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Best Privatisation: Century Bond’s minorities get the elusive ‘fair deal’

Ben Shane Lim | January 02, 2018

THIS year, the soft stock market prompted a number of privatisations — some were successful, some were not. As the offeror — or offerors as the case may be — often attempt to take companies private at the lowest price possible, it is not surprising that many of the deals were deemed “not fair” by independent advisers, even if the prices were “reasonable”.

This was one reason, at least, that made **Kumpulan Perangsang Selangor Bhd’s** (KPS) privatisation of Century Bond Bhd the privatisation of the year. At the time, Century Bond was a paper packaging manufacturer and a leader in cement packaging with a 60% market share.

The deal, which was led by CIMB Investment Bank Bhd, was concluded on Jan 18 when Century Bond was delisted after it was taken private by KPS’ wholly-owned subsidiary, Perangsang Packaging Sdn Bhd.

The deal, completed at the end of last year, did not create meaningful synergistic value for the acquirer. After all, KPS had minimal operations in the sector and Perangsang Packaging itself was merely set up for the purpose of undertaking the RM194 million acquisition.

Instead, KPS used the deal to put its balance sheet to work. Channel checks reveal that the privatisation was largely funded by debt that KPS was able to secure at highly competitive rates. Couple that with Century Bond’s stable earnings and strong operational cash flow that branded the company a “cash cow asset” and KPS was set to make a modest spread from the acquisition.

It fact, it is learnt that Century Bond’s management is still relatively intact, ensuring that it will be business as usual at the company.

Looking back, the privatisation took place in two stages. It began on Aug 11, 2016, when Perangsang Packaging made a bid to buy 85.73 million shares representing 71.44% equity interest from Century Bond’s controlling shareholders-cum-managers — the Tan family.

Once the shares were acquired, KPS extended a mandatory general offer to all other shareholders at the same price of RM1.75 per share.

The offer was deemed both “fair” and “reasonable”, according to a report by independent adviser Public Investment Bank Bhd.

Compared with the company’s three-month volume weighted average price (VWAP) leading up to the initial announcement to acquire the 71.44% stake, the RM1.75 offer came at an 8.02% premium. Against the six-month VWAP, the offer was at a 12.18% premium.

While the premium may seem relatively narrow to privatise a company, it is important to note that Century Bond's share price enjoyed a relatively strong rally in 2016, prior to the initial offer by Perangsang Packaging.

While the premium itself was not exceptional, the offer was relatively compelling from a valuation perspective. The independent advisers valued the firm based on enterprise value against earnings before interest, tax, depreciation and amortisation (EV/Ebitda).

At RM1.75 a share, Century Bond was valued at six times EV/Ebitda. This was comparable to valuations of its peers, noted the independent advisers.

Muda Holdings Bhd, which had a market capitalisation of RM497.23 million compared with Century Bond's RM208.8 million, was valued at 7.87 times EV/Ebitda.

Its smaller peer, Box-Pak (Malaysia) Bhd, with a market capitalisation of RM121.25 million, was valued at 5.89 times EV/Ebitda. Another peer, Ornapaper Bhd, with a market capitalisation of RM69.7 million, was valued at 4.48 times EV/Ebitda.

It should also be noted that Century Bond had been profitable in the five business years prior to the acquisition.

Of course, it can be argued that Century Bond managed to command favourable valuations overall because Perangsang Packaging had to buy the 71.44% block from the controlling shareholders in the first place, so the minorities simply got to enjoy the same pricing.

In contrast, the other privatisations this year involved controlling shareholders taking their own companies private.

One such example was the privatisation of Wing Tai Malaysia Bhd by controlling shareholder and management, Wing Tai Investment & Development Pte Ltd. The deal was advised by Maybank Investment Bank Bhd.

The offeror took Wing Tai private at RM1.80 a share, almost 49% lower than its fair value per share of RM3.55 to RM3.59, as estimated by Mercury Securities, the independent adviser. Thus, the offer was considered "not fair".

However, Mercury Securities added that the offer was "reasonable" and that this reasonable aspect outweighed its "not fair" view.

After all, the offer price of RM1.80 was 61.75% higher than the one-year VWAP, argued Mercury Securities. That said, it is important to note that Wing Tai's share price had been on the decline for almost two years prior to the offer.

Another example of a privatisation that was "not fair" was that of Hwang Capital (Malaysia) Bhd by the Hwang family, led by Hwang Lip Teik. The privatisation had been expected ever since the company's asset management business was sold in 2014.

But after the first offer of RM2.65 per share — made in late-May 2016 — failed to go through, the offerors raised the offer price to RM2.94 per share. The deal was advised by Affin Hwang Investment Bank Bhd.

While the second offer ultimately succeeded, it was still seen as “not fair” by independent adviser RHB Investment Bank Bhd. This was because the offer came at a 14% discount to the revised net asset value of the company, which was determined to be RM3.42 per share.

However, given that the offer came at a 12.64% premium to the three-month VWAP and there was no competing offer, the advisers deemed it a “reasonable” offer.

Still, it should be noted that Hwang Capital’s shares had been suspended for over nine months since Sept 2, 2016, before the revised offer was made on June 30, 2017.

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