



SEG International Berhad

Lackluster Offer From Navis

TP: RM1.98 (+9.4%)

Last Traded: RM1.81

Hold

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What's The News

SEG announced that it has received a Notice of Unconditional Take-Over Offer from Pinnacle Heritage Solutions Sdn Bhd (PHS / Offeror), a vehicle of Navis Capital for a cash offer price of RM1.714 per offer share and RM1.214 per offer warrant.

A Recap of Past Events

Toward the end of March 2012, PHS has been actively acquiring SEG shares from various parties at a common agreed price of approximately RM1.71 per SEG share and RM1.21 per warrant. Cumulatively, to-date, PHS has 27.84% of SEG shares which is slightly below Dato' Sri Clement (DSC) stake of approximately 29.78%.

Triggering the Offer

Both parties also enter into a shareholder's agreement to regulate their rights and obligations of SEG. Following this agreement, both parties become persons acting in concert (PACs) and aggregately hold 57.62% of SEG shares, thus, triggering a mandatory take-over obligation to acquire all the remaining SEG shares and warrant not owned by the offeror and its PAC as well as SEG shares from the exercise of outstanding warrant prior to the closing of the offer.

The offeror also doesn't intend to maintain the listing status of SEG nor does it intend to meet the public shareholding requirement should it holds 75% or more of SEG shares. According to the press, after the privatisation effort, SEG could pursue its expansion plans without being tied down by the commitments to public minority. In addition, it is also stated that the expansion plans could distort the earnings of the company in the short term.

Unattractive Offer Price

We believe the offer price of RM1.714 per share by PHS to be on the lower end. It is below SEG's last closing price of RM1.81 and is far off from our consensus target price of RM2.34 and RM2.23 respectively. Based on our forecasted FY12 EPS of 18sen, the offer price only translate to a PER of 9.5x. The offer price also translates into a P/B of 3.7x based on our FY12 estimated book value of RM0.46/share. In comparison, based on our target price, we value SEG P/B value at 5.1x.

Is a Privatisation Possible?

Although the offer price is at a discount to market price, we highlight the risk that this takeover offer may materialise. As highlighted above, the offeror does not intend to maintain the listing status if the acceptances for the offer results in them holding more than 75% of SEG's share cap. Given the low liquidity of the stock, we feel that some minority shareholders who are friendly to Navis/DSC may accept the offer. Only 17.4% acceptance level is required to breach the 75% threshold. This line of thought makes even more sense given that the share price has appreciated more than 4x just in the past 2 years. Hence, even though the offer price is below the current market price, these shareholders might eventually decide to take up the offer.

SHARE INFO

Bloomberg Code	SYS MK
Bursa Name	SEG
Stock Code	9792
Listing	Main Market
Share Cap (mn)	559.3
Market Cap (RMm)	1012.4
Par Value (RM)	0.25
52-wk Hi/Lo (RM)	2.09/1.65
12-mth Avg Daily Vol (000' shrs)	769.7
Estimated Free Float (%)	33.1
Beta	0.96
Major Shareholders (%)	
	Hii Chii Kok (28.40)
	Pinnacle Heritage Solutions S/B (26.54)
	Segmen Entiti S/B (5.99)
	Rexter Capital S/B (5.97)

FORECAST REVISION

	FY12	FY13
Forecast Revision (%)	-	-
Net profit (RMm)	100.4	129.8
Consensus	97.6	119.2
TA/Consensus (%)	102.8	109.0
Previous Rating	HOLD (Downgraded)	

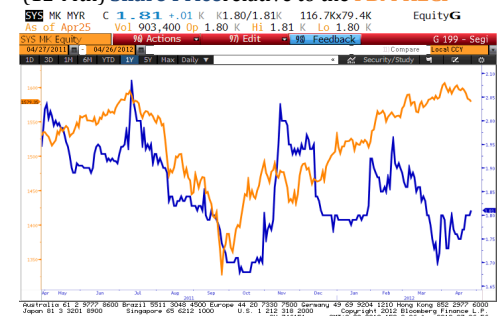
FINANCIAL INDICATORS

	FY12	FY13
Net debt/equity (%)	Net Cash	Net Cash
CFPS (sen)	17.6	23.0
P/CFPS (x)	10.3	7.9
ROA (%)	30.1	33.3
NTA/Share (RM)	0.5	0.6
Price/ NTA (x)	3.9	3.1

SHARE PERFORMANCE

Price chg (%)	SYS MK	FBMKLCI
1 mths	4.6	(0.2)
3 mths	0.6	3.6
6 mths	6.5	8.3

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Downgrade to Hold

Given the unattractive terms of the deal, we recommend investors to reject the offer by Navis. That said, we cut the target PER on the stock to 11x (13x previously) to take into account the risk that this takeover offer will result in eventual delisting of the stock at a discounted price. Our revised target price now is RM1.98, which translates into a potential capital upside of 9.4%. Hence, we downgrade SEG to Hold from Buy previously. We shall review our recommendation once there is better clarity on the outcome of the takeover offer.

Earnings Summary (RM'mn)

FYE Dec 31 (RM'mn)	FY10	FY11	FY12E	FY13F	FY14F
Revenue	217.6	278.3	347.4	441.2	538.5
EBITDA	63.1	98.0	132.0	167.7	199.2
EBITDA margin (%)	29.0	35.2	38.0	38.0	37.0
Pretax profit	54.3	88.2	122.5	158.4	190.2
Net profit	43.0	72.3	100.4	129.8	155.9
Adjusted EPS (sen)	8.7	14.1	18.0	23.2	27.9
EPS growth (%)	187.8	62.2	27.4	29.3	20.1
PER (x)	20.8	12.8	10.1	7.8	6.5
GDPS (sen)	7.0	14.0	15.0	15.0	15.0
Div yield (%)	3.9	7.7	8.3	8.3	8.3
ROE (%)	21.2	30.5	35.0	37.1	36.4

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