

MSWG**MINORITY SHAREHOLDER WATCHDOG GROUP****Badan Pengawas Pemegang Saham Minoriti Berhad**

Incorporated in Malaysia * Company No. 524898-M

The Observer

MESSAGE FROM THE CEO



In this holiday shortened week, we saw IOI Properties Bhd returned to Bursa Malaysia, gaining as much as 42% over its reference price of RM2.51. Its price performance indicates the value of the company and offers proof that we were right to pressure the company to offer minority shareholders more time to subscribe for the restricted offer shares (ROS).

Although IOI said it had gone by the book and fulfilled the regulation imposed of five working days, the ROS was nevertheless during the festive Christmas and New Year period, when postal services were delayed and many workers were on leave. The company did finally allow further four working days for shareholders to file their applications, allowing them to benefit from this positive share price performance.

On the issue for tenure of the independence of independent non-executive directors (INEDs), we still encounter companies in our recent AGMs seeking approval from shareholders for re-election of INEDs who served 44 years and 45 years. We hope to see either they are re-designated or retire in line with the recommendations of the Code of CG.

The recent findings of our Malaysia-ASEAN CG Report (2013) indicated just 12, or a mere two percent of companies in our survey have adopted the 9-year term limit. Nonetheless, we hope that more companies will adopt this measure, which was introduced to the Code in March 2012.

We have also seen a resubmission by 7-Eleven Holdings Bhd (formerly known as Seven Convenience Bhd) of its draft initial public offering (IPO) prospectus to the Securities Commission, following its rejection in November last year, reportedly over concerns that its shares were too highly priced.

While the funds it expects to raise this time around is believed to be lower than the RM700 million it earlier reportedly sought, we hope the company has adequately addressed the regulators' earlier concerns, particularly regarding its rich valuation.

On the macro front, there remains concern over the country's fiscal position, with Fitch Ratings maintaining its negative outlook on Malaysia, because of the 'twin risks' of a current account and fiscal deficit.

Also I wish to highlight that SC and MSWG have issued a joint Consultation Paper on the Malaysian Code For Institutional Investors 2014 (Code) (See 'Market and Regulatory Update' for more details) seeking public feedback. The formulation of the Code is in line with the recommendations of the CG Blueprint

2011 to promote stewardship responsibilities of institutional investors. A *Steering Committee for the Development of an Institutional Investors Code for Malaysia* (Steering Committee) was formed in July 2013 to undertake the formulation of the draft Code spearheaded by MSWG. Members of the Steering Committee comprised CEOs and key representatives from the institutional investor fraternity in Malaysia namely Kumpulan Wang Simpanan Pekerja, Permodalan Nasional Berhad, Kumpulan Wang Persaraan (Diperbadankan), Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, Pertubuhan Keselamatan Sosial, Malaysian Association of Asset Managers, Malaysian Takaful Association, Private Pension Administrator and MSWG.

The joint consultation paper is available at the SC (www.sc.com.my) and MSWG (www.mswg.org.my) website. Members of the public are invited to e-mail written comments on the Code to mcii@mswg.org.my by **28 February 2014**.

Regards,

Rita

FORUM ON PRIVATISATION

MSWG will be holding a forum to discuss pertinent issues related to recent privatisation exercises due to requests by minority shareholders. The forum will be held at MSWG's Training Centre on **Thursday, 23 January 2014 at 10.30 a.m.**

MSWG IN THE NEWS

SC, MSWG ISSUE CONSULTATION PAPER ON CODE FOR INSTITUTIONAL INVESTORS

<http://www.theedgemaalaysia.com/business-news/271479-sc-mswg-issue-consultation-paper-on-code-for-institutional-investors.html>

MARKET AND REGULATORY UPDATE

JOINT PUBLIC CONSULTATION PAPER NO. 1/2014 ON THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS 2014

The SC and MSWG have issued a joint consultation paper No.1/2014 on 15 January 2014 seeking public feedback on the Malaysian Code for Institutional Investors 2014 (Code).

As mentioned earlier, the formulation of a new code for institutional investors is in line with the recommendations of the Corporate Governance Blueprint 2011 launched by the SC in July 2011. This is also in line with global governance developments to promote responsible investment by institutional investors. As major players in the global economy, institutional investors can exert significant influence over their investee companies due to the substantial stake they hold. This clout provides them with an opportunity to encourage good governance and appropriate behaviour by their investee companies.

Thus the Code is intended to give institutional investors guidance on effective exercise of stewardship responsibilities to ensure delivery of sustainable long-term value to their ultimate beneficiaries and clients.

The Code sets out eight (8) key principles of effective stewardship by institutional investors, followed by guidance to help institutional investors understand and implement the principles. The Code applies to institutional investors, including their service providers in the investment chain. In this regard, institutional investors means asset owners and asset managers with equity holdings in Malaysian listed companies.

The eight (8) key principles set out in the Code are as follows:-

- i. Institutional investors should disclose the policies on their stewardship responsibilities.
- ii. Institutional investors should monitor their investee companies.
- iii. Institutional investors should engage with investee companies as appropriate.
- iv. Institutional investors should adopt a robust policy on managing conflicts of interest which should be publicly disclosed.
- v. Institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process.
- vi. Institutional investors should publish a voting policy.
- vii. Institutional investors should consider acting collectively with other investors where appropriate.
- viii. Institutional investors should engage in the development of relevant policies and best practices.

Members of the public are invited to provide their comments on the Code by 28 February 2014.

CH'NG CHARGED WITH INSIDER TRADING

The former CEO of Malaysia Pacific Corporation Bhd (“MPAC”), Datuk Bill Ch’ng Chong Poh was charged by the Securities Commission on 10 January 2014 with 58 counts of insider trading in the company’s shares between 14 May 2008 and 20 August 2008. The charges preferred against Ch’ng were for offences under Section 188 (2) of the Capital Markets and Services Act 2007.

According to the SC, Ch’ng had allegedly acquired the shares ahead of entering into a multi-million ringgit joint-venture project between Oriental Pearl City Properties Sdn Bhd, a wholly-owned subsidiary of MPAC, and Amanahraya Development Sdn Bhd, a unit of Amanah Raya Bhd, to undertake and manage several projects in Iskandar Malaysia.

The offences carry a punishment of mandatory imprisonment not exceeding 10 years and a fine of not less than RM1 million.

MSWG's QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

PADIBERAS NASIONAL BERHAD (“BERNAS”)

The Independent Adviser (“IA”), Kenanga Investment Bank had expressed the view that the terms of the Proposed Delisting and Proposed Exit Offer were fair and reasonable and had, in the Independent Advice Circular (“IAC”) dated 6 January 2014 advised minority shareholders to vote in favour of the Proposed Delisting.

The IA highlighted that the public shareholding spread of Bernas was approximately 16.31% as at 31 October 2013, which represented a shortfall in the public shareholding spread of 8.69%, and the offerors had stated that they did not intend to maintain the listing status of Bernas and take any steps to address any shortfall in the public shareholding spread requirement.

In addition, the offer price for the Proposed Exit Offer represents a premium over historical market prices, volume-weighted average market price, the average historical trading PER and PBR of Bernas.

MSWG's COMMENTS:

While the IA concluded that the Proposed Exit Offer RM3.70 for Bernas was deemed fair with a PER and PBR of 15.81 times and 1.58 times respectively, we have ourselves done a calculation of its fair value based on sum-of-parts (“SOP”) valuation model, incorporating the discounted-cash-flow (“DCF”) valuation methods too.

DCF is being used for 85% of Bernas’ revenue generated from the rice-division which depends on the concessionaire agreement and the forecast of growth can be obtained, while 15% of its revenue from investments in associate companies are valued with a 15x earnings multiple used by the IA. Subsequently, the valuations of rice division and investments in associate companies were aggregated to form the SOP value for the group.

The first assumption is on the discount rate for the DCF valuation which is derived based on Capital Asset Pricing Model (“CAPM”). With the CAPM, the discount rate for Bernas group would be approximately 8.5% as shown below:

Cost of Equity Calculation (R_e)	
Risk Free Rate (r_f)	4.14%
Target Beta	0.75
Expect Market Return (r_m)	9.93%
Equity Market Risk Premium ($r_m - r_f$)	5.79%
$R_e = r_f + \text{beta} * (r_m - r_f) =$	8.49%

The second assumption for DCF valuation is on the next 5-year annual free cash flow of equity (“FCFE”) based on maintainable weighted average growth rate method. Below is shown the forecasting of the future growth rate based on the past 6-year growth rates.

Financial Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
[A]: Growth Rate (%)	4.93	11.69	30.29	(2.67)	11.28	2.88	N.A.
Maintainable Growth Weightage Factor	1	2	(2)	3	4	5	15

Financial Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
[B]: Maintainable Growth Weightage (%)	= 1/15 = 6.7	= 2/15 = 13.3	- ⁽²⁾	= 3/15 = 20.0	= 4/15 = 26.7	= 5/15 = 33.3	= 15/15 = 100.0
[A] * [B]: Weighted Average Growth Rate (%)	= 4.93*6.7 = 0.33	= 11.69*13.3 = 1.56	- ⁽²⁾	= (11.69)*13.3 = (0.53)	= 11.69*13.3 = 3.01	= 11.69*13.3 = 1.64	= 5.32

Note:

(1) N.A. = Not Applicable

(2) The growth rate of 30.29% for FY 2009 was an outlier and would not be counted in for the maintainable growth weightage factor.

The last and also one of the most important assumptions of the DCF valuation is the perpetual growth rate for the terminal value in 6th year of the forecast determined to be 2% annually.

With the prudent assumptions of risk-adjusted discount rate, maintainable weighted average growth rate for next 5 years and 2% perpetual growth, the intrinsic value for the rice division is valued at approximately RM2.89 billion.

Financial Year	[A] Future FCFE (RM)	[B] Discounted Factor	[A] * [B] Discounted Cash Flows (RM)
2013	142,954,874.63	= 1/(1+8.49%) = 0.9218	131,769,866.25
2014	210,410,076.74	= 1/(1+8.49%) ² = 0.8496	178,772,538.50
2015	200,775,160.75	= 1/(1+8.49%) ³ = 0.7831	157,239,404.61
2016	202,699,833.31	= 1/(1+8.49%) ⁴ = 0.7219	146,326,146.66
2017	204,642,956.19	= 1/(1+8.49%) ⁵ = 0.6654	136,170,327.34
Terminal Value	= [(204,642,956.19)*(1+2%)]/[8.49%-2%] = 3,217,115,993.83	= 1/(1+8.49%) ⁵ = 0.6654	2,140,683,198.30
Total			2,890,961,481.66

The valuation for the investment in associate companies would be approximately RM312 million based on the assumption of 15x PER multiplied with the latest audited profit from associate of RM20.8 million as at FY 2012. To aggregate these valuations from both rice division and investments in associate companies, the estimated intrinsic value of Bernas would be **RM3.2 billion** or represents **RM6.13 per Bernas share**.

Using a set of variables such as 8.5% to 11.5% discount rate and at least 2% perpetual growth rate applied in our model as shown in the valuation matrix below, it indicates that the intrinsic value of Bernas ranges from RM4.18 to RM6.13, and hence the offer price of RM3.70 is below the lowest end of the range of the indicative valuation of RM4.18.

Valuation Matrix

		Perpetual Growth Rate (%)				
		1%	2%	3%	4%	5%
Discount Rate (%)	5.5%	9.21	11.43	15.45	24.81	71.64
	6.5%	7.52	8.88	11.03	14.89	23.91
	7.5%	6.35	7.26	8.58	10.64	14.37
	8.5%	5.49	6.13	7.01	8.28	10.27
	9.5%	4.84	5.31	5.93	6.78	8.00
	10.5%	4.32	4.68	5.14	5.74	6.55
	11.5%	3.90	4.18	4.53	4.97	5.55

Other than the quantitative assessment shown above, we also noticed the dividend track record where the company has been distributing consistent dividends, except for the year 2012 where the company was subject to the privatisation. We believe the future industry prospect of Bernas remains intact as the rice consumption in Malaysia should be in the uptrend due to our demography with young and growing population.

The Proposed Exit Offer of RM3.70 is not attractive enough based on our calculation of intrinsic value which we obtained in addition to the qualitative reasons on the dividends and future prospects of the company. Furthermore, MSWG is of the view that Bernas ought to remain listed and subject to public scrutiny. Nevertheless, disinterested shareholders should study the IAC properly and make informed decisions based on their respective risk-return profiles.

PERAK CORPORATION BERHAD (“PCB”)

Perbadanan Kemajuan Negeri Perak, the major shareholder of PCB which holds 52.27% of PCB, had on 6 January 2014 proposed to undertake a selective capital reduction and repayment exercise (“Proposed SCR”). The proposed plan would see PCB’s shareholders receiving RM188.7 million in cash or RM3.90 per PCB share, a premium of 22% above its five-day volume weighted average market price of RM3.21 as at 3 January 2014, its last trading day before being halted for the announcement. However, the offer is a 17% discount to the company’s net tangible assets of RM4.68 per PCB share as at 31 Dec 2012.

MSWG’s COMMENTS:

There was a group of minority shareholders who had expressed their views in several media that the offer price of RM3.90 for the Proposed SCR was unfair due to valuation of PCB’s landed properties and affected core assets which may fetch much higher value. We also noted that via the Chinese media, Nanyang Siang Pau, some minority shareholders may want MSWG to look into the matter. Pending any further developments, MSWG would like to urge the independent directors to ensure that a comprehensive valuation of all the landed properties and affected core assets be carried out by an independent valuer and if need be, a second opinion on the valuation be also sought for. Apart from the aforesaid valuation, proper and appropriate valuation methodologies most suited and reflective of PCB’s industry must be adopted to derive the intrinsic value of PCB to enable disinterested shareholders to make a better informed decision in whether to accept or reject the offer.

MSWG's WATCHLIST

CIMB GROUP HOLDINGS BERHAD ("CIMB")

CIMB had on 13 January 2014 announced that the group is undertaking a private placement of 500 million new ordinary CIMB shares at an issue price of RM7.10 each placement share, equivalent to a 2% discount to the volume weighted average price traded on 10 January 2014 of RM7.26. Total proceeds from the new issue will amount to RM3.55 billion. The new issues would lift CIMB Group's common equity tier 1 ratio as at 30 September 2013 from 8.2% to approximately 9.7%.

The CIMB's shares had been suspended from trading on 13 January 2014 and will resume trading on 15 January 2014.

KIAN JOO CAN FACTORY BERHAD ("KIAN JOO")

Kian Joo announced on 10 January 2014 that the Board had deliberated and agreed to accept the offer made by Aspire Insight Sdn Bhd ("AISB") on 26 November 2013 to acquire the entire business and undertaking including all of the assets and liabilities of the Company. AISB had on 26 November 2013 issued a letter of offer to the company proposing to acquire the entire business and undertaking including all of the assets and liabilities of Kian Joo for a cash consideration of approximate RM1.47 billion or RM3.30 per Kian Joo share.

LOCAL NEWS AND DEVELOPMENTS

Ex-MPAC CEO Charged With Insider Trading

<http://devel.malaysiandigest.com/business/484051-ex-mpac-ceo-charged-with-insider-trading.html>

Bursa Securities proposes enhancements to listing rules, seeks feedback

<http://www.thestar.com.my/Business/Business-News/2014/01/10/Bursa-Securities-proposes-enhancements-to-listing-rules-seeks-feedback/>

Affin Investment receives BNM's nod to acquire Hwang IB

<http://www.themalaymailonline.com/money/article/affin-investment-receives-bnms-nod-to-acquire-hwang-ib>

Fitch places M'sia on negative outlook, but says M'sia making progress

<http://www.thestar.com.my/Business/Business-News/2014/01/10/Fitch-places-Malaysia-on-negative-outlook/>

Ikea to open store in Batu Kawan, boost for mainland Penang

<http://www.theedgemaalaysia.com/political-news/270946-ikea-to-open-store-in-batu-kawan-boost-for-mainland-penang.html>

DRB-Hicom to go big in education, plans to upgrade college to varsity status

<http://www.thestar.com.my/Business/Business-News/2014/01/15/DRBHicom-to-go-big-in-education-Conglomerate-plans-to-upgrade-college-to-varsity-status/>

Glove makers want government to extend tax break

<http://www.btimes.com.my/articles/ra/Article/>

No more rebadging, says Proton

<http://www.thesunday.my/news/930628>

Prestariang sees 18.3m shares traded off-market

<http://www.thestar.com.my/Business/Business-News/2014/01/13/Prestariang-sees-18m-shares-traded-offmarket/>

7-Eleven IPO is back, but smaller?

<http://sg.finance.yahoo.com/news/7-eleven-ipo-back-smaller-015004430.html>

<http://www.sc.com.my/prospectus-exposure-7-eleven-malaysia-holdings-berhad/>

GLOBAL NEWS AND DEVELOPMENTS

World Bank Raises Growth Forecasts as Richest Nations Strengthen

<http://www.bloomberg.com/news/2014-01-15/world-bank-raises-growth-forecasts-as-richest-nations-strengthen.html>

General Motors to Pay First Dividend Since 2008

<http://online.wsj.com/news/articles/SB10001424052702304549504579321033946318214?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052702304549504579321033946318214.html>

Thai protesters target ministries, threaten stock exchange

<http://www.reuters.com/article/2014/01/14/us-thailand-protest-idUSBREA0B03C20140114>

Indonesia Bans Ore Exports in Push for Metal Smelting

<http://www.bloomberg.com/news/2014-01-13/indonesia-bans-ore-exports-in-compromise-push-for-smelting-1-.html>

China 'overtakes' US as world's largest goods trader

<http://www.bbc.co.uk/news/business-25678415>

Japan manufacturers fail to reap benefit of weaker yen

<http://www.ft.com/intl/cms/s/0/a528380e-7d0c-11e3-a579-00144feabdc0.html#axzz2qQaH5mvT>

Faber Sees 'Gigantic' Asset Bubble, Slowing Growth

<http://www.bloomberg.com/video/faber-sees-gigantic-asset-bubble-slowing-growth-O4LPyOs9SGmVjZXINc442Q.html>

'No bubble troubles' in stock market, declares Goldman Sachs

<http://www.cnbc.com/id/101327451>

Credit Suisse Tells Junior Employees To Go Ahead, Enjoy A Saturday On Us

<http://dealbreaker.com/2014/01/credit-suisse-tells-junior-employees-to-go-ahead-enjoy-a-saturday-on-us/>

These 10 People Collectively Own 33 Million Acres, Or 1.5% Of All US Land

<http://www.zerohedge.com/news/2014-01-14/these-10-people-collectively-own-33-million-acres-or-15-all-us-land>

U.S. courts oppose reform proposals for secret surveillance court

<http://www.reuters.com/article/2014/01/14/us-usa-security-idUSBREA0D1LO20140114>

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DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter save for Kian Joo Can Factory Berhad.*
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Feedback

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

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