 percent stake in Nadayu Properties Bhd, a 51 percent-owned subsidiary of ATIS. At the current market price of RM1.31 per share, Nadayu is valued at around RM300 million, and comes with several property developments, including Bandar Tasek Mutiara and Nadayu Melawati. Upon the completion of the proposed selective capital repayment, ATIS would own about 31 percent of Nadayu, or around RM93 million in current market capitalisation of Nadayu, and be in a position to exercise a significant degree of influence in Nadayu.

Excluding the value of ATIS' share in Nadayu, minorities need to ask if the core businesses of ATIS are only worth RM100 million. We note that approximately 75.1 percent (780 out of 1,038) of ATIS' shareholders hold less than 10,001 ATIS shares each, and their shareholdings represent 1.78 percent of ATIS' issued and paid-up share capital. These holders with small shareholdings in ATIS may be able to liquidate their investment in ATIS shares in the open market without depressing the prevailing market price, should they wish to do so.

The offeror is seeking Securities Commission exemption from the need to acquire Nadayu, as the acquisition would technically trigger a mandatory general offer (MGO). The proposed selective capital repayment is conditional upon such the exemption being approved by the SC.

***A more detailed analysis of the ATIS privatisation plan is available to MSWG subscribers on the Research Reports page (http://www.mswg.org.my/web/page.php?pid=54&menu=sub) of MSWG's website.**

Local News and Developments

"Improving Corporate Governance in the Malaysian Capital Market - The Role of the Audit Committee"
http://www.sc.com.my/main.asp?pageid=375&linkid=2911&yearno=2011&mod=paper

Step up, gatekeepers and influencers
http://biz.thestar.com.my/news/story.asp?file=/2011/8/6/business/9246177&sec=business

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Global News and Developments

Investing 101: Why Corporate Governance Matters
http://community.nasdaq.com/News/2011-08/investing-101-why-corporate-governance-matters.aspx?storyid=88729

Unprecedented number of women joining boards
http://www.smh.com.au/business/unprecedented-number-of-women-joining-boards-20110808-1ij75.html

Barclay Simpson Releases Interim Corporate Governance Market Report for 2011
http://www.benzinga.com/pressreleases/11/08/p1828721/barclay-simpson-releases-interim-corporate-governance-market-report-for

Most listed firms lack social responsibility: report
http://english.yonhapnews.co.kr/business/2011/08/03/47/0501000000AEN20110803001900320F.HTML

Feedback

We welcome your feedback on our newsletter and our work. Email us at watchdog@mswg.org.my with your comments and suggestions.

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