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The Observer

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MESSAGE FROM THE CEO



The KLCI touched a record high of 1,597 points before profit-taking set in. Sentiment still seems buoyant.

Bear in mind that, as a trading nation, we are exposed to the vagaries of world markets - especially those that buy our furniture, electronics and palm oil. The broad consensus is that global market volatility will be around for some time; crude oil prices are inching upwards again, and inflationary pressures could still hit us.

The message to minority investors, again, is this: trade cautiously. Keep in mind that once the PM calls for elections and Parliament is dissolved, the market could take some beating, since nobody wants to be holding a position when the nation's leadership is being voted upon.

On the CG front, I should like to point out an interesting development on PNB's offer for SP Setia. The independent advisers, AmlInvestBank, have declared PNB's offer for shares as neither fair nor reasonable. In so doing, they recommend that SP Setia shareholders reject PNB's offer for shares. On the other hand, the independent advisers felt that the offer for SPSETIA warrants was unfair but reasonable after considering the uncertainty in the market and the warrants' time to maturity. See our writeup below for our analysis of the independent adviser's view.

We also have a couple of takeover offers under close watch. One of these is TSM Global, which has received a buyout offer from West River Capital Sdn Bhd, which is owned by its managing director Datuk Lim Kheng Yew.

Lastly, the unfolding developments at Silver Bird also warrant a close watch.

Best regards...

Rita Benoy Bushon

MSWG's Quick Take on Ongoing Corporate Transactions

S P Setia Berhad (SPSETIA): The independent adviser for the mandatory take-over offer of SPSETIA by Permodalan Nasional Berhad (PNB) and Tan Sri Liew Kee Sin (TSLKS) at the revised offer price of RM3.95 per SPSETIA share and RM0.96 per SPSETIA warrant recommends that the shareholders reject the share offer as it is deemed unfair and unreasonable, but accept the warrant offer as it is considered unfair but reasonable. The Board concurs with the independent adviser's opinion and recommendations.

Comment by MSWG: *The offerors have stated their intention to maintain the listing status of SPSETIA and thus, minority shareholders have the option of accepting the offer or staying invested in the company. As the exercise price of the warrant is RM2.99, and currently both SPSETIA and its warrant are traded very close to the offer prices of RM3.95 and RM0.96 respectively, it appears "cheaper" to buy the warrant than to purchase the mother share directly as an investor has the option of forking out less capital now and only paying the remaining amount (exercise price) later during the conversion of the warrants. Holders of the warrant may feel confused by the recommendations to reject the mother share offer but accept the warrant offer when the warrant offer appears to be less attractive than the share offer. It is more so when considering the following factors:*

1. *The warrant offer price represents a significant 52.24% discount to the warrant's intrinsic value of RM2.01 (i.e. the difference between SPSETIA's RNAV of RM5.00 and the warrant conversion amount of RM2.99 per warrant).*
2. *The calculation of the warrant's theoretical value using the Black-Scholes model was based on the share price of RM3.50 on 27 September 2011 instead of the offer price of RM3.95 or the current market price near RM3.95. Furthermore, the FBM KLCI and the Properties Index have appreciated significantly from the closing of 1364.20 and 834.48, respectively, on 27 September 2011.*
3. *The warrant gearing ratio of more than 4 times. Warrants usually command some premium as a leveraging tool.*

On MSWG's Watchlist

Silver Bird Group Berhad (SILVER): Doubtful payments for property refurbishments and machinery upgrades, unverifiable sales transactions, poor record-keeping; these are things that have been baking at the bread and confectionery maker. The company has announced that its subsidiaries were in default of banking facility repayments to their lenders, which included Bank Islam Malaysia Bhd, Malayan Banking Bhd, CIMB Bank Bhd, United Overseas Bank and RHB Bank Bhd. The poor record-keeping meant the directors were "not in a position to provide to Bursa Securities the solvency declaration statement within three market days from March 1". The directors said in the financial report for the financial year ended 31 October 2011 (FY11) that there might be bad debts and additional allowances that needed to be made for impairment losses on receivables. As a result of these, the company was designated as a PN17 counter on 29 February 2012 and the Group Managing Director, an Executive Director and the General Manager of Accounts & Finance were suspended from work on the same day.

TSM Global Berhad (TSM): The Company received a buyout offer from West River Capital Sdn Bhd (WRC) to acquire all its business and undertakings, including all assets and liabilities, for a cash consideration of RM159.23 million, or RM1.25 per share. WRC is owned by TSM managing director, Datuk Lim Kheng Yew (60%) and executive director, Lim Tze Thean (40%). Currently, the offeror holds a 28.07% equity stake in TSM.

Sector Review: Oil & Gas

For 2011, the average annual futures price for Brent was approximately USD111 per barrel. In January 2012, it hit a high of USD113.7 per barrel. WTI closed 2011 at an average of USD95.11 per barrel. Oil prices have been rising since the beginning of 2012, amidst uncertainty over oil supplies as a result of the West imposing economic sanctions on Iran. Iran has also threatened that it will close one of the most important shipping routes for oil if the West imposes more sanctions.

According to International Energy Agency's ("IEA") monthly oil market report on global oil demand and supply, non-OECD economies are envisaged to have strong demand growth while demand continues to fall across most of the OECD economies. In January, the IEA had cut its 2012 estimate for global oil demand, citing slower economic growth.

On the local front, PETRONAS has withdrawn from a consortium exploring Indonesia's East Natuna project, Asia's biggest untapped gas reserve.

(Sources: [International Energy Agency](#); [Intercontinental Exchange](#); [Bloomberg News](#); [BBC News](#); [The Star Online](#)).

Local News and Developments

[Women need visibility to climb corporate ladder](#)

<http://www.thesundaily.my/news/314015>

[Bursa Malaysia wants to see more foreign companies listed](#)

http://themalaysianreserve.com/main/index.php?option=com_content&view=article&id=1295:bursa-malaysia-wants-to-see-more-foreign-companies-listed&catid=36:corporate-malaysia&Itemid=120

Global News and Developments

[FSC sets high bar on superannuation corporate governance](#)

<http://www.moneymanagement.com.au/news/retirement-and-superannuation/2012/fsc-sets-high-bar-on-superannuation-corporate-gove>

[Time to regulate diversity in the boardroom?](#)

http://www.theglobeandmail.com/news/opinions/opinion/time-to-regulate-diversity-in-the-boardroom/article2360660/?utm_medium=Feeds%3A%20RSS%2FAtom&utm_source=Opinions&utm_content=2360660

[Consumerism fostering corporate frauds: E&Y survey](#)

<http://www.moneylife.in/article/consumerism-fostering-corporate-frauds-ey-survey/24097.html>

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