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

The Star – StarBizWeek - Thursday, 10th May 2012

Regulatory conundrum?

Minorities are often the losers in the de-listing, re-listing game

Comment
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THE fact that a growing number of previously publicly traded companies are now seeking to re-enter the stock exchange have compelled me to revisit an issue I have often critiqued in the past: the de-listing and re-listing of companies on Bursa Malaysia.

In recent memory, Maxis Communications Bhd (privatised in 2007) and Bumi Armada Bhd (privatised in 2003) have both rejoined the stock exchange albeit in different forms, while Astro All Asia Networks plc (privatised in 2010) could be making a comeback. Meanwhile, Malakoff Bhd is also considering a re-listing.

While it is entirely within the legal framework to do so, a regulatory conundrum is presented when some major owners de-list their companies at very low valuations only to later re-list them at richer valuations. In such cases, the beneficiaries of these exercises are the corporate advisors and major owners, who profit from each change in direction.

And the losers are the minority shareholders, especially long term ones, who are bought out when the prices offered are low.

Malakoff, when delisted in May 2006, was estimated at RM8.8bil. It has since grown, securing several power projects here and overseas. Clearly, it was de-listed at a time when it was experiencing significant growth in its operations, which minorities were henceforth not privy to.

Bumi Armada was taken private with a price earning ratio (PE) of under four times on a forward earnings basis in 2003. After nearly a decade, it was re-listed last year at a PE of about 20 times despite more dilution due to an ESOS scheme.

Again: why were minority investors forced out at the time? Why were they not allowed to share in the growth story?

These are just two examples that demonstrate the gravity of our concern.

Fundamental investors buy counters for the long term, and plan accordingly. They willingly assume the risks in doing so (especially when a company is still finding its feet early on in its life) so that they may reap the benefits when the fruits later ripen.

But how are we to promote a mature capital market that is founded on the maxim of fundamentals and long term investing and sound corporate governance principles when corporate advisors are able to propose a cheap exit point and a lucrative re-entry point for company's majority owners?

SEGi is the target of a privatisation bid by Navis Capital Partners Ltd and Datuk Seri Clement Hii, who are the largest shareholders with a combined 60% stake. They are offering to buy out minorities at a significant discount to the stock's fair value and trading price.

Shouldn't there be a cooling-off period imposed before a company that had been taken private and de-listed is allowed to re-list and some conditions imposed if relisting is allowed, such as the price should not exceed the valuation price when the company was delisted.

Bursa Malaysia, which has often lamented the lack of equity market participation among the young, can take a cue from this. Surveys have revealed that only 12% of investors are in the 20-29 age group, while 59% involve those 40 years and above.

Warren Buffett (net worth US$44bil) bought his first stocks at age 11 – three shares in Cities Service Company, now known as CITGO – and continues to invest today, at age 81. If we are indeed seeking similar approaches among our young to buy stocks for the long term, why do we allow major owners to list and de-list their companies without imposing conditions?

We have already seen how disadvantageous the compulsory delisting rules are – when minimum public shareholding spread thresholds are crossed, minorities have no choice but to throw in the towel.

Surely the authorities are aware that this loophole using the threat of de-listing is being exploited to the detriment of the minorities? Clearly, this loophole must be closed.

As I have often remarked, central to our concerns are the valuations offered. Time and again, we have seen the take-over offers priced at a level which is as near as meaningless to the minority shareholder, especially after some have profited from speculative rises in the counter. Such activity penalises the minority investor, because his or her upside has every potential of being capped while the downside risk remains in its entirety.

On a related issue, SEG International Bhd (SEGi) is the target of a privatisation bid by Navis Capital Partners Ltd and Datuk Seri Clement Hii, who are the largest shareholders with a combined 60% stake.

They are offering to buy out minorities at a significant discount to the stock's fair value and trading price, with the intention of growing SEGi into a regional player.

Is this yet another case of a major owner and its partners muscling out the minorities from a profitable long term future?

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