

# MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Company No. 524989-M)

The Star – StarBiz– Thursday, 8 September, 2011

## Sime-E&O deal – what about minority shareholders?



### Comment

RITA BENOY  
BUSHON

SIME Darby had on Aug 27 announced its intention to acquire 273 million Eastern & Oriental Bhd (E&O) shares and 60 million irredeemable convertible secured loan stocks (ICSLS) in E&O, which, on a fully diluted basis, amounts to a roughly 30% equity interest in this niche property developer.

Sime offered RM2.30 for each E&O share, or a total of RM766mil ringgit for the block, with the sale shares coming from just three main groups: Datuk Terry Tham Ka Hon, E&O's managing director, Singapore-listed GK Goh Holding Ltd and a group led by Tan Sri Wan Azmi Wan Hamzah, formerly of Land and General Bhd.

Sime has cited its reasons for the acquisition as being "aligned with its strategic direction to extend its presence in the property development and hospitality sectors, beyond the Greater KL region, spe-

cifically in Penang and Johor."

Will there be a mandatory general offer (MGO) for the rest of E&O's shares, since the combined block passing to Sime does not cross the necessary quantitative 33% threshold for it to take place, is a question which is being asked in corporate circles.

According to the Mergers and Acquisition Code, in instances where a party buying stakes of between 20% and under 33%, there can be deemed to have been created a situation triggering an MGO.

These instances are laid out in Practice Note 9 of the Malaysian Code on Take-overs and Mergers 2010 and largely involve situations where there is some arrangement between the vendor of the block of shares and the new buyer on how they are going to vote on company decisions, the ability of the acquirer to exercise control of the retained voting shares and the consideration.

Our analysis is as follows.

With 30%, normally companies would be able to have effective control when there is fragmented shareholdings.

The vendors are selling only part of their shares and will have still 11.5% left among them.

The biggest owner, Tham, who owns 15.7%, will still end up with a 5.1% stake post-acquisition dilution.

A 60% premium is being paid, which is not something that can be scoffed at.

Where does this leave the minority shareholders? Is it fair to them?

We believe that in the circumstances, the Securities Commission should investigate whether the other conditions for an MGO have been fulfilled.

And what of Sime's minority shareholders?

Arguably, does Sime really need E&O all that much at that price?

Much has been made of the mega-merger that integrated the property arms of the former Golden Hope Plantations Bhd, Kumpulan Guthrie Bhd and Sime Darby Bhd, which has given the group a massive and undeveloped landbank of 37,000 acres, as well as 126,000 acres in Sime Darby Vision Valley.

With this massive amount of land on tap, Sime Darby Property's

gross development value now stands at RM30bil.

This purchase is one of the biggest developments since its leadership change, and as a leading government-linked company (GLC) which seeks to practice good corporate governance, an arguably more beneficial deal to all parties could have been proposed.

The main sore point is the offer price which amounts to 19 times E&O's forecast earnings for 2012 and 1.85 times its price-to-book value, where by comparison, the property sector has an average of 12 times forecast earnings for 2012 and 0.8 times price to book value.

Yes, the premium could be partially justified since it is a controlling block, but with a mere 30% stake, the extent of earnings contribution accruing to Sime is merely at the equity-accounting level as an associate, or a mere 0.6% increase to Sime Darby's profits in 2012 and 2013.

So soon after reeling from its recent billion-ringgit losses in its energy division, it is hoped that the board had undertaken all due diligence in this deal.