

The Observer

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MESSAGE FROM THE CEO



These past two weeks have been all about the subsidies our government provides every year and dismantling them would be tough and unpopular. However, since our country's fiscal health is important to our long-term sustainability, it may be a vital decision. Imperfect markets can sometimes result in imperfect behaviour. The sooner our country returns to a state of 'normalcy', the more level the playing field becomes, and hopefully, the more developed our markets will be.

Cheers!

Rita Benoy Bushon

MSWG's Quick Take on Ongoing Corporate Transactions

MMC CORP: Plans to list Gas Malaysia Bhd and to also re-list Malakoff Bhd and Johor Port Bhd with an estimated combined valuation of RM14 billion. MMC's minorities might be advised to watch for developments on these IPOs, since there are concerns that the valuations might be too optimistic and MMC might lose some of its lustre as a holding company if these valuable assets are sold into the public market. From a valuation standpoint, Malakoff has not expanded its generation capacity since privatisation in 2007, while Gas Malaysia and Johor Port are essentially domestic plays without exponential growth prospects. This all gives rise to concern that an IPO of all three companies might not receive a stellar response.

MSWG's Comment: *The plan to list/relist the 3 companies under the umbrella of MMC seems positive at this point in time, as the latter is able to unlock these valuable assets. It may be argued, however, that some of the companies may not have attained sufficient growth to fully realize all the benefits of an IPO. Notwithstanding, the unlocking of value in these assets certainly will accrue benefits to MMC and, depending on the public shareholding spread, the IPO will provide liquidity to the shares in these companies and henceforth further potential in price appreciation of their shares. This will ultimately benefit MMC too. Of course, the extent of the benefit accruing to MMC would also depend on the offer prices set for the IPOs and eventually the market capitalisation. With the listing/relisting, MMC will continue to be a holding company owning sizeable equity stakes in these companies and will thus continue to enjoy their growth. Furthermore, there is good growth for Gas Malaysia especially with high demand for gas by consumers. It is also a nice dividend stock due to its strong steady cash flows. In the case of Malakoff, there is also the potential to source for IPP projects overseas.*

LEONG HUP: *The Lau family's bid to take over Leong Hup has become costlier by RM40 million after the SC's ruling that Emerging Glory's takeover offer must also include an MGO for LH's listed subsidiary, Teo Seng Capital Bhd (TCSB).*

MSWG'S COMMENT: *In its reply letter to Emerging Glory Sdn Bhd (EGSB), the Securities Commission said that the scenario as envisaged in Practice Note 9 of the Malaysian Code on Take Overs and Mergers has been met following EGSB's bid to privatise Leong Hup. Hence, EGSB is obliged to extend a downstream mandatory take-over offer to Teo Seng Capital. The issued and paid up capital of TCSB is RM40 million, comprised of 200 million ordinary shares at a par value of 20 sen per share. There is currently still no information as to what the offer price for TCSB will be. The volume-weighted market price (VWMP) of TCSB has been around 44 sen per share over the past 3 months. The Net Assets (NA) of TCSB stood at 40 sen per share as at 31 March 2010, but there is no assurance that the offer price must be higher than the VWMP and the NA.*

WAH SEONG: *The company has approved a proposed demerger of its oil and gas businesses, which are currently held under its wholly-owned unit, Wasco Energy Ltd. The move would enable Wasco Energy and its units to operate as a separate and fast-growing public-listed entity. A proposed listing of Wasco Energy on the Main Market of Bursa Securities would be sought in conjunction with the proposed demerger. After the proposed demerger, Wah Seong will remain listed and will be principally engaged in industrial services activities such as the trading of building materials, renewable energy and pipe manufacturing for water and structural purposes.*

MSWG's COMMENT: *MSWG views the proposed demerger as a positive move as it provides Wah Seong with a more focused approach for its businesses in industrial services as well as oil &*

gas.

AP LAND: On 11 January 2011, Low Chuan Holdings offered 45 sen a share, or RM305.2 million, for all of AP Land's assets and liabilities. The offer amounts to a premium of 8.4 percent over its closing price of 41.5 sen, when trading was suspended for the announcement. The 45 sen per share offer price is also less than half of AP Land's net tangible asset (NTA) per share of RM 1.006 ringgit.

MSWG'S COMMENT: *It is not uncommon to see a privatisation offer that is priced below net asset value. This is a phenomenon that is currently prevailing among property development companies. The reasons could be due to: 1) the value of the assets, mostly backed by landbanks, that has not been effectively unlocked; 2) an undemanding valuation and location of the land banks; and 3) quality of management. Also, AP Land's historical financial performance is chequered. It has lost money in seven of the last ten years and has not paid any dividends during this period. Going forward, its oil palm plantation venture in East Kalimantan, Indonesia (from 2008) has seen a total of 4,982 hectares of land planted with 3,000 hectares coming into maturity in the 1st quarter of 2012. It is not known if the independent advisor has considered these plantation assets in its forward earnings projections when making their recommendation to the non-interested shareholders. An additional point to note is that the approval of only a simple majority of non-interested shareholders is required for the proposed privatisation, since the offer came before the amendments to Bursa's Listing Requirements raising the threshold for shareholder approval to 75 percent.*

OSK PROPERTY HOLDINGS BHD: On 27th of May 2011, Executive Director and substantial shareholder Ong Leong Huat, together with Land Management Sdn Bhd (which comprises other members of the Ong family), offered to buy all the remaining shares and warrants that they do not already own in OSK Property Bhd, for 87 sen per share and 6 sen per warrant. The price offers no premium over the counter's last closing price of 87 sen, and is about half the value of OSK Property's NTA of RM1.71 per share.

MSWG'S COMMENT: *In the same announcement, the Joint Offeror also stated its intention to maintain OSKPROP's listed status. The Offer is conditional upon the Joint Offeror having received valid acceptances which would result in the Joint Offeror holding, in aggregate, more than 50 percent of the total voting shares of OSKPROP. The Proposal can be seen as a move by the joint offeror to acquire a meaningful stake (i.e. 51 percent) at a reasonable price, to control the Company. OSKP shareholders that do not feel the price is sufficiently compelling may choose to retain the shares until the elapsement of the offer.*

Under Watch:

LATEXX PARTNERS: The company received a merger proposal from YTY Industry Holdings Sdn Bhd to acquire its four wholly-owned subsidiaries for RM1.37 billion. This is to be satisfied by RM409.5 million in cash from Latexx and 382.2 million new Latexx shares of 50 sen par value at an issue price of RM2.50 per share. The offer will remain open for acceptance for 21 days.

Local News and Developments

[Reviewing ministerial salaries: Seven lessons from the private sector - Mak Yuen Teen](http://www.themalaysianinsider.com/sideviews/article/reviewing-ministerial-salaries-seven-lessons-from-the-private-sector-mak-yuen-teen/)

<http://www.themalaysianinsider.com/sideviews/article/reviewing-ministerial-salaries-seven-lessons-from-the-private-sector-mak-yuen-teen/>

[SC Tweaks Guidelines for Fund Managers to Further Safeguard Investors](http://www.sc.com.my/main.asp?pageid=379&linkid=2873&yearno=2011&mod=paper)

<http://www.sc.com.my/main.asp?pageid=379&linkid=2873&yearno=2011&mod=paper>

[Providing Appropriate Institutional Environment Is Essential To Sustainable Development, Says Raja Nazrin](http://www.bernama.com.my/bernama/v5/newsbusiness.php?id=588939)

<http://www.bernama.com.my/bernama/v5/newsbusiness.php?id=588939>

[SC charges Kosmo Tech director and accounts manager for providing false information to stock exchange](http://www.sc.com.my/main.asp?pageid=379&linkid=2875&yearno=2011&mod=paper)

<http://www.sc.com.my/main.asp?pageid=379&linkid=2875&yearno=2011&mod=paper>

[Review policies that benefit the corporate elites - Ronald Benjamin](http://www.themalaysianinsider.com/sideviews/article/review-policies-that-benefit-the-corporate-elites-ronald-benjamin/)

<http://www.themalaysianinsider.com/sideviews/article/review-policies-that-benefit-the-corporate-elites-ronald-benjamin/>

Global News and Developments

[In India, government to allow companies to hold AGM through video conferencing](http://www.business-standard.com/india/news/govt-to-allow-cos-to-hold-agm-through-video-conferencing/135934/on)

<http://www.business-standard.com/india/news/govt-to-allow-cos-to-hold-agm-through-video-conferencing/135934/on>

[European Commission offers guidance on board diversity](http://www.financialdirector.co.uk/financial-director/analysis/2071604/ec-offers-guidance-board-diversity)

<http://www.financialdirector.co.uk/financial-director/analysis/2071604/ec-offers-guidance-board-diversity>

[Germany Considers Requiring Companies to Appoint More Women to Their Boards](http://blogs.forbes.com/nathanielparishflannery/2011/05/20/germany-considers-requiring-companies-to)

<http://blogs.forbes.com/nathanielparishflannery/2011/05/20/germany-considers-requiring-companies-to>

appoint-more-women-to-their-boards/

[In Australasia, CFOs divided on corporate governance](#)

<http://www.moneymanagement.com.au/news/cfos-divided-on-corporate-governance>

[In Australia, Calls for Boards to get on board pay regime](#)

<http://www.businessspectator.com.au/bs.nsf/Article/Pre-empting-the-two-strikes-How-boards-need-to-man-pd20110516-GWF2Q?OpenDocument&src=sph&src=rot>

[US shareholder activism leaves UK in its wake](#)

<http://www.iii.co.uk/articles/15494/us-shareholder-activism-leaves-uk-its-wake>

[Why Does Corporate Governance Really Matter?](#)

<http://eon.businesswire.com/news/eon/20110519006631/en/corporate-governance/proxy-advisory-firms/board-of-directors>

[RBS to co-operate with UK watchdog over ex-CEO](#)

<http://www.reuters.com/article/2011/05/20/rbs-goodwin-idUSLDE74J1TE20110520>

In the next issue of The Observer...

Be sure to read the next issue of **The Observer** for a report on MSWG's *Independent Director's Pool Dialogue*, held 31 May 2011 with members of our Independent Directors Pool.

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