The Observer

(MSWG will hold an investor forum titled *TA Global's 'PRIVATISATION': Implication to Minority Shareholders"* on Thursday, 27 February 2020 at MSWG Training Room, 11th Floor, Bangunan KWSP, No. 3, Changkat Raja Chulan Off Jalan Raja Chulan, 50200 Kuala Lumpur.

Interested please contact Sharon or Mages at 03-2070 9090, or email to mageswary@mswg.org.my or sharongoh@mswg.org.my by 25 February 2020 for registration purpose.)

21.02.2020

Fairer Offer Price for Minority Shareholders

Within a short span of two months in 2020, two companies listed on Bursa Malaysia are being taken 'private' by their controlling shareholders.

In January, property developer Amverton Berhad announced that it received an offer from Dalta Industries Sdn Bhd to buy the remaining shares it did not hold at RM1.20 per share. Dalta is the vehicle of Tan Sri Ng Boon Thong @ Ng Thian Hock.

Then this month, TA Enterprise Berhad announced its plan to 'privatise' TA Global Berhad via a voluntary takeover offer at 28 sen a share. TA Global is also a property development company. Strictly speaking, this is not a privatisation per se, as we understand it, because TA Global will be taken over by TA Enterprise - which is a listed company.

Both Dalta and TA Enterprise do not intend to maintain listing status of the targeted companies.

One cannot deny that the current broad market weaknesses and market sentiment may have prompted some majority owners of listed entities to privatise their listed vehicles. The founders or owners of these PLCs may have felt that the market was not giving their companies a fair value. Hence, lately, privatisation has been a popular move in the corporate scene.

In 2019 alone, there were more than 10 privatisation deals in the market (refer to table). Some of the deals were mandatary general offers (MGOs) with the intention of maintaining the listing status of targeted companies. There were also several deals which involved selective capital reduction (SCR) and voluntary takeover offer (VGO) to take the company private.

Recommendations from Independent Advisers (IA) and non-interested directors on exercises involving SCR and VGO were often "not fair but reasonable", but the IA advised the disinterested shareholders to vote in favour of the offer, especially when the intention of the offeror is not to maintain the listing status.

For such companies, the key concern of disinterested shareholders is whether the offer price is fair. If the offer price is lower than their cost of investment, they are in a catch-22 situation; either they sell off the shares (or take-up the offer) and stomach the losses, or hold onto the shares which will become shares of an unlisted entity, with the hope that perhaps one day, the company will go public again.

As for companies which failed to be taken private, there may be little incentive for them to address the shortfall in public shareholding spread, considering that their major shareholders are disinterested in keeping the listing status.

Consequently, these companies may seek extension after extension from Bursa Malaysia to meet the 'shareholder spread' requirement, while mopping up more shares from the open market. When the company has used-up all possible extension from Bursa to meet the 'shareholder spread' requirement, they may wait for Bursa to delist them or make another offer to privatise the company since the offeror will have a higher shareholding due to the 'mopping-up'.

MSWG fears that there will be a trend whereby companies, which typically have low price-to-book values and/or low share prices, will be privatised at very low offer prices on the premise that it is higher than the share price and thus offers an option for the shareholders to exit. But these offer prices are grossly below the estimated fair value based on the Independent Advisers valuation.

The offers are all done according to the prevailing rules, codes and Listing Requirements. What is needed is for the regulators to consider adopting the practice in Singapore where offers must be both 'fair and reasonable' before it comes to the table – if it is not, it is a non-starter.

Currently, an offer that is 'not fair but reasonable' can come with an 'accept' advise by the Independent Advisors and is open for shareholders acceptance.

The independent directors on the board must also fulfil their fiduciary duty by asking shareholders to reject offers that are not fair to the minority shareholders, who are often vulnerable because they do not have the shareholding-size.

Nevertheless, all is not lost for minority shareholders as they can always 'band together' to defeat the privatisation deal if an EGM is called.

TA Enterprise and TA Global
The IA advice for TA Global is not available yet. For perspective, the offer price of 28 sen by TA Enterprise for TA Global is a 74.57% discount to TA Global's revised net asset value (RNAV) of RM1.10 per share (after including the revaluation surpluses).

It must be remembered that investors invest in TAG for the long-term as they understand that the property sector is a cyclical industry. Even if we offer a fire-sale discount of 25% for the RNAV of RM1.10, the fire-sale value is 82.5 sen – 194% higher than the offer price of 28 sen.

Shareholders may opt for cash or swap for shares in TA Enterprise at the issue price of 66.5 sen per share. To fund the takeover, TA Enterprise has entered a Share Subscription Agreement with its major shareholder and non-independent non-executive chairman Datuk Tony Tiah Thee Kian for him to subscribe up to 550.04 million new TA Enterprise shares at 66.5 sen each.

Currently, Tiah and the persons acting in concert hold 42.37% in TA Enterprise.

Subsequently, Tiah's grip on TA Enterprise will be further strengthened by the Share Subscription and take up of share exchange option due to his 10.13% direct interest in TA Global.

TA Enterprise's non-interested shareholders (who may not be the shareholders of TA Global) may view TA Enterprise's takeover of TA Global at 28 sen a share as a beneficial deal to them.

Nevertheless, TA Enterprise's non-interested shareholders must also take note that if they give the proposals a greenlight, a MGO may be triggered at the TA Enterprise's level and Tiah will be obligated to extend an offer to buy the remaining shares he does not hold in TA Enterprise at 66.5 sen per share.

There is no mention of Tiah's intention on TA Enterprise's listing status in the event such an MGO is triggered.

With the MGO, he may receive additional shares from some TA Enterprise's non-interested shareholders who may accept the offer. Tiah and his PAC's increased holding in TA Enterprise may then put him one step closer to privatising TA Enterprise, if that is his ultimate plan.

By the MSWG Team

Mergers and acquisitions in 2019 - 2020 (by alphabetical order)

Company	Offeror	Deal	Intention	Offer Price (RM)	Estimated fair value (RM)	(Discount)/ Premium	Independent Adviser (IA)	IA's advice	Non-interested directors' recommendation
Amverton Berhad	Dalta Industries Sdn Berhad	VGO	Taken private	1.20	3.79	(68.34%)	Kenanga Investment Bank	Not fair but reasonable, accept the offer	Not fair but reasonable, accept the offer
Cycle & Carriage Berhad	Jardine Cycle & Carriage Limited	SCR	Taken private	2.20	3.64	(39.56%)	Affin Hwang Investment Bank	Not fair but reasonable, vote in favour	Not fair but reasonable, vote in favour
Daibochi Berhad	Scientex Berhad	MGO	Maintain listing status	1.59	1.52 - 1.75	(8.09%) - 4.6%	UOB Kay Hian Securities	Fair and reasonable, accept the offer	Fair and reasonable, accept the offer
Kian Joo Can Factory Berhad	Can-One Bhd	MGO	Taken private	3.10	3.35	(7.46%)	UOB Kay Hian Securities	Not fair but reasonable, accept the offer	Not fair but reasonable, accept the offer
LTKM Berhad	Datuk Tan Kok & Family	VGO	Taken private	1.35	2.44 - 2.55	(44.67% - 47.06%)	Mercury Securities	Not fair but reasonable, accept the offer	Not fair but reasonable, accept the offer
MAA Group Berhad	Melewar Group	SCR	Taken private	1.10	1.86 - 2.08	(40.95 - 47.1%)	Mercury Securities	Not fair but reasonable, vote in favour	Not fair but reasonable, vote in favour
Malayan Cement Berhad (f.k.a Lafarge Malaysia Bhd)	YTL Cement Berhad	MGO	Maintain listing status	3.75	3.83 - 4.60	(2.2% - 18.5%)	AmInvestment Bank	Not fair and not reasonable, reject the offer	Not fair and not reasonable, reject the offer

Milux Corporation Berhad	Datuk Wira Ling Kah Chok & Asia Capital Fund Limited	MGO	Maintain listing status	0.80	0.94	(14.89%)	Inter-Pacific Securities	Not fair and not reasonable, reject the offer	Not fair and not reasonable, reject the offer
Mintye Berhad*	Yatee & Sons Sdn Bhd	SCR	Taken private	1.36	1.667 - 1.81	(18.42% - 24.86%)	KAF Investment Bank	Not fair but reasonable, vote in favour	Not fair but reasonable, vote in favour
Suiwah Corp Berhad	Hwang Family	SCR	Taken private	2.80	4.93 - 5.20	(43.20% - 46.15%)	Mercury Securities	Not fair but reasonable, vote in favour	Vote in favour
Tasek Corp Berhad**	HL Cement (Malaysia) Sdn Bhd	VGO	Taken private	5.80	5.11 - 5.33	3.19% - 7.63%	Mercury Securities	Fair and reasonable, accept the offer	Fair and reasonable, accept the offer
Yee Lee Corp Berhad	Dato Lim A Heng @ Lim Kok Cheong, Lim Ee Young, Dymon Asia Private Equity	VGO	Taken private	2.33	3.42 - 3.93	(31.87% - 40.71%)	Affin Hwang Investment Bank	Not fair but reasonable, accept the offer	Not fair but reasonable, accept the offer
YTL Land and Development Berhad	YTL Corporation Berhad	SEO	Taken private	0.36	1.66	(78.31%)	Affin Hwang Investment Bank	Not fair but reasonable, accept the offer	Not fair but reasonable, accept the offer

Source: Bursa Malaysia

SCR = Selective capital reduction
MGO = Mandatary general offer
VGO = Voluntary takeover offer

SEO = Share exchange Offer
* Revision from RM1.30 to RM1.36
** Revision from RM5.50 to RM5.80, IA's advice based on RM5.50 per share

MSWG AGM/EGM Weekly Watch 24 February 2020 – 28 February 2020

Below are the AGMs/EGMs of companies that are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
26.02.20 (Wed) 10.00 am	EITA Resources Bhd (AGM)	The Company has performed well in the last five years with overseas venture and new High Voltage Systems business contributed significantly to the Group. The new business is expected to do as Malaysia progresses towards greater industrialisation.
26.02.20 (Wed) 10.30 am	Melati Ehsan Holdings Bhd (AGM)	Estimated Credit Losses allowance (ECL) charged for the financial year (RM557,985) is higher compared to the previous year's ECL charge of RM147,102. Is it recoverable?
26.02.20 (Wed) 11.30 am	Fiamma Holdings Bhd (AGM)	Contribution from property development increased by 25% y-o-y to RM60 million. Will the slowdown in property sector affect its performance?
27.02.20 (Thur) 09.30 am	WZ Satu Bhd (AGM)	Disputes in WCE & Rapid projects have affected the performance of the Company. Will the disputes be solved soon?
27.02.20 (Thur) 11.30 am	Hubline Bhd (AGM)	After registering two years of losses, the Group turn profitable in 2019. Without the one-off other income (Insurance Recovery of RM10 million) in 2019, will the Group's profitability remain sustainable, going forward?
27.02.20 (Thur) 02.00 pm	APB Resources Bhd (AGM)	The Company continues to face headwinds in fabrication industry with dwindling projects and margin squeeze from capex cut by oil and gas industry players.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
EITA Resources Bhd (AGM)	On Page 12 of the Chairman's Statement, it is also stated that for the financial year under review, the Group continues to focus on its Manufacturing business, especially in building its own brands such as EITA-Schneider® for Elevator Systems and Furutec® for Busduct Systems, with greater emphasis in growing its overseas markets. a) What is the total outstanding order book and how long would it last? b) What percentage of revenue is generated from the overseas markets? c) What specific achievements have been made with the foray into the overseas markets and the prospects and outlook?
Melati Ehsan Holdings Bhd (AGM)	The Group's property development project with the proposed name "ME City" in Petaling Jaya, Selangor is expected to commence in the first half of 2020 (Page 15 of the Annual Report 2019). a) What is the Gross Development Value of the ME City? b) What is the development project's targeted contribution to the Group revenue in the next three years?
Fiamma Holdings Bhd (AGM)	As at 30 September 2019, the Company had RM84.46 million of developed properties (page 91 of AR2019), of which RM63.31 million relates to properties with land titles pending issuance from the land office. When will the land titles be issued? Will the pending issuance of land title affect the sale of developed properties?
WZ Satu Bhd (AGM)	Civil Engineering and Construction (CEC) (Pages 12 & 144 of the Annual Report 2019) CEC segment's revenue decreased by 16% to RM235.5 million (previous year's revenue: RM241.7 million). However, loss before tax increased to RM76.1 million (previous year's loss before tax: RM22.3 million). The weak result was mainly due to the WCE project dispute, which led to a loss of project revenue recognition resulting in a negative impact to the segment's bottom line in FY2019. a) How will the Board strategise to address the decreased revenue and the increasing loss before tax and turn-around the performance of the CEC segment, moving forward?

	b) What is the prospect of achieving a favourable resolution of the WCE project dispute in FY2020?
Hubline Bhd (AGM)	1) The Group's recorded allowance for impairment losses is RM15.141 million of trade receivables for FY2019. (Note 9, page 98 of Annual Report). What are the measures taken to recover the receivables concerned? What is the amount recovered to-date? What is the amount expected to be recovered? 2) There was significant increase in employee benefits expenses amounting to RM12.3 million (2018: RM4.9 million) and in non-executive directors' remuneration amounting to RM0.5 million (2018: RM0.2 million) (Note 27, page 113 of AR2019). What are the major reasons for these increases?
APB Resources Bhd (AGM)	The fabrication industry has gone through very difficult times over the past few years with dwindling projects and margins squeeze resulting from continuous cuts in capital expenditure by the major players in the crude oil & gas and the petrochemical sectors. (Page14 of Annual Report) (a) What are the average margins achieved for the fabrication of crude oil & gas and the petrochemical sectors for FY 2018 and FY2019 for the Group? (b) Will the Group exit this segment in future and focus on other profitable segments?

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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.

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