MINORITY SHAREHOLDERS WATCH GROUP
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Pros and cons in Eversendai's Vahana buy

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STEEL structure and civil construction firm Eversendai Corp Bhd finally inked the sale agreement this week for the significant related party transaction it had first announced in February.

The deal entails Eversendai purchasing Vahana Offshore (M) Sdn Bhd via the issuance of new redeemable convertible preference shares (RCPS) at a price of RM235mil.

Vahana has two liftboat vessels, one of which is operating and chartered in Saudi Arabia waters, for five years ending June 2025.

The second vessel is being built and has already secured a five-year charter that is expected to commence in July 2021 until July 2026.

However the price tag of RM235mil works out to an earnings multiple of close to 50 times Vahana's earnings.

In financial year 2019 (FY19), Vahana posted a profit after tax of RM4.9mil.

Eversendai's filings also show that Vahana has liabilities of RM708.9mil, which will be absorbed by Eversendai following this acquisition.

So, why is this deal good for minority shareholders of Eversendai?

According to Eversendai founder Tan Sri AK Nathan, the price-earnings (PE) calculation for the deal does not give the full picture of the value of the assets.

This is because Vahana's FY19 earnings are based on the contributions of only one vessel, namely *Vahana Aryan*.

The other vessel *Vahana Arjun* will only be built by June 2021.

AK Nathan, who is also the executive chairman and group managing director, adds that the price tag is actually lower than what the independent valuer estimated.

"In the preliminary views, independent valuer BDO assessed the purchase price to be fair, based on the preliminary indicative equity value of Vahana Offshore, which ranges between RM277mil and RM317.4mil.

"These estimations were arrived at based on the discounted cash flow model.

"As such, the purchase price is a further discount to RM235mil," he says.

Apart from that, AK Nathan says the acquisition will contribute recurring income to Eversendai.

"The earnings before interest, tax, depreciation and amortisation (EBITDA) margin of Vahana is 63% to 67%.

"After loans for the vessel have been paid, the only costs that remain are operating costs for crew and maintenance, which is relatively low.

"Typically, it will take 10 years to repay the loans, but I am confident of repaying the loans in eight or nine years.

"Going forward, Vahana's profit contribution will be able to spike Eversendai's profit by 25%, thereby making the group's bottom line healthier and stronger," he says.

The liftboat market in South-East Asia is currently at the infancy stage, but there are a large number of ageing platforms which require liftboats to undertake maintenance and decommissioning activities.

Eversendai expects a positive outlook in Malaysia post-2022, for brownfield hook-up and commissioning activities in anticipation of a growing number of brownfield projects.

It says, in a Bursa Malaysia filing, that a steady outlook can be expected for decommissioning projects as 44% of facilities in Malaysian waters are operating beyond design life.

On the international front, AK Nathan shares that the Vahana has been receiving enquiries from Kuwait and Abu Dhabi, given the high quality specifications and competitive pricing of its liftboats, which is sought after.

As of March 31, 2020, Eversendai has total borrowings amounting to RM1.17bil, of which RM631.9mil are long-term borrowings.

Addressing the group's loans, AK Nathan explains that the bulk of the borrowings are used for project financing.

As each project is completed, the borrowings for project financing gets paid off.

AK Nathan adds that a substantial portion of the group's receivables and loans are Vahana's, as the lender is more assured of a public listed entity's guarantee than a private entity.

Additionally, Eversendai will be able to reduce its borrowings in three years' time, during which a majority of its warrants will be converted.

Regarding Eversendai's public spread, which is at 23.67% as of end-June 2020, AK Nathan says the group has plans to increase its public spread and liquidity, following the completion of the acquisition of Vahana in September.

"I plan to pare down my stake down from 71.1% to 51%, to make way for institutional investors, and this process is expected to take several months," he says.

The Vahana acquisition will need to be approved by minority shareholders in an extraordinary general meeting (EGM) to be convened.

AK Nathan and parties associated with him will not be able to vote.

And since this stock is one with a limited free float, there is one other large shareholder who will have much sway in the decision.

This is Urusharta Jamaah Sdn Bhd, which holds 5.16%. Urusharta is a fund management house, which is the Finance Ministry's special purpose vehicle (SPV) set up in late 2018 to take over the non-performing assets of Lembaga Tabung Haji (LTH).

Sources close to Urusharta say that the fund is studying the deal closely now and notes that Eversendai's proposed purchase of Vahana has both pros and cons.

On the pro side, the fund notes that the 25% contribution to profits remains a positive.

However, the source says that the outlook of the industry can be challenging and that currently, the risks do look like they outweigh benefits.

"But if the acquisition is one that has the benefits of, say, what Ezion Holdings Ltd did for Yinson Holdings Bhd, then it would be impressive," the source says.

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In April last year, Yinson had proposed to pay US$200mil (RM815mil) for 70% equity in Ezion. This was later revised to US$150mil (RM628mil) for 63.4% equity in March this year. Ezion is prized for its fleet of 11 liftboat assets, of which eight are wholly-owned.

The source also raised concerns about the sanctity of contracts and fear that charter rates could drop in the future.

They were also a bit concerned about whether cash flows could support the liabilities at Eversendai post the acquisition.

Meanwhile, Minority Shareholder Watchdog Group (MSWG) is of the view that the related party transaction and issuance of redeemable convertible preference shares (RCPS) are not to the detriment of minority shareholders and most importantly, minority shareholders will have a say at the EGM when voting on the proposals.

For one, the proposals are subject to and conditional upon approvals being obtained from the shareholders of Eversendai at an EGM to be convened.

Thus, shareholders have a say in the acceptance of the proposals, unlike some instances where the RPT does not trigger any of the thresholds in the listing requirements to warrant an EGM for shareholders' approval.

MSWG CEO Devanesan Evanson says the injection of Vahana will be beneficial to Eversendai's bottom-line as the group has been loss-making.

"The purchase consideration does not result in an outflow of cash from Eversendai; it involves the issuance of 770.49 million RCPS in Eversendai at 30.5 sen each.

"The RCPS shall have a tenure of 10 years with cumulative preferential dividend of 3% per annum and is convertible into ordinary shares in Eversendai at a conversion ratio of two RCPS to one Eversendai share.

"The preferential dividend of 3% is deemed reasonable," he says.

It remains to be seen how Eversendai's profits will improve going forward, premised on contribution of profits from Vahana to Eversendai on a recurring basis, and coupled with the group's RM2.88bil order book in hand that will last two to three years.