MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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

The Star – Starbiz – Friday, 1 June, 2012 **(C)**

Mixed views on YHSM privatisation proposal

By **DALJIT DHESI**
daljit@thestar.com.my

PETALING JAYA: Market observers have mixed views as to whether the proposed privatisation of Yeo Hiap Seng (M) Bhd (YHSM) by its parent, Yeo Hiap Seng Pte Ltd (YHSPL), at RM3.60 per share is a fair deal.

Analysts generally feel that although the price of RM3.60 is slightly below the fair value mark, nonetheless it is deemed fair. On the other hand, the Minority Shareholder Watchdog Group (MSWG) thinks it is on the lower side.

AmResearch analyst Low Soo Fang said the offer price for the privatisation was 7.6% below the brokerage's fair value of RM3.90 per share, adding that although it was a small discount to its fair value, the proposed offer price was deemed to be fair.

Based on recent merger and acquisitions (M&A) deals, she said YHSM's implied valuation appeared to be more attractive than its consumer peers. "YHSM's trailing price earnings (PE) of 25.7 times (based on financial year 2011's (FY 11) core earnings per share (EPS) of 14 sen per share) is higher than the proposed privatisation of KFC Holdings Bhd at 22 times PE ratio, as well as the disposal of bottler Permanis Sdn Bhd by CI Holdings Bhd to Asahi Group Holdings Ltd at 24.7 times back in July 2011," Low said.

She said although the offer price was slightly below the research outfits' fair value, nevertheless the offer price represented a premium of 18% based on its five-day volume-weighted average price (VWAP) of RM3.04 per share, after adjusting for a final dividend of 9 sen per share (less 25% tax) payable on July 9.

YHSPL has proposed to privatise its 61.15%-owned subsidiary YHSM for RM3.60 a share via a selective capital reduction and repayment exercise. The proposed corporate exercise would result in a total capital repayment of RM213.6mil. This translates into a cash of RM3.60 per YHSM share.

The takeover would involve cancelling YHSM shares, on the basis of one YHSM share cancelled for every RM1 paid by it to entitled shareholders as capital repayment. The company's (YHSM) paid-up share capital is RM152.70mil, comprising 152.7 million RM1 shares.

As the privatisation would involve the cancellation of 213.57 million shares, which was higher than the company's existing share base, a bonus issue of up to 61.87 million shares in YHSM might be proposed to increase its paid-up share capital to a level which was sufficient for the capital reduction. Upon completion of the exercise, YHSPL would own 100% equity in YHSM.

Since the method of privatisation is via a selective capital reduction, non-interested minority shareholders would have to vote on the buyout and that 75% of their votes would be needed for the deal to go through.

> **... in the short term, there might be some operational risks.**
>
> – ANALYST

At the offer price of RM3.60 per share, AmResearch said this valued the group at an FY12 forecast PE of 20 times based on its forecast, and an implied price to book (P/B) of 2 times based on its net tangible asset (NTA) of RM1.80 per share as at the first quarter of FY12.

An analyst with an investment bank told *StarBiz* that he felt the offer was fair and minority shareholders should take the offer as YHSM was planning to expand its operations into Indonesia by opening up a bottling plant.

This was because, he said, "though it would put the company on a stronger footing in the food and beverage (F&B) business and generate higher earnings but, in the short term, there might be some operational risks."

The analyst also said the proposed privatisation was something not new as the group had made known its intention to focus on the F&B business and could exit from the property business as the former was resilient and not much affected by the global economic cycles unlike the latter, which though had high margins but was volatile.

Meanwhile, MSWG CEO Rita Benoy Bushon cited several factors to support the view that the offer price was on the lower side.

She said Permanis was sold to Asahi for RM820mil which is equivalent to a Permanis' PER of 25.73 times and price to book ratio (PBR) of 8.54 times. The valuation of YHSM was RM549.72mil (total paid-up minus treasury share), which was RM270mil lower than Asahi's offer.

YHSM's valuation was equivalent to a PER of 22.5 times and PBR of 2.08 times, she said, adding that the industry averages for PER and PBR were 11.22 times and 1.68 times respectively around the time of Permanis sale in October 2011.

She said the premium paid for Permanis was attributable to its extensive distribution network and felt YHSM too commanded a similarly strong distribution network given its long presence in the market since 1975.

Rita said YEO was a household name and established brand in Malaysia and, hence, there was a good captive market. The consolidation of factories from five to three, which would be completed by 2012, would save cost in terms of distribution and plant utilisation.

At the same time, she said, the company has zero borrowings and its dividend payment record had also been very good. Another bright spot was the company's venture into Indonesia, she noted.