

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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

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TSM Global privatisation via acquisition of assets and liabilities



Comment
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PRIVATISATION via the acquisition of assets and liabilities route, despite the revision of the Listing Requirements (LR) on the shareholders' approval threshold, from 50% to 75% by the Securities Commission and Bursa Malaysia on Jan 28, 2011 has not appeared to have dwindled. Neither has its success rate been reduced.

One more new case is TSM Global Bhd (TSM) where the company had on Feb 28 received an offer from its major shareholders via a special purpose vehicle, West River Capital Sdn Bhd, to buy all the assets and liabilities of the company for an aggregate consideration of RM159.2mil or equivalent to RM1.25 per ordinary share of RM1 each in the company.

The major shareholders collectively holds 35.7 million TSM shares, representing 28.1% equity interest in TSM. The offeror had given

the board until March 13 to decide on the proposal.

Interestingly, pursuant to the board's request, the offeror vide its letter dated March 13, agreed to extend the Offer acceptance deadline from March 13 to April 6. The offeror did not agree to the board's request to improve the offer terms including price. The board had also resolved to consider any other credible offers received by April 2.

TSM is a leading domestic wiring harnesses manufacturer with major customers including Perodua, Toyota and Honda. Wiring harnesses are the key components of automotive wiring system which acts as the "bloodstream" of the car's electronic devices. Quality is the central issue and given its current clientele, it seems that TSM has secured a name for its product quality.

To back-track, TSM had on Dec 22 last year announced their third quarter results showing a loss of RM16.8mil for the first time in the previous five years, compared to the precedent year corresponding quarter profit of RM12.8mil.

The loss was attributed to the loss on liq-

uidation of discontinued operation of one of its subsidiaries – Kenseisha (M) Sdn Bhd (KM) amounting to RM31.8mil. KM suffered a fatal blow following the disruption in the global supply chain and resulting loss of business from its major customers caused by the earthquake and tsunami in Japan.

The company expected some recovery from the liquidation process but the amount is still not quantifiable. Could it reverse the losses booked?

It is also noted that TSM has cash of RM91.4mil while its short-term investment, mainly quoted securities – Integrax Bhd – amounted to RM41.1mil (at the time of reporting). TSM thus has a ready liquid cash amount of RM132mil or RM1.04 cash per share. Netting off the company's borrowings of RM19.3mil, there would still be net cash of RM112.7mil or RM0.88 per share.

The 2011 annual report showed that group revenue had grown at a commendable compound annual growth rate of 16.6% for the past five years while net profit attributable to owners chalked up an impressive 27.1% rate. Net assets per share as at end of FY 2011 was

RM1.54 and gearing ratio was 0.21 time.

The company has been generating strong free cash flows of RM30mil to RM40mil a year. The offer price of RM159mil valued TSM at previous year's PE of only 2.9 times. MSWG also noted that the adjusted share price of TSM, even after ex-bonus issue of 1:1, from Jan 5, 2011 till mid-2011, had hovered above RM1.25, and reached as high as RM2.

It looks like the the loss from the liquidation of KM was one-off and there could be a recovery from this liquidation.

Arising from Bank Negara's restrictive auto financing guidelines, there could be some setback, albeit temporary.

In view of the aforesaid positive factors and coupled with the company's good market share and bright prospects, we also expect the board to look into these considerations when tabling the proposal to privatise TSM via the asset-liability route whether it is to the interest of all non-interested shareholders.

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