TOPIC 20 - CIRCUMSTANCES WHEN A LISTED COMPANY IS REQUIRED TO CONDUCT A MANDATORY GENERAL OFFER

Generally, a Mandatory General Offer ("**MGO**") is obligated to be exercised by the acquirer to acquire from all the other shareholders for shares that they do not own under two broad circumstances:-

(a) when the acquirer or parties acting in concert acquires **more than 33%** shares of a listed company.

(b) when the acquirer or parties acting in concert acquires **more than 2%** of listed voting shares **in any six months period** when the voting shares held are more than 33% but not more than 50%. This means that there are a number of conditions need to be met before a MGO is triggered. First, the acquirer must acquire a block of more than 2%. Second, in a duration of any six months and Third, the acquirer's shareholding must be more than 33% but not more than 50% during the acquisition. This is also known as Creeping Provision.

WHEN DOES MGO APPLIES?

The rules of MGO only applies to listed companies **and** an unlisted public company with more than 50 shareholders and net assets of RM 15 million or more. Unlisted public company that do not meet both the number of shareholders threshold and net assets of RM 15 million or more is not covered by the rules and hence the MGO rules is not applied.

WHAT HAPPENS WHEN THE MGO RULES APPLIES?

The offer price shall be the higher of the **highest purchase price** paid by the offeror and parties acting in concert **or** the volume weighted average traded price (**VWAP**) of the offeree for the last 20 market days prior to the triggering of the mandatory offer obligation.

RESEARCH FROM PAST 14 CASES THAT IF SHAREHOLDERS WHO REJECTED THE DECISION TO ACCEPT THE OFFER PRICE AND LISTED COMPANY CONTINUE TO BE LISTED.

I wish to illustrate what happens to the share price of recent cases involving MGO and the closing price gathered on 18 September 2017 compared to the offer price to see the impact of the total return on assumption that shareholder **do not accept** the offer made. It may come as a surprise to many that all the companies, covered showed that the total return in fact is **higher if shareholders rejected the offer for all the cases**.

Targeted Listed Company	Intention to remain listing status		ROE (%)			Average 3 Years Dividend Yield (%)			Liquidity Risk			Total Return = Offer price to Current price (%)
	YES	NO	<0	0-5	>5	0-1	1-3	3-5	Low	Mid	High	
Independent Adviser Recommended to **REJECT** the Take-Over Offer												
HengYuan Refining Company Berhad (fka Shell Refining Company (Federation of Malaya) Berhad)	■				■	■			■			321
Rohas Tecnic Berhad (fka Tecnic Group Berhad)	■		■			■			■			114
GHL Systems Berhad	■				■	Not Available			■			75
Petaling Tin Berhad		■	■			■				■		67
KUB Malaysia Berhad	■				■		■			■		47
JcbNext Berhad (fka Jobstreet Corporation Berhad)	■			■			■		■			41
Halex Holdings Berhad	■		■			■				■		38
Rex Industry Berhad	■			■		Not Available			■			38
Tanco Holdings Berhad[note 1]	■		■			■					■	23
Wang-Zheng Berhad	■				■			■	■			21
Independent Adviser Recommended to **ACCEPT** the Take-Over Offer												
Denko Industrial Corporation Berhad	■		■			■				■		113
TMC Life Sciences Berhad	■			■		■			■			57

Note 1: It was noted that on an announcement dated 21 September 2017, Tanco Holding Berhad has proposed to undertake an issuance of free warrants which could raise proceeds between RM6.6million to RM8.2million based on exercise price of 2sen each warrant.

Analysed by Asia Equity Research Sdn Bhd

Guide to interpret table above

- A company with higher ROE is better than a company with lower ROE in terms of financial return
- A company with higher dividend yield is preferred over lower dividend yield by investors.
- A company with higher financial risk translates to a company with a higher likelihood of in ability to meet financial obligations as compared to a company with lower financial risk.

The possible reasons why the share prices continue to appreciate after announcements of MGO for companies that remain listed could be attributed to the reason that there are many companies that are traded below its fair price. It is only when MGO announcements are made, investors begin to take note of such cases and begin buying. This is quite normal in most market as most passive investors do not have much inside knowledge about a listed company and it is only when during major corporate exercises such as MGO, investors begin to take note.

However, there is also a tendency that due to emotional buying, the prices of some of these companies may trade above its fair value. TMC Life Sciences Berhad registered a total return of 57% and Denko Industrial Corporation Berhad registered a total return of 113%. Despite the advice by the appointed adviser to accept the offer price, the price today is higher than the offered price due to possibly emotional buying.

TWO CASE STUDIES FOR DISCUSSION

In both cases the MGO was triggered by as a result of acquirer and parties acting in concert acquires **more than 33%** shares of a listed company.

Targeted Listed Company	Intention to remain listing status		ROE (%)			Average 3 Years Dividend Yield (%)			Liquidity Risk			Total Return = Offer price to Current price (%)
	YES	NO	<0	0-5	>5	0-1	1-3	3-5	Low	Mid	High	
Willowglen MSC Berhad	■				■		■		■			54
AbleGroup Berhad	■		■			■				■		4

Analysed by Asia Equity Research Sdn Bhd

Case 1 – Willowglen MSC Berhad

The MGO arose when the offerors originally held 32.08% block of shares in Willowglen MSC Berhad and acquired a further 22.92% resulting an aggregate of 55%. Based on the above, a MGO is triggered requiring the offerors to offer to acquire from the other remaining shareholders at **RM 0.80 per share** as a result of triggering the MGO code.

For Willowglen MSC Berhad, the share price today is RM 1.22. Logically, shareholders should reject the offer as they could sell in open market if they wish to realise the value in near term instead of accepting the lower offer price of RM 0.80 per share. However, if shareholders that have a longer holding period, and wish to hold on the share, they would also reject the offer.

Source: Bloomberg

Case 2 – AbleGroup Berhad

The MGO arose when the offerors originally held 33.25 % block of shares in AbleGroup Berhad and acquired a further 10.72% resulting an aggregate of 43.97%. Based on the above, a MGO is triggered requiring the offerors to offer to acquire from the other remaining shareholders at **RM 0.13 per share** as a result of triggering the MGO code.

For AbleGroup Berhad, the share price today is RM 0.14. Logically, shareholders should reject the offer as they could sell in open market at higher price **only if** they wish to realise the value in near term instead of accepting the lower offer price of RM 0.13 per share.

However, upon analyzing AbleGroup Berhad, it reported a negative ROE, did not declare any dividend for past three years and have a moderate liquidity risk. Hence, there is a possibility that the share price in the short term may not hold at RM 0.14 per share. If in event that the share price falls below RM 0.13 per share, a more logical decision is to accept the offer.

Source: Bloomberg