



The Observer

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MESSAGE FROM THE CEO



It has been a mixed fortnight where CG updates have been concerned. On the negative side, the sell-downs of stocks such as Sumatec Resources, DBE Gurney Resources and Alam Maritim Resources must have shocked minority shareholders when their respective accounting firms announced variations in the financial accounts, stating that there were bigger losses than expected. Variations like these will make investors cautious of a company's sustainability and the credibility of its unaudited accounts. But on the positive side, the fact that these variances have been made public can only stand the companies in good stead in future, since lessons can be learned.

Also on a positive note, we are glad to see that MSM Malaysia Holdings Bhd, the sugar refining arm of state-owned Felda Global Ventures Holdings Sdn Bhd, has announced its plans for an initial public offering, with aims to raise as much as RM900 million. We are also glad to read of plans by Dato' AK Nathan to list his construction company, Eversendai Corp in Malaysia. Both listings will deepen and broaden our stock market and make it more appealing to large foreign investors, after several privatisations in the last few months. We note in particular that MSM is only one of ten government-linked companies that will be divested this year, and in the spirit of market depth and breadth, this can only be good for us.

Cheers!

Rita Benoy Bushon

MSWG's Quick Take on Ongoing Corporate Transactions

Sime Darby: *The Edge reported, citing sources, said MMHE is believed to be looking at taking over either some or all of the assets of Sime Darby's oil and gas unit, parked under Sime's energy and utilities division.*

MSWG Comment: *If the valuation is right, we do not see the reason why Sime would still want to be involved in oil and gas. There is no obvious synergy between the oil & gas division and Sime's other business. On a micro perspective, Malaysia needs formidable players in this field. Petronas, in particular, can spearhead the development of the local oil and gas industry. The consolidation of oil & gas assets is necessary to achieve the economies of scale, depth and*

breadth that are needed to compete regionally and globally.

EON Capital: The board of EON Capital Bhd (EON Cap) has accepted the RM5.06 billion takeover bid by Hong Leong Bank Bhd (HLB), capping a 16-month battle to create the country's fourth-largest bank by assets. It also proposed a surprise net interim dividend of RM312 million, or 45 sen per share, in addition to the offer price.

MSWG Comment: EON Capital has already announced that its Board has confirmed the acceptance of Hong Leong Bank Bhd's (HLBB) offer to buy the entire assets and liabilities of EON Cap for RM5.06 billion or 7.30 ringgit per EON Cap share. In addition, EON Bank, the wholly-owned subsidiary of EON Cap, will pay a net dividend of RM311.9 million, to EON Cap. HLBB has confirmed it has no objection to EON Bank declaring and paying the dividend. Assuming the entire additional RM311.9 million net dividend is paid to EON Cap's shareholders, this works out to 0.45 sen/share. Thus, the price offered is effectively 7.75 ringgit per share, at the lower end at 1.4 times book compared to other mergers and acquisitions in the sector. As regards China Construction Bank (CCB), being a foreign party, there could be Bank Negara's restriction in terms of the percentage of equity interest it can acquire. This being the case, CCB can therefore only offer to buy an equity interest and the rest of the shareholders may not benefit from any higher price offered.

RHB Capital: EPF, which owns 45 percent of RHB Capital, would like a banking group to buy Abu Dhabi Commercial Bank's (ADCB) stake in RHB. EPF CEO Tan Sri Azlan Zainol said that if it is a private equity firm, it must have run banks before and have in place good risk management, systems, processes and business connections. It could be a local or foreign partner. EPF is keen for RHB to remain listed and have enough free float of over 25 percent.

MSWG Comment: It makes sense that a private equity fund (PEF) should not be given approval to be a major shareholder of a bank, as a PEF normally has a relatively shorter investment horizon ranging from 3 to 5 years. This does not augur well for a bank and be can be quite disruptive. The fund is not in the business of banking and there is also no synergy. Besides, risk management is particularly very important to a bank and it would be good if the bank's major shareholder is able to provide risk management expertise.

Under Watch:

Axis REIT: The listing of Malaysia's Axis Global Industrial real estate investment trust (REIT), said to be the world's largest syariah REIT, has been pushed back by about a month after two of its Japanese assets were damaged by the March 2011 earthquake. The two assets have been removed from its initial asset composition and the size of the REIT has been slightly reduced.

Sunway Holdings and Sunway City: In November last year, Sunway Sdn Bhd proposed to take over the assets and liabilities of Sunway Holdings and Sunway City in a deal involving cash and share swaps for a total of RM4.5 billion. The EGM to vote on the proposed merger is only expected to be held in April or May 2011. A 50%-plus-one share of the minorities would have to vote in favour of the merger for the deal to go through. SSB proposed to take over SunCity at RM5.10 a share and Sunway Holdings for RM2.60 a share. In addition to that, SSB also offered to buy Sunway Holdings and SunCity warrants at RM1.50 and RM1.29, respectively. However, the share prices of both Sunway Holdings and Sunway City have been falling in the market recently, raising the question of whether investors are feeling jittery about the impending merger between the two companies.

MAA: The company is in talks to sell a 70 percent stake in its General and Life Insurance business to Zurich Insurance Co Ltd for a rumored amount of RM1.2 billion.

Tricubes: The company has admitted that the RM50 million 1Malaysia e-mail project is a "lifeline" for the financially distressed company. It has also secured an RM 5.3 million financing facility from a venture capital outfit and wants to conduct a rights issue to fund the project.

Local News and Developments

[SC declines comment on report of Sime probe](http://biz.thestar.com.my/news/story.asp?file=/2011/4/22/business/8532322&sec=business)

<http://biz.thestar.com.my/news/story.asp?file=/2011/4/22/business/8532322&sec=business>

['Red-flagged' firms hit by investor backlash](http://www.btimes.com.my/Current_News/BTIMES/articles/redred/Article/index_html)

http://www.btimes.com.my/Current_News/BTIMES/articles/redred/Article/index_html

[Eversendai looking to list in Malaysia](http://www.btimes.com.my/Current_News/BTIMES/articles/evers1/Article/)

http://www.btimes.com.my/Current_News/BTIMES/articles/evers1/Article/

[What must directors of listed companies do to improve themselves?](http://biz.thestar.com.my/news/story.asp?file=/2011/4/27/business/8556308&sec=business)

<http://biz.thestar.com.my/news/story.asp?file=/2011/4/27/business/8556308&sec=business>

[Companies voice support for Corporate Integrity Pledge](http://thestar.com.my/news/story.asp?file=/2011/4/27/nation/8505773&sec=nation)

<http://thestar.com.my/news/story.asp?file=/2011/4/27/nation/8505773&sec=nation>

[Thailand: Making corporate governance effective](http://www.bangkokpost.com/business/economics/233919/making-corporate-governance-effective)

<http://www.bangkokpost.com/business/economics/233919/making-corporate-governance-effective>

[Singapore: Steps to improve corporate governance](http://www.straitstimes.com/BreakingNews/Money/Story/STIStory_658911.html)

http://www.straitstimes.com/BreakingNews/Money/Story/STIStory_658911.html

Global News and Developments

[Poor Governance at Berkshire Hathaway Is Nothing New](http://seekingalpha.com/article/265323-poor-governance-at-berkshire-hathaway-is-nothing-new)

<http://seekingalpha.com/article/265323-poor-governance-at-berkshire-hathaway-is-nothing-new>

[Sexist comments land Glencore's new chairman in hot water](http://www.smh.com.au/business/sexist-comments-land-glencores-new-chairman-in-hot-water-20110425-1dtzi.html#ixzz1Kiv42adi)

<http://www.smh.com.au/business/sexist-comments-land-glencores-new-chairman-in-hot-water-20110425-1dtzi.html#ixzz1Kiv42adi>

[The Big Board Tunes Out Its Own Rules](http://dealbook.nytimes.com/2011/04/25/the-big-board-sets-aside-its-own-rules/?partner=rss&emc=rss)

<http://dealbook.nytimes.com/2011/04/25/the-big-board-sets-aside-its-own-rules/?partner=rss&emc=rss>

[Barclays faces investor ire over Diamond pay](http://www.independent.co.uk/news/business/news/barclays-faces-investor-ire-over-diamond-pay-2273786.html)

<http://www.independent.co.uk/news/business/news/barclays-faces-investor-ire-over-diamond-pay-2273786.html>

[Glencore secrecy threatens to slash IPO price by 20pc](http://www.telegraph.co.uk/finance/markets/8467529/Glencore-secrecy-threatens-to-slash-IPO-price-by-20pc.html)

<http://www.telegraph.co.uk/finance/markets/8467529/Glencore-secrecy-threatens-to-slash-IPO-price-by-20pc.html>

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