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MESSAGE FROM THE CEO



We note with interest the twin developments on SP Setia in the week gone by. First, the exercise of the first tranche of put option by Tan Sri Liew, and secondly, the formal announcement of the Battersea deal. This will be SP Setia's biggest overseas commitment from a financial perspective, and it is huge. As this being a big investment, the risk has been generally spread out. What is more important is the need to ensure the success of the project is being monitored closely by all.

And on to MAS. We had a few concerns which we raised at its AGM about two weeks ago. Amongst the issues raised included the collaboration with AirAsia, which appeared to be done in haste. Additional questions which MSWG put forth centred on board members newly appointed to undertake the restructuring exercise, which we

believe requires time and commitment.

The admission of Barclays to Libor rate rigging for profit was another issue that British financial sector has to contend with. This manipulation of the benchmark rates caused Barclays over 200 million pounds in fine, the CEO Bob Diamond's resignation along with some of its top executives as well as the payment of huge bonuses to the executives. There could be many more issues that could be uncovered including billions of dollars of lawsuits that is expected by the market which led to the shaving of the share price. The government announced a parliamentary inquiry on the UK banking industry. The culture of responsibility in British banking was being talked about.

On a separate matter, at the International Corporate Governance Network ("ICGN") conference held last week, issues discussed which I wish to highlight included:

1. Family-owned companies in the global arena
2. Governance of institutional investors
3. Future communication through Social Media

I. Family-owned companies is a phenomenon in emerging markets. It is an acceptable model in the emerging markets. Governance and conflict of interest, however, must be addressed. Equally good control, risk management and greater need for transparency are prerequisites for family-owned entities to flourish

driving performance.

II. Institutional investors need to also be cognisant on the importance of transparency and adopt best practices in its own operations in addition to driving performance in their investee companies.

III. Social media is the new order for companies to advance themselves. Transparency gets enhanced with social media. Senior management must embrace and be knowledgeable about social media.

The conference has provided the platform for Brazil to introduce Nova Mercado, which is an innovative approach of corporate governance. Representatives group themselves under Takeover and Merger Panel whose members consist of AMEC (MSWG's Equivalent) and Brazil's equivalent of Bursa Malaysia and Securities Commission. This model is one of the first in the world. More news about ICGN will be featured in the next newsletter.

Regards...

Rita

MSWG's Quick Take on Ongoing Corporate Transactions

SP SETIA

SP Setia, Sime Darby and Kwasa Jersey (a wholly-owned company of EPF) have formed a JV with equity stakes of 40:40:20, and officially announced the acquisition of the Battersea Power Station site in London for £400m. The purchase consideration is payable over two years, with a sum of £25m to be paid on the 2nd anniversary of the completion of the acquisition.

Apart from the land cost, the project development cost for the first two years is estimated at £200m. The additional £212m contribution for the underground network is likely to be incurred after the first two years. Additionally, the delivery of the station is still dependent on the funding contribution from the surrounding land/property owners.

MSWG's Comments:

Assuming a 50:50 debt/equity capital structure for the JV, SP Setia will need about RM600m to meet the funding commitment for the first two years. This can be met with internal funds and borrowings. Based on the latest balance sheet, if SP Setia is to gear up to 50% net, it would give a debt headroom of RM656m.

Genting

Has taken up a stake in Echo Entertainment Group in Australia.

The Edge weekly reported that Genting CEO Tan Sri Lim Kok Thay and his team are scheduled to hold talks with Australia's gaming regulators in Queensland and New South Wales, and the outcome of these meetings would shape Genting's corporate strategy for Echo, which could either culminate in a full-blown takeover or remain in a portfolio investment to be sold in future for a profit.

MSWG's Comments:

With Crown Ltd also seeking regulatory approval to raise its stake in Echo Entertainment to up to 25 per cent (from 10 per cent currently), as well as similar plans by the fund manager Perpetual to raise its stake in Echo to up to 15 per cent (from 3.7 per cent currently), this bidding war may not bode well for valuations.

Already, Echo is quickly turning into the most expensive casino targets for Genting since the financial crisis. Note that Genting is said to be meeting with Australian regulators this week to present its case to raise its stake above the 10 per cent mark.

On MSWG's Watchlist...

TRICUBES

Financially distressed Tricubes and ACE Market company continues to be in doldrums this week. Tricube share price nosedived on the news that its regularisation plan had been rejected by Bursa Malaysia. Tricubes share price was at its lowest ebb, down at 3 sen or 70% plunge from its earlier values. In spite of this, Tricube share remains one of the highest traded counters on the local stock exchange.

According to press reports, the reasons stated by Bursa for the rejection revolved around the inability of the Company to turn itself around on the concern of its dependence on the new businesses which it has proposed to venture and the difficulty of Tricubes breaking into the non-government and non-banking sector segments.

In response to Bursa's deliberation, Tricubes informed that it will make an appeal on the matter in due course.

MMC

MMC Corporation ("MMC") is in the news again this week. The Company has submitted a plan for the privatisation of Keretapi Tanah Melayu Berhad (KTMB) to the Government. MMC is currently undertaking a due diligence on the proposal which is expected to be completed by the end of the month. As quoted by Managing Director, Dato Hasni Harun, MMC is expected to submit an operational plan as well.

Local News and Developments

Bursa to focus on corporate governance

http://www.btimes.com.my/Current_News/BTIMES/articles/20120703135717/Article/index_html

Petronas Chafes at its Role as Piggy Bank

<http://www.theedgemaalaysia.com/highlights/216304-petronas-chafes-at-its-role-as-malaysias-piggy-bank.html>

NGOs too must be accountable and transparent

<http://www.freemalysiatoday.com/category/opinion/2012/07/05/ngos-too-must-be-accountable-and-transparent/>

Malaysia's IPO boom is one-off: Analysts

http://www.btimes.com.my/Current_News/BTIMES/articles/20120704113049/Article/index_html

Global News and Developments

Singapore: New Code of Corporate Governance puts responsibility for sustainability in the board room

http://csr-asia.com/weekly_detail.php?id=12707

Barclays: 'Extraordinary Volte Face'

<http://blogs.wsj.com/source/2012/07/03/barclays-volte-face/>

Banking Scandal Exposes Weak Corporate Governance

http://www.transparency.org/news/pressrelease/20120602_banking_scandal_exposes_weak_corporate_governance

UK corporate governance reforms

<http://www.efinancialnews.com/digest/2012-07-03/cable-urges-institutional-investors-to-play-activist-role-in-governance-reforms>

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Our mailing address is:

Minority Shareholder Watchdog Group
Tingkat 11, Bangunan KWSP,
No. 3, Changkat Raja Chulan, Off Jalan Raja Chulan
Kuala Lumpur, Wilayah Persekutuan 50200
Malaysia

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