MINORITY SHAREHOLDER WATCHDOG GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

The Edge Financial Daily – Home Business – Wednesday, 5 October, 2011 **(Part 1)**

MSWG disagrees with S P Setia

Watchdog says shareholders must be consulted on Semenyih land deal

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PETALING JAYA: S P Setia Bhd will need to get the nod from shareholders for its recently proposed Semenyih land purchase in line with the current takeover and merger ruling, said a spokesman for the Minority Shareholder Watchdog Group (MSWG).

MSWG told *The Edge Financial Daily* that normally S P Setia would not need to seek shareholders' approval, but it is different when the transaction coincides with a conditional takeover offer.

Permodalan Nasional Bhd (PNB) launched a takeover bid for S P Setia last Wednesday at a price the latter views as "fundamentally undervaluing" the developer.

"As the land transaction is done at the same time as the mandatory general offer made by PNB, it means that S P Setia would need to obtain shareholders' approval, based on the Malaysian Code on Takeovers and Mergers 2010, via an ordinary resolution at an EGM.

"Under normal circumstances, S P Setia need not obtain the approval from shareholders as the percentage ratios of the transaction

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Liew meets with contractors and others on PNB takeover offer

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are below the threshold limit of 25% and it is a normal cause of its property business," a MSWG spokesman said in an email reply.

MSWG's view is contrary to S P Setia's statement on Monday, in which it said it does not need the go-ahead from shareholders for the purchase.

This means that S P Setia will need to get the nod from its major shareholders, including PNB, for the acquisition.

The question is whether PNB will approve the RM381 million transaction, especially if it has bigger plans to consolidate its property holdings.

Analysts have estimated PNB's property holdings, if merged, would make it become the country's largest property firm.

"In the event that PNB accumulates [S P Setia] shares and breaches the 50% threshold, it can throw a spanner in the works if it disagrees with the deal, especially if it has other plans for that amount of cash," speculated an observer.

As at last Wednesday, PNB owned a 33.166% stake in the property developer and has not stopped accumulating S P Setia shares over the past three trading days.

It is worth noting that the fund could easily achieve the 50% threshold if the Employees Provident Fund and Kumpulan Wang Persaraan, which collectively control a 18.42% stake in S P Setia, accept the offer. It is PNB's intention to keep S P Setia listed.

S P Setia founder and boss Tan Sri Liew Kee Sin has met with the company's contractors, suppliers and employees over the last two days to address some of the concerns that have surfaced following PNB's takeover bid.

Sources said among the top concerns of S P Setia employees is their entitlement to Esos (employee share option scheme) shares. In response, Liew said it is up to them whether to sell their shares.

During an emotional meeting with the staff yesterday, Liew was asked whether he would exit the company.

"Liew told his staff that it is not their battle to fight but it is his, as the battle is at the shareholders' and the senior management level. Liew said business must go on," said a source.

Liew is expected to have similar meetings with S P Setia employees in the northern and southern regions this week.

RHB Research, meanwhile, said all eyes are on Liew, on whether he will accept PNB's takeover offer of RM3.90 per share and 91 sen per warrant.

"There [have been] no indications on his moves. Looking at the share price performance, the market could be betting on a competing offer.

"Nevertheless, until a competing offer is announced, we continue to advise investors to accept PNB's offer at RM3.90," the house said.

OSK noted that PNB's offer is the only catalyst keeping S P Setia's share price up, given that other property counters have seen a major downward revision in volatile market conditions. It did not, however, rule out the possibility that PNB would raise its offer price.

However, an analyst said while the acquisition (of the Semenyih land) by S P Setia can be viewed as a way to increase the real net asset value (RNAV) of the developer, it would do little to achieve a better takeover offer from PNB.

"It is possible that the purchase [of the Semenyih land] is to support the share price of S P Setia. But deriving a better price from PNB is tough given that the fund is already

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buying [S P Setia] shares from the market (hence, limiting further upside)," said the analyst.

Be that as it may, analysts are generally positive on the Semenyih land deal, particularly in terms of valuation.

A MIDF property analyst said the purchase is timely for S P Setia, which needs to replenish its landbank, against the backdrop of depressed valuations.

"Two months ago S P Setia bought a piece of land in Beranang, which is located nearby. This Semenyih acquisition can provide economies of scale especially on infrastructure [spending]," he said.

Interestingly, the purchase consideration for the Semenyih land of RM13 psf was about 70% higher than the price S P Setia paid for the Beranang land just two months ago.

It had proposed to buy the Beranang Land from Ban Guan Hin Realty Sdn Bhd for RM7.50 per sq ft or RM330.13 million against RM381 million for the Semenyih land.

An analyst said the acquisition was done at a fair price, given that the purchase price translates into less than 10% of the entire gross development value (GDV) of the project of RM4 billion.

"This compares to other projects where the general rule of thumb is that land cost accounts for at least 15% of your GDV," he said.

Additionally, OSK Research said at RM13 psf, the acquisition price is fair and comparable with the RM13.30 psf paid by UEM Land to acquire 463.51 acres in Semenyih last December.

RHB Research said the higher price could also be due to its close proximity to the LEKAS highway.

Analysts are already speculating that the development of the Semenyih land will replicate the developer's flagship projects: Setia Eco and Setia Alam, especially given that the collective size of the Semenyih (673.2 acres) and Beranang (1,011 acres) land is nearly as big as Setia Alam's 2,290 acres and Setia Eco Park's 798 acres.

AmResearch, for one, estimated that S P Setia could yield a decent margin of about 20% from the Semenyih project, based on a breakeven cost of RM206 psf and a conservative selling price of RM250 psf.

"It is net asset value-accretive; we estimate the new landbank, together with other land it has recently acquired, such as Beranang and St Kilda, will boost its net asset value by 8% to RM5.85 per share," it said.

MSWG said the purchase of the Semenyih land and its Beranang acquisition are not comparable (in terms of pricing) as the category of land use of the former is "building" and "industrial" whereas the land use of the latter is "agricultural".

S P Setia had said no valuation was carried out on the Semenyih land given its "knowledge of the market value of properties around the area".