MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M)

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Aplomb and qualms in MAHB sale

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- Joint offerers have stated their intention to delist MAHB should the privatisation proceed
- A Catch-22 situation may arise for minority shareholders who will be torn between conflicting views

MUCH has been said about the proposed privatisation of Malaysia Airports Holdings Bhd (MAHB) since Gateway Development Alliance Sdn Bhd (GDA) announced its offer to acquire the airport operator at RM11 per share last May.

GDA is a consortium led by Khazanah Nasional Bhd, the Employees Provident Fund (EPF), with foreign partners Abu Dhabi Investment Authority (Adia) and Global Infrastructure Partners (GIP) (collectively referred to as "joint-offerers").

It is timely for us to share our perspectives, given the cut-off period for the first closing date of the offer is 5pm on Jan 8. The takeover offer is conditional upon achieving an acceptance rate of at least 90% by the joint-offerers.

Notably, the joint-offerers have stated their intention to delist MAHB should the privatisation proceed.

A Catch-22 situation has arisen for minority shareholders who are torn between conflicting views presented by the independent adviser and MAHB's non-interested directors.

Hong Leong Investment Bank Bhd (HLIB), the independent adviser, concludes that the offer is "not fair but reasonable" and recommends holders of MAHB's shares to accept the offer.

Meanwhile, the non-interested directors of MAHB do not agree with HLIB and recommend that the offer be rejected. With different stakeholders making their point, the following factors have to be considered.

Fairness and reasonableness

Historically, MAHB has never traded above the offer price of RM11 per share. Its price from 2008 to 2023 was consistently between RM2.21 and RM9.

However, there was a steady climb from RM7.49 on Jan 1, 2024 to around RM10 in April – ahead of the announcement of the proposed privatisation in May. MAHB shares closed the year at RM10.58.

The independent adviser is of the view that the offer price of RM11 is not fair as it is low and is a discount of 12.77% to 19.77% over the estimated value of RM12.61 to RM13.71 derived using the sum-of-parts valuation methodology. Nevertheless, RM11 represents a premium of RM6.11 or 124.95% to the latest unaudited net asset per share of RM4.89 as of Sept 30, 2024.

The independent adviser, however, says the offer is reasonable as it is at a premium of 3.57% to 37.78% over the last traded market price.

The non-interested directors engaged UBS AG Singapore Branch to assist with assessing the fair value of MAHB shares.

UBS placed the equity value at between RM10.95 and RM13.15, using various valuation methodologies, including discounted cash flow analysis and trading comparable analysis.

The difference in valuation range by UBS and the independent adviser stem primarily from different valuation methodologies and sensitivity analyses applied by both UBS and independent adviser in arriving at the fair value range.

Dividend yield

MAHB has been consistently paying out more than 50% of its net profit to shareholders over the years, save for zero dividends for two years during the Covid-19 pandemic. The dividend fluctuated based on its profit.

As a result, the dividend yield declined from 8.39% in 2008 to 3% in the early 2010s and then further to around 1%. Certainly, the low dividend yield was not an effect of increasing share price as the counter largely hovered between RM5 and RM9 then.

From an investment perspective, we are of the view that its dividend yield has been rather low. Comparatively, the average dividend yield for companies on the FBM KLCI was 3.95% per annum in November 2024.

Future capital investments and plans

Airports are critical transport infrastructure that need continuous upgrades and modernisation, requiring big bucks. They are also a long-term investment, meaning shareholders may only see returns in the form of share price appreciation and dividends a few years down the road.

As noted in the offer document and independent advice circular, both joint-offerers and non-interested directors concur that MAHB requires hefty capital investments for its expansion plans, notwithstanding their divergent views on the rationale behind the privatisation offer.

Over the last five years, MAHB has invested only RM1.3bil in capital expenditure, a stark contrast compared to Changi Airport's RM18.9bil, Indonesia's Angkasapura I and II at RM8.1bil, and RM6.8bil by Airports of Thailand. The Malaysian government has estimated that MAHB requires about RM10bil in investments over the next five years to remain competitive.

For comparison, Changi Airport Group recently announced a S$3bil investment over the next six years to improve services at Terminals 1 to 4, further illustrating the scale of funding required to maintain top-notch airport standards.

It is evident that MAHB's capital investments are overdue. However, in the absence of full details of the joint-offerers' future capital investments and plans, not much else can be said.

The verdict

While MAHB's financial performance has shown positive momentum, this is likely a post-pandemic rebound effect from a low base. Restoring MAHB to its former glory will require significant effort, time and capital investment.

It is commendable that MAHB's non-interested directors rejected the offer, demonstrating their commitment to act in the best interests of shareholders.

Subject to the entry price, the privatisation offer presents an opportunity to lock in some profit. This could be an opportune time to exit and reallocate the funds to investments with better yields or capital growth prospects within the investment horizon.

If MAHB remains listed on Bursa Malaysia, it is possible that its share price could exceed the RM11 offer price in the open market. This is unlikely in the near term due to the substantial investments required for infrastructure upgrades, which may also pressure dividend payouts.

Ultimately, the decision is yours to accept or reject the offer, as the risk appetite, investment strategy, investment horizon and expectation of every shareholder vary. As always, minority shareholders should make informed investment decisions based on their risk appetites and the information available.

Shareholders may also prioritise pragmatic considerations over theoretical valuations in uncertain times. It is also crucial to consider the existing shareholders' willingness to commit substantial capital required for long-term sustainability and competitiveness. Lastly, would MAHB shares have crossed the RM10 mark in the near term without the prospect of GDA's privatisation? That is anybody's guess.