MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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

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Shareholders told to exercise rights wisely

Comment

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THE end of March saw the completion of ExxonMobil International Holdings Inc's disposal of its 65% stake in Esso Malaysia Bhd to San Miguel Corp. What now remains is San Miguel's obligation of extending a mandatory takeover offer (MGO) for the remaining 35% (or 94.50 million shares) of Esso to minority shareholders.

Here is where the issue becomes a little thorny.

We feel that the stated offer price of RM3.59 for each Esso share is neither fair nor reasonable to minority shareholders, and offers them insufficient recompense.

Here are our reasons:

In valuation terms, the offer values Esso at a mere 6.3 times earnings, which is a significant (and unfair) discount to its other listed peers. For example, its much larger rival, Petronas Dagangan Bhd, trades at 21.5 times earnings, while the entire market trades at around 17 times earnings.

Granted, Petronas Dagangan is a much heavier stock (RM18bil in market capitalisation compared with Esso's RM964mil) and hence a much more liquid stock. And yes, with a free float of just 94.5 million shares there has not been much liquidity.

But is this discount fair? Doubling the valuation to 13 times earnings will still see Esso trade at a more-justifiable 30% discount to Petronas Dagangan, which would then value Esso at around RM7.20-per-share.

Among the defences being cited of the current offer price are the heavy capex needs San Miguel will have to incur in the coming months and years to build out the business. As we know, San Miguel is buying not just the listed Esso Malaysia entity, but also two unlisted companies – ExxonMobil Borneo Sdn Bhd from ExxonMobil, and ExxonMobil Malaysia Sdn Bhd from Mobil International Petroleum Corp, for a total of US$404mil.

Consequently, San Miguel has said much of the capex spending would finance an upgrade of the Port Dickson refinery so that it can make use of a wider variety of crudes and produce higher-value products. Conceivably, there would also be significant expenditure on a number of the 560 retail stations Exxon owns in Malaysia, and perhaps some upgrading work on the seven fuel distribution terminals soon to be under its possession as well.

Our response to the issue of capex spend is this: there are a multitude of options to raise this necessary funding. It need not solely come from the majority shareholder. Spending to upgrade existing infrastructure, plants and machinery is also earnings accretive, and positive for the long-term health of the company.

As San Miguel's chief operating officer Ramon S. Ang has said, Esso is attractive "given that there is plenty of room to move up the value chain by upgrading refinery capabilities." Hence, spending on the future of the business is hardly a reason to depress the buyout price.

We note that chairman and executive director Hugh Thompson has resigned from his posts following ExxonMobil's exit. And that Ang, who is the chairman and chief executive officer of (the buying entity) Petron Corp, has been appointed as executive director.

I would urge the independent directors on the board, whom we understand from the recent AGM, were not involved nor aware of the sale which was done between shareholders, to act in the best interests of the minority shareholders.

More so, since Esso has said it is not seeking other takeover offers.

I should also like to highlight another point raised by the offerors: that shares of Esso Malaysia had been trading in the RM2.40-RM3 range as recently as 2010, and that its offer is hence acceptable on that basis. However, I should like to point out that this is a direct consequence of its low free float and market value, which has artificially depressed its share value.

For the MGO, only 35% of the company owners who are fragmented minorities can make a decision to give in their shares in this offer as San Miguel already owns 65% of the shares. Having said that, there could some shareholders from this highly fragmented segment whose entry price is sufficiently low to see value in this current offer.

In order to de-list the company, San Miguel needs to hold 90% of the total paid-up capital, thus an acceptance levels of 25% from these minorities will be needed which may not be easy if the minorities are unhappy as regards the offer price.

And in order for San Miguel to compulsorily acquire the rest of the shares it does not already own, it requires a much higher threshold of acceptance which is 90% of the 35% that it does not own which totals to 96.5% of paid-up capital. This draconian acquisition, whether you like it or not, will go through only if we minorities allow it.

And so exercise you rights wisely.

● *Rita Benoy Bushon is chief executive officer of Minority Shareholder Watchdog Group*